

Seven ways to expand



Banks aren't the only option when you are looking to expand, says Jonathan Amponsah. Read more to find out what some of those other options are

Many nursery owners would love to expand from one nursery to two or three. How to fund this expansion is the issue that makes many people hesitate. Let's explore ways in which you can find money within your existing business as well as options for raising funds externally.

1 Recruiting and rewarding staff

The biggest cost for your nursery is likely to be staff costs. In some nurseries, turnover of staff can be high and people may perceive their pay as too low. Given that both you and your parents value continuity of staff, what options might reduce turnover and give your business more value from your staff?

Most employees are paid an hourly rate for a fixed number of hours. You can consider using incentives to increase performance. For example, you could introduce a formal pay-for-performance scheme, where people are incentivised to raise their performance. The business benefits and they get more money. You can also look at a tax-efficient employee share option scheme.

There are a few tax-efficient incentive plans and certain conditions to meet. So, please explore these with your accountant or tax advisers, who will guide you through the options.

2 Avoid cash and profit leakages

Better management of your money can reveal hidden cash! Some nurseries struggle to control cash flow, which is under pressure from low profits, unpaid fees and a need for better financial forecasting. These cause you to leak cash, reducing your profits. When you improve the situation, you may find you don't need extra funding after all.



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Let's look at the example of an unpaid invoice. Say you make 10 per cent profit, you have a parent who owes you £1,000. If that parent does not pay you, haven't simply lost £1,000. You have lost £10,000, which is the income you need to generate in order to make £1,000 profit. (10 per cent of £10,000 = £1,000). Better credit control can prevent this kind of cash leakage.

How about profits? When was the last time you increased prices? Have you absorbed increases in the minimum wage and pension contributions or have these been passed on to parents? Inflation is currently at three per cent and pension costs are going up to three per cent too. Most parents will understand your need to increase prices. Will they go elsewhere if you provide a safe and stimulating environment for their kids just because fees rise by three per cent or even a little more?

The point is that it can be possible to generate extra cash from your nursery and avoid the need for external funding.

3 Funding options for the property

Rent is usually the second biggest cost in running your nursery. To start an additional nursery, look at low-rent options including subsidised church buildings, local authority properties and empty premises.

If you have to pay market rent for a commercial property, can you get additional income streams by offering after-school clubs, parties at the weekends or by using the space for evening clubs?

There are also some tax-efficient ways to acquire commercial property personally and then rent it to your business. For example, you can pay up to £40k a year of your salary into