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BADM

Industry Analysis

Industry Name & NAICS Code:

Childcare-624410

I**ndustry Overview:**

The role of a woman was to stay at home, care and nurture the children, cook, and clean, but as women’s reform efforts picked up during the Progressive Era, childcare became a target for reform and modernization. To draw attention to the need for child care and to demonstrate “approved methods of rearing children from infancy on,” a group of prominent New York philanthropists led by Josephine Jewell Dodge set up a Model Day Nursery in the Children’s Building at the 1893 World’s Columbian Exhibition in Chicago and then went on to found the National Federation of Day Nurseries (NFDN), the first nationwide organization devoted to this issue, in 1898. The childcare industry operates to provide daycare services for children, primarily those under the age of 5. Operators may also run preschool programs that prepare 3 and 4 year olds for Kindergarten.

*Factors that contribute to the Growth of the industry*

There are many factors that have contributed to the growth of the childcare industry that include but aren’t limited to The out of pocket costs or tuition for a child to attend a private, Montessori, or daycare center is too high because rates for child care has doubled since 1987, relatives such as grandmother, grandfather, aunt, uncle, or cousin are providing care for children while the parents are at work, families are living in poverty or at the poverty line thus not being able to afford quality child care for their children, the location of the the school/center is in an area that is not highlighted or safe so parents are not willing to bring their children for the lack of trust of the demographics, employment rates are fluctuating (if employment percentage is high, then the need for quality child care is high, but if employment percentage is low, then the need for care is low, the cost of operations too high), rent, utilities, groceries, etc. are higher than the revenue that the school is bringing in thus forcing the school to shut down and stay at home parents are providing care for children. Either mother or father do not work or they have alternating schedules that allows one to stay home with the children while the other is at work.

*Government Regulations*

The government has set standards that must be followed in order to protect children that are placed in a state regulated childcare facility. These regulations must be followed in order for the center to stay in compliance with them and to continue to provide services to the surrounding communities. The Department of Family and Protective Services protects children and adults who are elderly or have disabilities and regulates child care. Childcare Licensing regulates all childcare operations. They permit and monitor operations and agencies for compliance with state licensing standards, rules and regulations, investigates complaints against childcare centers violating minimum standards and reports of abuse and neglect. They also give technical assistance on meeting licensing standards when they have come on site for an inspection of the childcare facility. Consumer Product Safety Commission is an organization that identifies recalls on items that may be found in a childcare facility or home based child care facility. Their website offers information directly to the consumer without having to wait on businesses to report recalls. The Centralized Background Check Unit is an organization that provides background checks and FBI fingerprinting for individuals that want to work in a childcare center. This is a requirement and a state regulation that has to be met for all licensed child care facilities and if not done would be a major violation that would result in a possible fine and or mandatory closing of the business. Centers for Disease Control and Prevention works 24/7 to protect America from health, safety and security threats, both foreign and in the U.S. Whether the disease starts at home or abroad, are chronic or acute the CDC fights disease and supports communities and citizens to do the same.

*Identify top competitors in the industry*

There are many childcare facilities across the nation and many with franchises and chains. Some of the top competitors in childcare are Primrose, Knowledge Universe, and Learning Care Group. In 2015, **Primrose** was ranked as one of the top fastest growing franchises by Forbes and Inc. Magazine. This year it entered new markets in Boston and California and identified 30 other markets in Massachusetts and New Hampshire, where it plans additional, immediate expansion that will bring the total number of schools operating to more than 300. Primrose enjoyed an all-time high in system revenue which included the strongest quarter on record in the company’s 34-year history.

**Knowledge Universe** was founded in 1983 and is currently the largest for profit child care provider in the U.S. The headquarters in Portland, Ore operates about 1,700 centers in 39 states with six brands: KinderCare Learning Centers, Knowledge Beginnings, CCLC, the Grove School, Champions and Cambridge Schools. IBISWorld predicted the company will generate $1.9 billion in revenue in 2014.

**Learning Care Group** operates more than 1,000 schools across 36 states, the district of Columbia and internationally. Currently the second largest for profit provider of childcare in the United States with about 17,000 employees. IBISWorld estimated that it will generate $725 million in revenue in 2014.

*Size of industry in dollars*

The size of the childcare industry is $53 Billion a year and is expected to continuously rise in the future. As stated before the demand for childcare will always be a rewarding factor as long as inflation is not a problem because the average American that works 40 hours a week doesn’t have a person that they can depend on to take care of their child(ren).

*Trends in sales over the years*

The proportion of center based programs ranged from 23 to 30 percent between 1985 and 1987. It increased from 23 to 26 percent between 1997 and 2011, but more recently sales among privately held firms providing child day care services (NAICS 6244) have grown nearly 9% over the last 12 months, according to a financial statement analysis by Sageworks. Perhaps more impressive is that businesses in this category grew sales, on average, by 6% to 7% annually between 2008 and 2012 — even during the recession. Other privately held companies saw a decline, on average, of 5% in 2009.

*Operational or management trends within the industry*

The childcare is a very competitive industry because everyone wants to have the best reputation among parents. Some of the operational trends that you will see among these facilities are childcare being referred to as early education. No longer is childcare for young children simply babysitting. Centers are now transitioned to centers for early education where the younger children are involved with early learning. This trend started partly because of high parent and school expectations. Drop in care is more common, but it is typically run very similar to traditional daycare with a few exceptions. Most drop in rates are about the same rate adult babysitters are paid for watching more than one child during the evening or weekend.

Making childcare safer by increasing security has become a trend. Increases concerning picking up children, adding additional background checks and screenings are being done on prospective employees and more surveillance and monitoring is being done on a day to day basis. More trainings are being provided and more thorough checklists are helping to keep kids safer on field trips, outings, while at the center, and during transportation. Childcare centers are catering to budget minded families by offering discounts to parents that have more than one child enrolled in their center and creating flexible hours to accommodate parents but keeping the rates the same. Centers are working with struggling families by working out payment arrangements to encourage families to stay. Special programs and fees are being examined to find ways to cut cost for parents and caregivers.

*What types of marketing strategies are prevalent in the industry?*

Childcare industries use many different marketing strategies including but not limited to email communications, mail drops, flyers, radio and T.V. commercials, parent’s word of mouth, sales on registration/tuition fees, and incentives for enrollment just to name a few.

*Whether the industry is seasonal or subject to other economic fluctuations*

The childcare industry is not a seasonal industry like the education industry. Because the education industry deals with children that are older, during the months of June, July, and part of August, the educational industry is out for the summer but the childcare industry is year around. Although they honor major holidays and give time off for teachers and caregivers, there isn’t an extended period of time where they aren’t operating. There are however some economic fluctuations that can affect the daily operation of the facility. They include factors like operational problems, managerial changes, budgeting issues, state regulations, etc.

**Industry Developments and Recent News**

Because the childcare industry is so diverse, there is always going to be competition. Every center wants to be nationally recognized for having the best teachers, providing the newest innovative centers, and bringing in the most revenue.

*Innovations that are changing the industry*

Technology: The use of computers and other digital technologies are on the rise in early childhood programs. More centers are using technology for classroom teaching, management services, and fun interactive projects. Technology continues to change every day and childcare centers are keeping up. Trainings are offered to staff/teachers and communication with parents are growing through email. More centers are also offering parents the ability to watch their children while at work through cameras and online access. This is a major trend that is changing the industry. After school programs are providing a more flexible schedule for working parents with hectic schedules. Children that get out of school earlier than parents are off from work are able to go to after school programs get a snack and possible help with their homework. A parent choosing a quality after school program can have a tremendous impact on the child’s performance, academics and self-esteem. This is why it’s so important for parents to thoroughly check out the program before enrolling their children. Transportation is another change in the industry that is becoming more prevalent. It’s also an additional way of income for childcare centers and independently owned transportation companies. The idea is to transport children from their homes to their childcare centers and then back home. This offers parents that are not able to take and pick their children up from school because of their early or late work schedules. Some transportation companies offer cheap round trip deals.

Marketers are making products that make the childcare life much easier during the day when children are away from their parents and in your care. Some of these products include thermometers that don’t have to go in the child’s mouth but can be placed on their foreheads and other marketers have made pacifier thermometers. Another product is heat sensitive utensils. These utensils alert the childcare worker if the child’s food is too hot after heating by the color change of the spoon.

*News laws or regulations that will affect the industry*

As it stands once a childcare center has been approved by childcare licensing and given a permit, the permit is non-expiring. A new law that has been presented to require the expiration of a license, registration or certificate, issued by Childcare Licensing. In order for the license, registration or certificate to remain valid, the operation would need to apply for renewal. Enforcement Framework is to require DFPS to establish a general enforcement policy in rule. The enforcement policy will outline the methodology used to guide decision making when determining whether action should be taken against an operation, and if so, which action is appropriate. The enforcement policy must allow DFPS to consider the circumstances in a particular case, history of violations, and aggravating and mitigating factors. The purpose is to establish a consistent and fair application of actions Licensing may impost on an operation, and to provide transparency to the decision making process. Administrative Penalties amends to expand the departments authority to impose administrative penalties for violations of high-risk standards or rules, such as rules related to supervision, safety hazards and background checks, before imposing other corrective action. Cease and Desist will allow DFPS to issue a cease and desist order against an illegal operation.

**Consumer/Client Market Data**

*Demographics:*

AGE: Among children ages birth through four whose mother is employed, black children are the least likely to be in parental care, at 17 percent, while Hispanic children are the most likely, at 29 percent.  Black children are the most likely to be in center-based care, at 31 percent, while Hispanic children are the least likely, at 14 percent.  Both black and Hispanic children are more likely to be in cared for by a relative in the home, at 35 and 36 percent, respectively, than are their white and Asian peers (at 24 and 25 percent, respectively).  However, white and Asian children are more likely to be cared for in a home by a non-relative (at 16 and 15 percent, respectively), compared with 11 percent of Hispanic children and eight percent of black children who are cared for at home by a non-relative.

INCOME: Poor and low-income children ages birth to four who have employed mothers are less likely to be in a center-based program than are children in families with incomes at least twice the federal poverty level (19 and 22 percent, respectively, versus 29 percent in 2011). This gap has fluctuated over time, but was largest in 2010.  Poor and low-income children are more likely to be cared for by a relative at home than are children from families with higher incomes (33 and 30 percent, respectively, versus 25 percent, in 2011).   Low-income children are more likely than either poor children or children in families with higher incomes to be cared for by a parent during working hours (31 percent, versus 26 and 21 percent, respectively)

**Competitor Information**

Primrose

Knowledge Universe, the Portland-based early childhood education company, expects to increase its growth rate following its sale to a Swiss investment firm. Partners Group AG, based in Zug, Switzerland announced it had acquired Knowledge Universe the operator of the KinderCare Learning Centers brand. The terms of the deal weren't disclosed. The company, which had $1.48 billion in revenue in 2013, employs more than 500 people at its Lloyd District headquarters and 31,000 nationwide.

Moody's Investors Service Inc. said it expected Learning Care Group to post revenue of over $700 million in its 2014 fiscal year ending June.

*Discuss whether sales of each of these competitors are increasing or decreasing and why*

Primrose’s sales are expected to continue to increase because the sales of franchises. When a buyer obtains a primrose franchise the cost could range anywhere from $600,000 to $5.5 Million and there are many available markets to open franchises across the world.

Knowledge Universe’s sales are expected to continue to increase. The reason for this is because under Knowledge Universe’s name there are many different brands such as KinderCare, Leap Frog, Champions etc. that are bringing additional money into this business.