

Five Trends Impacting the For-Profit Child Care World

Thirtieth Annual Trend Report on For-Profit Child Care

by Roger Neugebauer, with Kara Ficke, Rick Rogy, and Dick Richards

Thirty years — that’s how long *Exchange* has been following trends in the for-profit child care sector. Over these 30 years some things have stayed the same. KinderCare Education has remained at the top of our listing of the “Largest For-Profit Organizations in North America,” for all 30 years — only their name has changed from time to time. Similarly, Learning Care Group, Bright Horizons Family Solutions, Noble Learning Communities, and ChildCare Network have owned the second, third, fourth,

and fifth positions among non-franchise organizations for nearly two decades.

And every year there are new elements entering in. Currently, the for-profit community is being strongly impacted by five trends — four of which have been developing for years and one of which just happened in November.

It’s a Seller’s Market

For about five years there were not many organizations in the Top 50 lists that

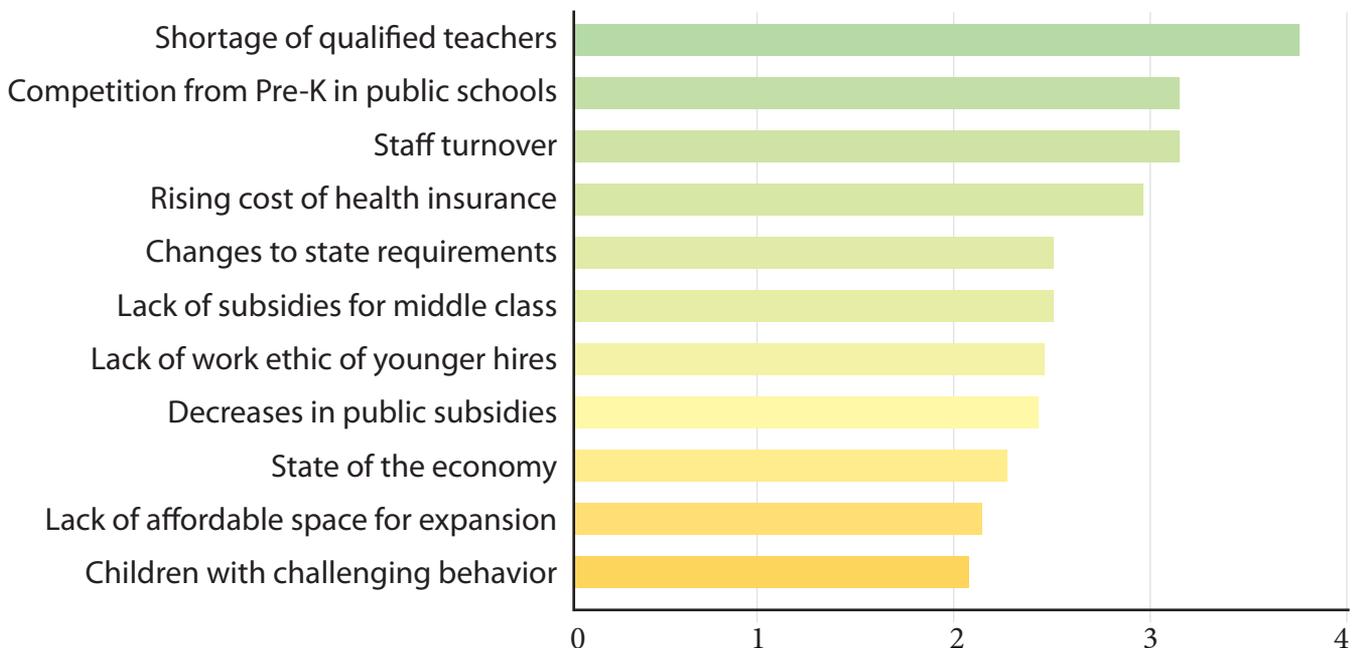


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Kara Ficke is the new product sales director for Exchange Press, a recent transition from her years working with Dimensions Educational Research Foundation on the Nature Explore program. Her passion to support professionals in the field of early childhood is notable through strong partnerships and customer relations. Contact Kara by email at kara@childcareexchange.com.

Table 1 — Threats Facing For-Profit Organizations



Notes: For-profit CEOs were asked to rate 35 potential threats to their organizations such as Major (5 points), Moderate (3), and Minor (1). The ratings above represent the average for each threat.

changed hands. Then in 2015 the floodgates were opened with KinderCare and Nobel being acquired by international investors who were bullish in the child care market in the United States. In 2016, five organizations in the middle of the Top 50 list in 2015 were acquired by organizations near the top of the list.

In the past 30 years there have been similar 'buying sprees.' What has typically happened is that after about one and a half to two years of heavy acquisition activity, things go quiet for another three or four years. During 2017 we will be watching to see if this pattern starts to repeat itself.

Franchising Maintaining Momentum

In the 2015 Trend Report I observed that franchise child care had become the fastest growing segment of the child care marketplace. This trend appears to be continuing. If you look at the current Top 50 list, you will notice that five of the top 12 organizations have declared that they are 'primarily franchising organizations.' In this year's survey those are highlighted in green.

As noted in 2015, it has been a bit of a roller coaster ride for the franchise sector of the industry. In the early 1970s when the entire early childhood field experienced dramatic growth, many of the for-profit organizations started out using the franchise approach to growth. However, by the end of the decade owners discovered that their ability to maintain quality control over programs they did not own was putting their brands at risk. So, most organizations shifted back to the company-owned approach and the other franchise organizations went out of business or were acquired. Then in the mid-'90s a number of new franchises such as Primrose and Goddard were launched, taking advantage of the latest technologies that

enabled them to more closely monitor and support their franchisees. Now franchise organizations are growing at a faster rate than company-owned organizations.

It should also be noted that, despite the recent gains of franchise operations, company owned centers still dominate the landscape. Company owned centers provide three out of every four of the nearly one million licensed spaces of the Top 50 organizations.

Public Schools Remain a Major Threat

For the past decade, when for-profit operators were asked in our annual surveys to identify the most serious threats facing their organizations, 'competition from public schools' has ranked among the top three concerns. As the owners of Little Tyke Creative Child Care noted in this year's survey, "Crowd-out is an unintended consequence of free public Pre-K that occurs when government-funded Pre-K becomes available and parents switch from private to public Pre-K. For the past ten years, we have been competing with the public schools."

When a state launches a Pre-K initiative, it typically offers free or reduced-cost child care for children aged four and older (and in some cases two and older) through public schools. The result is that the existing centers in communities lose many of their older children and are left serving primarily infants and toddlers. Providing care for these younger children is much more expensive, and in turn centers cannot balance their budgets without the older (less expensive) children. As a result, in most states with public school-funded Pre-K, large numbers of centers have been forced out of business. This threat applies to non-profit programs as well as for-profit programs (and may be one explanation

for the sharp decline in religious-sponsored programs in the past decade).

Some programs have turned this challenge into an opportunity. Heidi McFadden of Gretchen's House Child Care Centers observed, "There is a higher demand for quality infant/toddler care, which we provide. We have turned some of our spaces from preschool or school-age care into infant/toddler spaces to meet this demand."

My Kingdom for a Preschool Teacher

"The workforce crisis in ECE is looming.... Talented, intelligent teachers are leaving the field or worse — not entering it in the first place — due to low and stagnant wages," observed Margaret Teller from The Children's Workshop. This year the first and third rated threats identified by for-profit CEOs were 'the shortage of qualified staff' and 'high turnover.'

The issue of attracting and retaining qualified staff is, many say, the Achilles Heel of this field. The average parent cannot afford to pay fees high enough to pay teachers appropriate wages. But the severity of the threat varies depending upon the state of the economy. When the economy is struggling and unemployment is high, child care is able to attract a wider range of candidates. When the economy rebounds, potential candidates for teaching positions have many more employment options that offer better wages. And again, this challenge is faced by all centers whether non-profit or for-profit.

The Mystery of Trump

The election of Donald Trump has left advocates and players in all fields wondering what directions he will pursue. Most leaders of for-profit organizations were uncertain about the impact

North America's Largest For Profit Child Care Organizations

Organization	Headquarters	CEO/Executive Director	Centers	Capacity
KinderCare Education	Portland, Oregon	Tom Wyatt	1,500	200,000
Learning Care Group	Novi, Michigan	Barbara Beck	880	129,828
Bright Horizons Family Solutions	Watertown, Massachusetts	David Lissy	1,030	115,000
Goddard Systems	King of Prussia, Pennsylvania	Joseph Schumacher	462	65,000
Primrose Schools	Acworth, Georgia	Jo Kirchner	339	54,240
Childcare Network	Columbus, Georgia	J. Scott Cotter	255	41,408
Kids 'R' Learning Academies	Duluth, Georgia	David Vinson	159	35,775
Nobel Learning Communities	West Chester, Pennsylvania	George Bernstein	207	32,000
The Learning Experience	Boca Raton, Florida	Richard Weissman	188	31,020
Cadence Education	Scottsdale, Arizona	Dave Goldberg	156	29,562
Kiddie Academy	Abingdon, Maryland	Michael Miller	175	27,564
Rainbow Child Care Centers	Troy, Michigan	Patrick Fenton	122	17,634
The Sunshine House	Greenville, South Carolina	Wes Wooten	130	17,500
Children of America **	Delray Beach, Florida	Thad Pryor	66	14,000
New Horizon Academy	Plymouth, Minnesota	Chad Dunkley	94	13,970
Minnieland Academy	Woodbridge, Virginia	Charles Leopold	67	11,725
Discovery Point	Duluth, Georgia	Clifford Clark	47	10,810
Brightside Academy *	Pittsburgh, Pennsylvania	Mark Kehoe	65	10,544
Brightpath Early Learning	Calgary, Alberta, Canada	Mary Ann Curran	76	8,580
Children's Lighthouse *	Fort Worth, Texas	Patrick Brown	36	7,920
Crème de la Crème	Greenwood Village, Colorado	Bruce Karpas	25	7,325
Creative World School	Bonita Springs, Florida	Marianne Whitehouse	23	5,218
Acelero	New York, New York	Aaron Lieberman	40	5,000
Action Day/Primary Plus	San Jose, California	Carole J. Freitas	23	4,750
Country Home Learning Center	San Antonio, Texas	Sharon K. Ford	10	4,180
Celebree Learning Centers	Lutherville, Maryland	Richard O. Huffman III	39	4,073
Rainbow Station	Glen Allen, Virginia	Vance Spilman	19	3,883
Never Grow Up/Southside Christian	Franklin, Tennessee	Dwight Derringer	32	3,800
The Malvern School	Glen Mills, Pennsylvania	Joseph Scandone, Kristen M. Waterfield	26	3,629
Youthland Academy	Cincinnati, Ohio	Amanda Bottleson, Courtney Berling	18	3,600
Stepping Stone School	Austin, Texas	Rhonda Paver	20	3,400
StarChild Academy	Apopka, Florida	Cindy Zimmermann	7	3,025
KLA Schools	Miami, Florida	Roberto Ortega	17	2,788
The Gardner School	Brentwood, Tennessee	Scott Thompson	14	2,734
Doodle Bugs! Children's Learning Academy	Buffalo, New York	Anthony Insinna	15	2,633
Educational Playcare	Windsor, Connecticut	Jane Porterfield	13	2,524
Little Sprouts LLC	Lawrence, Massachusetts	Mark Anderegg	24	2,494
The Children's Workshop	Cumberland, Rhode Island	Margaret M Teller	18	1,976
Valley Child Care & Learning Centers	Phoenix, Arizona	James Emch	9	1,931
Kid's Country Learning Centers	Snohomish, Washington	Lynnda Langston	11	1,787
Children's Discovery Center	Maumee, Ohio	Lois M Rosenberry	9	1,703
EduKids, Inc.	Buffalo, New York	Nancy Ware	14	1,650
Bobbie Noonan's Child Care	Frankfort, Illinois	Judith Nevell	12	1,550
U-GRO Learning Centres	Harrisburg, Pennsylvania	Greg Holsinger	11	1,485
CWCC Inc	Centerville, Ohio	Karen Lampe	9	1,380
Little Tyke Creative Learning Centers	Richland Hills, Texas	Alex Little, Keith Davis	12	1,367
Small Miracles	Oro Valley, Arizona	Keir Cochran	10	1,237
The Compass School	Richmond, Virginia	Martin Brill	6	1,223
K.I.D.S. Daycares	Westmount, Quebec, Canada	Evelyn Wajcer	13	1,200
Gretchen's House Child Care Centers	Ann Arbor, Michigan	Heidi McFadden	12	1,168

Based on data supplied by the organizations. Data on capacity is total licensed capacity as of January 1, 2017.

Organizations highlighted in green are franchising organizations.

* Data from January 2016 report.

** Data taken from organization's website.

of a Trump presidency. However, a few leaders expressed guarded optimism:

David Lissy, Bright Horizons Family Solutions: “While there are many things that can be done to improve our early care and education system, one of the most important factors is the long-standing gap between the need for and available supply of high-quality early care and education, especially for our youngest children. President-elect Trump provided an outline of concepts during the campaign that appear to be supportive of this area, albeit with limited detail. It’s worth noting that every administration preceding him has had positive rhetoric supportive of improving access to quality early care and education during the campaign that failed to translate into meaningful change for working families.”

Roberto Ortega, KLA Schools:

“Certainly during the campaign the outlook of a Trump Presidency was very uncertain. Lately, however, my perception has changed for the good. I think he is taking a very good approach on selecting the members of his cabinet. His tone and delivery of messages has improved. For the educational sector, he has made a good pick and as a small business owner I look forward to see his campaign promises become reality as I definitely agree that it will allow us to allocate more resources into our HR departments to create more jobs.”

Tom Wyatt, KinderCare Education:

“Actually we feel that Trump could possibly be wind at our back. As you know, he is supportive of higher deductions for our services as well as an advocate for ECE in general. His daughter has been very vocal around ECE and benefits for working mothers. So we go into the new year with encouragement. We don’t see any downside at this point.”

Gerry Pastor, Educational Playcare: “If he doesn’t wreck the economy or start a nuclear war, then otherwise we have a respite from the dangers of a \$15/hour minimum wage and Pre-K in the public sector. His tax credit plan is highly unlikely to benefit us. It will not result in an increased utilization of our services, just reduced costs for those who might benefit. Persons able to benefit from the credit are probably already utilizing us.”

Stay tuned for developments; 2017 promises to be a most adventuresome year for ECE’s for-profit sector.



Dick Richards has been involved with acquisitions and mergers within the child care industry for the past 33 years representing both buyers and sellers of centers in 33 states and two Canadian provinces. Dick has completed over 400 transactions, participated as a presenter at numerous seminars, and has written articles for *Exchange* magazine and other publications.



Rick Rogy, over the past 25 years, helped build a family-owned child care company to 18 locations that they just recently sold; Rick has now joined the Child Care Brokerage and Consulting Team. His knowledge in the child care industry makes him a welcome addition to their team as he can bring on board his expertise, not only in how to operate profitable centers, but also how to prepare for a sale.