

Nursery Management - Top tips to beat the downturn

Despite the numerous reasons for optimism within the Day Nurseries sector, many operators are also feeling the effects of the current economic environment, with increasing fuel costs impacting margins and rising unemployment creating a degree of uncertainty around future occupancy levels.

So what can be done to mitigate the effects of the current conditions on your business? Set out below are some of the key things that you can consider adopting in order to give yourself the best possible chance of achieving success in the current climate.

Manage cash flow

The old adage that “cash is king” has never been so true. Early, accurate predications are vital and enable you to take swift action to remedy potential shortfalls at lower cost whilst keeping your options open. Make sure you follow up any overdue payments with parents promptly, and also consider setting yourself up as a direct debit originator to gain greater control over the collections process. Communicate with parents who are struggling to pay fees on time, understand their particular circumstances and try to come up with a payment plan which helps them to get back on track.

At the same time, all expenditure should be reviewed and any unnecessary costs that might have crept into your business should be removed. If short term cash flow is an issue, it might benefit you to pay slightly more for goods and services in return for more generous payment terms from suppliers. Also consider spreading the cost of a fixed asset purchase via leasing as opposed to an outright purchase.

If possible ask your Bank to move you onto an electronic payments system, which will allow you to make payments exactly on their due date. If you make payments by cheque you have no idea when your suppliers will cash them, in turn loosening your grip on cash flow.

If it becomes clear that an overdraft facility will be required to meet a temporary cash shortfall, try to engage with your Bank at an early stage, as arranging credit before its actually needed demonstrates that you have a solid understanding of your numbers. Be prepared to present the necessary accounts and projections, and try to be honest and realistic in your approach. If the extent of a cash shortfall is underestimated, you risk incurring unnecessary charges and damaging your existing banking relationship by going above your authorised overdraft limit.

Understand the external environment

Try to develop a clear understanding of external factors within the sector and understand the risks and opportunities that these present to your business. A report recently released by Barclays Commercial Bank and the Institute of Directors (IoD) revealed that 25 per cent of businesses say they do not analyse the future external environment at all, representing a total of 500,000 enterprises in the UK.

If we look specifically at Day Nurseries sector, the impact of external factors continues to have a significant impact on providers. Recent examples include the introduction of the EYFS, revised OFSTED registration arrangements and a free entitlement for all three and four year olds.

Effective forward thinking can create a competitive advantage for your business if you understand the impact of these factors better than anyone else. When undertaking SWOT (strengths, weaknesses, opportunities and threats) analysis, try to think about the intensity or probability of any opportunities or threats listed. Furthermore, strengths and weaknesses need to be seen with an eye to the future, as a strength today could easily become a weakness tomorrow as the external environment changes.

Also attempt to extend your analysis to consider the impact of political, regulatory, economic, social, technological, legal and environmental (PRESTLE) drivers in detail. If multiple drivers exist, try to understand how they may interrelate with each other in the future (an example might be an increase in the level of subsidised childcare in response to challenging economic conditions).

Undertake scenario planning

Attempt to understand how both positive and negative events will impact your business. These alternative scenarios can then be used to stress test your business plan and help build a picture of potential alternative futures. Try to quantify the sensitivity of your revenues to changes in future economic growth. An example would be analysis around how occupancy levels (and revenue) might be affected by increasing unemployment.

The sensitivity of demand for your services to changes in fee levels should also be understood. Certain factors may mean that fees can be increased without a particularly adverse impact on occupancy; examples could include a lack of alternative childcare provision, or your nursery might have a particularly strong reputation in the local area. Conversely a reduction in fees to boost demand should only be considered if it maintains profitability at existing levels.

When taking on additional financing, make sure you build in an element of headroom by considering whether the level of profitability and cash generation under the sensitised business case is sufficient to meet the interest and debt repayments associated with your new financing structure.

Stay positive!

If things are looking tough it's important that you try to stay upbeat. Start thinking about the end of the downturn, as this will leave you well placed to capitalise on gaps in the market when the economy takes a turn for the better. Parents will also sense a positive attitude, which may make them more willing to place their child in your care.

Such optimism isn't misplaced; demand for childcare continues to be boosted by a greater proportion of parents returning to work to supplement household incomes, and the availability of various forms of Governmental financial support in the form of the free entitlement, working family tax credits and childcare vouchers should help negate the effects of increasing unemployment. Therefore if the right actions are taken, operators should feel confident about their ability to thrive in the current climate.

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