

This document contains a summary of findings associated with a profit and demand analysis of the new business venture "Teeny Tots Day Care."

Teeny Tots Day Care

Profit Model

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February 18, 2014

I. Introduction

This report concerns the Teeny Tots Day Care Facility, a prospective business venture. Included in this report is a summary and analysis of the data gathered about the revenues, costs, and profits associated with opening the day care facility. Teeny Tots is an attractive option for a business due to the economic growth, which provides jobs and additional income to parents who were once staying at home and increases the likelihood of children moving into day care facilities.

II. Executive Summary

After gathering data from the current market, it was found that \$900 is the average market price for a month of child care. Further researched resulted in a demand equation of $60 - 0.04p$, which, after analysis, resulted in a profit peaking price of \$675.

Despite the variance in price, and given the market average, it was decided to enter the market at a price of \$850 per month. At this price, Teeny Tots will break even when 9 children are enrolled, whereas, at a price of \$675, Teeny Tots would break even when 11 children are enrolled.

The demand equation used is based on historical data from 2009-2013. This data was relevant for a period of economic decline and employment reduction, which reduced childcare demand and suppressed the pricing of the service Teeny Tots intends to provide. Given the economic upturn, it is believed that this demand equation will change and result in an increased demand, thus increasing the price at which demand would balance with our licensing capacity..

The difference in the breakeven point between the two price points also impacted the price decision because, if faced with a lower demand than expected, the breakeven point is lower at a higher price. Also, if faced with a lower demand than expected, the price can easily be decreased to increase demand, whereas increasing the price to meet the expected demand increase would be more difficult.

After evaluating price and demand, it was determined that Teeny Tots Day Care Facility is a business worth starting. Not only does it have the potential to be highly profitable, but it becomes profitable at only 25% of the business's capacity. Additionally, the expected market growth leaves room for the growth of this business, making it an opportune time to enter the market.

III. Assumptions in the Model

A number of assumptions were made in this model regarding both cost and revenue.

Costs Assumed

- Fixed Costs
 - Loan
 - Building: based on current real estate market values of buildings in similar condition, location, and of similar size.
 - Improvements: based on estimates for costs of furniture, paint, landscaping, jungle gyms, and contract work.
 - Legal Fees: based on an average of estimates received from our real estate attorney and general counsel.
 - Advertising: based on estimates for costs of building a sign, designing and implementing a web presence, placing ads in local mailings and magazines, and other promotional materials. We expect this number to decline annually.
 - Start-up Supplies: based on wholesale costs for supplies such as diapers, soap, wipes, cots, etc.
 - Owner's Salary: based on expected living costs and personal expenses, as well as the expected profit. Provisions have been made within the analysis spread sheet to adjust owners salary based upon children enrolled
 - Utilities: based on average utility costs for buildings of similar size.
- Variable Costs
 - Supply Replenishment: based on the expected amount of supplies to be used by each child, and the average value of the supplies.
 - Snacks: based on wholesale costs of snacks, and amount of food each child is expected to eat
 - Receptionist Pay: based on average pay for similar jobs on a part time basis.
 - Assistant Pay: based on average pay for similar jobs.

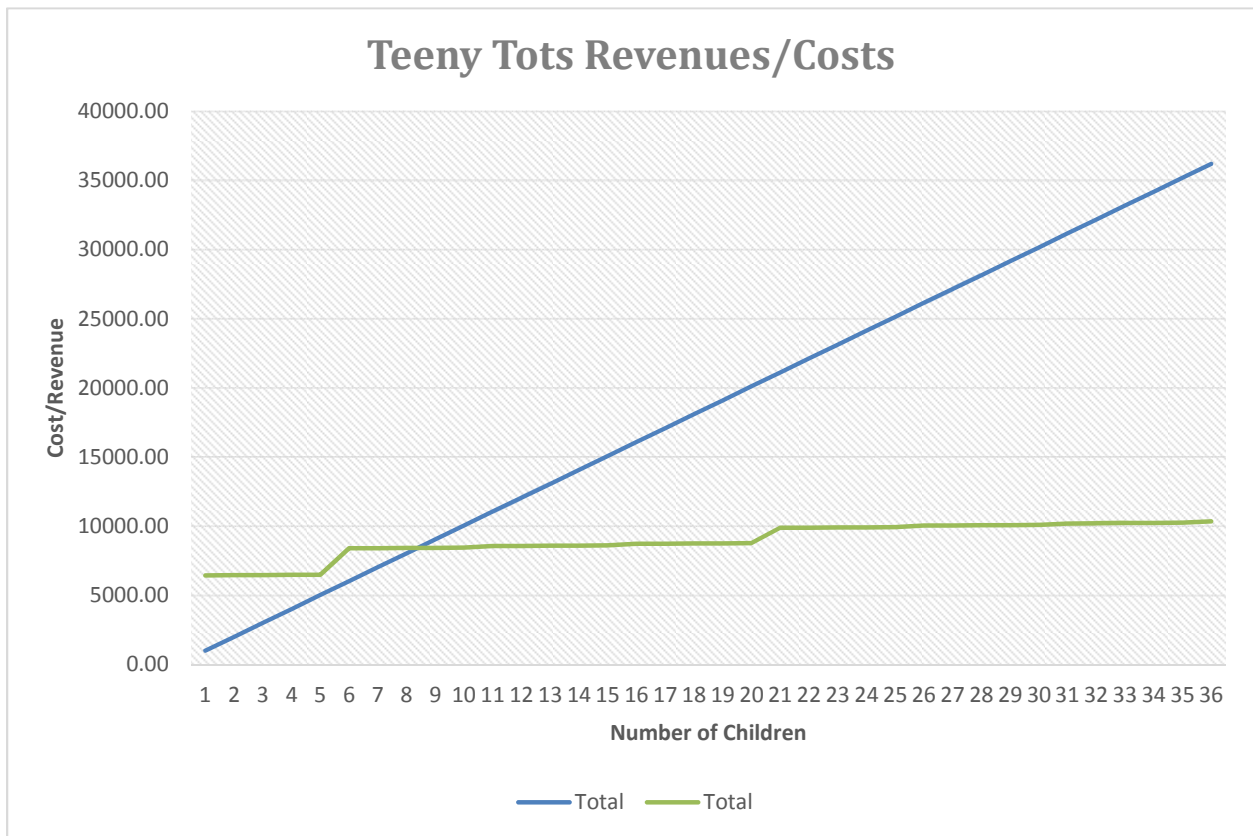
Revenues Assumed

- Base Rate: based on demand equation, anticipated economic growth, anticipated employment growth, and average cost of childcare services for the area.
- Extra Hours: based on averages gathered from nearby day care facilities for the quantity of children that are early and late, as well as the expected cost of early arrival and/or late departure.
- Bi-Annual Auction: based on socioeconomic data collected for the area.

How Might These Numbers be Obtained in a Real-Life Setting?

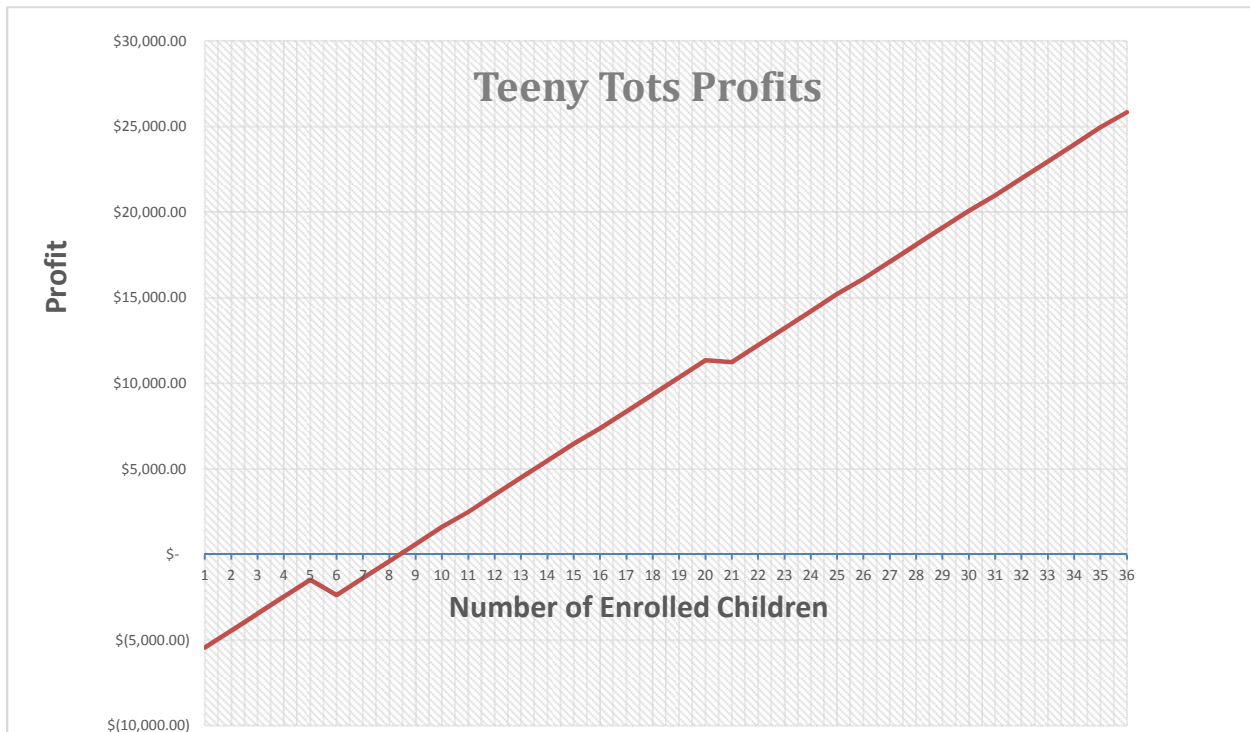
Many of the numbers used to model this analysis could be obtained simply by contacting vendors offering these various goods and services. Signs from sign builders and erectors, legal cost from attorneys, milk/food by vendors or if facility demand is not profitable to be serviced by vendors, personal experience in shopping at a grocery store. Receptionist wage and day care assistant wage could be determined by looking in the newspaper or on-line want ads. The building is a matter of offerings available in your market area from real estate booklets and on-line. A realtor would be happy to assist in developing a pricing guideline in hopes of gaining the business from you. Someone at this stage of the game is close to developing a full-fledged business plan to carry to a bank or other financier. Vendors would be inclined to believe you were serious if you were at this point and seeking prices on the building blocks to establish the business. You can tie one pricing request to another. You might ask the landscape service vendor about reliable sign builders in the area, or pest control or any number of items. When you call them up you can chain more request for additional referrals. Dropping the name of the referrer helps to establish rapport. I own and run a service business and it is not difficult to ascertain who is fishing and kicking tires (rare) and who has called me to get something done in the very near future. As a last resort there is now at least, the web.

IV. Analysis

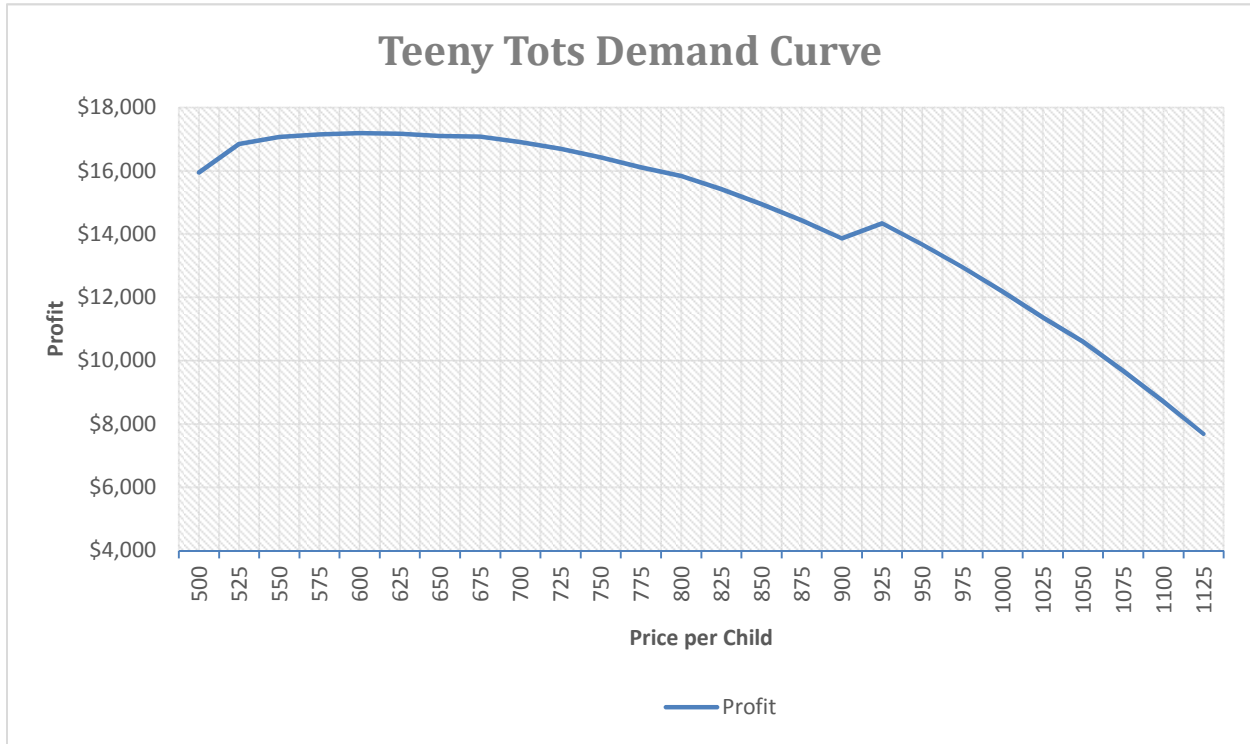


The graph above shows the relationships between monthly costs and revenues with respect to the number of children enrolled in Teeny Tots day care. One important point of interest is the breakeven point, which can be seen just before the ninth child. This graph was created using our determined price point of \$850 per child, per month. The spikes in the Total Monthly cost can be attributed to the cost increases of taking on an assistant and a receptionist, at 5 and 20 children, respectively. You can notice the sharply increasing revenue line with the relatively stable cost line promises healthy profits in periods to come.

The following graph further elaborates on those points.



The profit graph above clearly shows Teeny Tots day care turning profits from the ninth child onwards. The dips in profitability are again due to the spikes in costs following the increase in salaried labor. It is important to note however that neither of these graphs are based on the demand model provided by the equation $D = 60 - .04p$, where p represents price. The demand curve created by this equation can be seen in the following model.



As illustrated by the demand curve, the profit-maximizing price following the assumptions made would be \$675 per child, per month. As previously mentioned, our analysis concluded that in reality, we could make more money charging \$850 per child because of the changing socio-economic environment. We firmly believe the data to back up our claims, and our conclusions were derived from careful analysis of the market forces surrounding our company. That being said, there will always be limitations to what we can forecast and model, which brings us to our final topic.

V. Conclusion/Limitations

Several possible limitations were encountered during our analysis and creation of the Teeny Tots business model. Primarily, poor location choice of the business could greatly influence demand. Auction revenue per child could be wildly different from our expected amounts. Fortunately, our profit margin is not heavily reliant on those auction revenues.

Part time employment of our client base may influence the 'added hours' revenue stream assumed by reducing the actual percentage of clients requiring additional time outside of standard operating hours.

Quantity demanded may be less than anticipated. However, we can move our price point down to influence clients shopping for day care services. Our analysis using a demand equation derived from a historically reduced employment market would provide peak profitability at \$675 with a breakeven point of two additional children, moving it from nine children to eleven. If this move was required to increase the quantity demanded, it would be relatively easy to implement as our client base would relish a lower price. Quantity demanded should not fall below the demand equation model in an improving economy. Overall, we acknowledge that there are risks and limitations in the model we have created, but feel confident that our plan is solid and can overcome any unexpected hardships.