How do I set rates for my child care business?

DECAL
Thriving Child Care
Business Academy

This guide and video cover the steps to take to set pricing that is "just right" for your business. The five-step process will help you set your rates.

Setting rates is one of the most difficult but also most important things you can do as a child care business owner. If pricing is too high, you're likely to lose families resulting in less revenue, and in the long run, you might go out of business. On the flip side, if you price it too low, you risk being unable to cover your costs, and again, eventually go out of business. Finding that "just right" rate, one that's not too high, but not too low, is so important for you to do for the health and longevity of your business. So, what do you do to determine that "just right" rate?

The process involves five key steps:

1. Determine how much your costs are currently along with any regular anticipated or scheduled future costs.
2. Research the market and look at what the other rates are like in your area. Your local Child Care Resource and Referral agency may have rate information by county.
3. Assess how much care is costing you versus the going market rate in your area.
4. Set your rates.
5. Check your rate regularly and refine it at least once a year to make sure that you're keeping up with the market.

Before we dive into it, it is important to understand the difference between the cost of care and pricing. Cost of care refers to how much it actually costs you to care for children. Pricing, on the other hand, takes this information and weighs it against other factors such as how much parents and families can really pay in your area. For the purposes of this tool, we are going to focus on pricing and help you determine how much you should be asking families to pay.

Step 1: Gather your data

You want to start by gathering some data to use in your calculations. We recommend collecting about six months of costs if you can because that will give you a good sense of how much you're spending on a regular basis. For larger more complex organizations, this may be as simple as pulling these numbers out of QuickBooks, your child care management software, or other systems. For smaller family care providers, it may be as simple as going through your checkbook, your business checkbook, and your credit card statements or reviewing your monthly budgeting records.

As you collect your costs, we want you to break them up into two different kinds: direct and indirect costs. Direct costs are those that are directly related to the care of children. For example, in the infant room of your program, this could include the cost of providing formula. In a toddler room, it might be the cost of the educators assigned to that room on a regular basis. Indirect costs are those that cover your entire business. In some cases, if you're a home-based business, a lot of these costs may relate to your home, such as your mortgage and utilities. If you're a center, these can take on a variety of things, not only rent, mortgage, and utilities, but also shared items and expenses, like maintenance on the playground that is used by many different classrooms within your facility. Indirect costs can include the cost of running your operations as well, such as the wages for a financial manager or even an executive director.

Once the costs are collected, you can organize them in two different ways. Having a per child cost overall may be the easiest, taking the number of children that you served on average over those six months and dividing the total cost by those number of children. For a more complex operation, you may want to break down the costs by different ages of care, such as cost per child in infant and toddler care versus pre-school. You will use this information in combination with the data collected in our next step, local market prices, to help determine your rates.

Step 2: Research local market prices

As we know, the top drivers for parents are the quality of the facility and the location. As such, local market prices can vary drastically depending on several influencing factors which is why it is so critical to review local market prices rather than just the national market. For example, if there are a lot of choices within a given area, the prices there might be a bit lower, even though prices may be higher within your state or nation, overall. Conversely, a lack of options can drive the cost of child care higher as parents have limited choices. This is basic supply and demand at play. Wherever possible, you want to compare apples to apples, meaning if you're a family care provider, research local prices around family child care. If you also get information on centers that's great, hold on to it. But the more important information as you determine pricing is going to be family child care as it will be more comparable to what families would be likely to pay you. The same rings true, if you're a center, it's important to know what family care providers are charging in your area, but more important to know what other centers are doing.

As a starting point, check the results of the most recent market rate survey for your state. These surveys give you a sense of how much other similar organizations are charging in your area. More information and links for specific states can be found on the

U.S. Department of Health & Human Services Child Care Technical Assistance Network website. This is a great source of data that can save you a tremendous amount of time. You can also supplement it with other data that you can collect on your own. You may want to post on Facebook or other social media platforms and ask parents what they are paying, or you may call other providers in your area to inquire about current rates. Starting with your state's market rate data is a great place to begin however and may give you enough information to move to the next step.

Note: For Georgia providers who receive reimbursements for CAPS scholarships, it is not wise financially to use CAPS rates as a basis for setting all rates. Historically CAPS rates are well below the majority of market rates and actual costs. Using CAPS rates for setting market rates will lead to lower revenue, which will probably force a provider to take drastic steps to make the business sustainable, such as paying staff less and investing less in the program. Those actions will put the provider at higher risk of facing long-term problems, including non-compliance with licensing standards, failure to meet higher quality standards, and frequent staff turnover. Instead, providers should set their rates at a level that at least allows them to cover their actual costs and sustain their businesses.

Step 3: Assess your rate

So far, we have how much it costs you to care for children, and you have a sense of what parents are paying for care in your local market. Now, we have to come up with an amount for your rate and to do this we need to determine your profit margin. Sometimes, especially in the child care industry, business owners get uncomfortable talking about profit as it sounds devious or wrong that you're trying to profit off of families.

Profit is critical as it is not only what helps compensate you for your long hours and hard work, but profit is also what contributes to the long-term viability of your business and helps the IRS see your program as a legitimate business, not just an expensive hobby. Generating a profit is what allows you to set aside funds to repair that fence in the backyard in five years or invest in training for your teachers so you can keep up with the latest needs of children and families. Profit is important in the long term for your business, your employees, and the children that you serve. While you will need to play with the numbers to compensate for local market rates, as a starting point, you can create a profit margin by simply setting a percentage, for example, a 15–20% profit margin.

If you have a 15% or 20% margin, how much does that translate to your total rate? Essentially, what you want to do is take the current costs you have, add what is called the profit margin, and then that total is your rate, so costs plus profit margin equals your rate. This calculation can be done using the information below.

Table 1. Profit Margin (percentage method)

NUMBER OF CHILDREN IN CARE	TOTAL COSTS FOR THE PAST 6 MONTHS	PROFIT MARGIN RATE	THE AVERAGE RATE I SHOULD CHARGE
40	$200,000 x 2 = $400,000/year	15% = $60,000	$11,500/year; $958/month
40	$200,000 x 2 = $400,000/year	20% = $80,000	$12,000/year; $1,000/month

Step 4: Set your rate

So now you've created a few different rates to look at and with different profit margins, and you also have data on what the market can bear (what parents can afford). How do you then determine a rate? The first thing you want to do is look at those rates you have calculated. How does your potential rate compare to the market? Is there one that is closest to what the market is currently bearing? You also want to consider what you're currently charging in comparison to your new rate. What are parents able to pay for children in your care? You can also use the chart below and compare your potential rates directly to the market rate at the 75th percentile, which is a higher-than-average rate, and then show the dollar difference. This would give you a sense of what's closest to the market right now.

If you find that the market rate is far below what you are currently charging, consider adjusting your rates to increase the number of children in your care, if possible. Conversely, if the market rate looks like it's far higher than what you're charging, maybe it would be a good time for an increase in your rate. Again, this increase isn't about trying to take from families, but rather ensuring that your business will remain viable into the future so that you can continue to provide your services to families in your area.

Step 5: Reevaluate your rate annually

Pricing is an exercise you should do at least once a year. With current market fluctuations due to the COVID-19 pandemic, you may wish to reevaluate more regularly in the near term. Feedback from parents and guardians about your rate may also be another factor that can trigger a rate reevaluation. If you find a rate change is warranted, you may want to first think about testing new prices. In some cases, if you have to do a price increase, it is tempting to do it all at once and just do it as soon as you realize the price increase is needed. However, you may want to do it incrementally, so in other words, rather than increase your price by 15% all at once, perhaps you slowly increase by 5% every three months over nine months. This approach allows parents to adjust to the new pricing and also lets you put the brakes on the pricing changes if you start to get negative feedback.

Be sure to update your rates in your parent handbook and anywhere your rate may be published such as your website. With any change, you want to communicate it to current parents, giving a future date that the change would be effective.

Table 2. Setting your rates using example numbers from Table 1.

Ugh	RATES AT THIS MARGIN	75TH PERCENTILE AVERAGE MARKET RATE	DIFFERENCE IN RATES	HOW DO I COMPARE? HIGHER OR LOWER?
15%	$958/month ($43.54/day)			
20%	$1,000/month ($45.45/day)			

Additional Resources

If you have questions or need help, assistance is available.
GaPDS Website
DECAL Thriving Child Care Business Academy Website

To Find Other Study Guides: Click on Resources on the Academy home page

To Find Training: Click on Trainings on the Academy home page

To Register for Training: Click on Schedules & Registration on the Academy home page

To Sign Up for Study Groups: Fill out the Intake Assessment

For questions about coaching or study groups: Email GAcoaching@civstrat.com

To Find Other ECE Resources: Visit the DECAL Website

For General Questions about the Academy: Email thriving@decal.ga.gov

For More Information:
Family Child Care Learning Home Rules and Regulations

Child Care Learning Center Rules and Regulations