For many parents, crayola-covered walls and orchestras limited to pots and pans bring to mind the thought, “maybe daycare isn’t such a bad idea after all.” Besides providing parents with a little time off, day care centers offer children under five years of age, an educational and fun environment while parents are at work. These benefits have helped drive the demand for child care in recent years though the supply of quality centers has yet to catch up.

When the Clinton administration’s welfare-to-work program was passed, thousands of mothers entered the workforce in the late 1990s. The limited availability of child care became clear as resources were stressed. As time went by, many employers found that a lack of child care is a barrier for qualified workers. Companies soon discovered that providing benefits by sponsoring child care centers in or near the office was a worthwhile investment resulting in increased in morale and decrease in absenteeism. However, the steady demand for such centers has yet to be fulfilled, leaving room for growth in the $21 billion market.

For many parents, the thought of child care is alluring; however, they find themselves afraid to leave their child in the arms of a stranger. Recent developments in technology will help ease these fears and convince more parents to seek child care centers. One product, called “I See You,” allows parents to cyber visit their child’s day care room via the internet throughout the day. With the day care providers’ consent, a camera is placed in the center allowing still screens to be taking every 30 seconds that can be viewed online with an access code.
There have also been new advances by cell phone providers, giving older children the ability to instantly establish a video connection with their parents at any time they wish. These increased safety measures will undoubtedly result in more parents participating in child care programs and even greater demand for the growing market.

Resulting from such increased numbers of working parents and technological advances, the child care market is promising great yields. There is plenty of room for growth within the industry. In fact, the company with largest market share only boasts of 3%. It may be time to invest in these guardians of dirty diapers.

**Links of Interest**

- National Association of Child Care Professionals – [http://www.naccp.org](http://www.naccp.org)

The child day care industry has grown rapidly over the years. Between 1975 and 2002, the number of women with preschool aged children who were working outside the home rose by 39%. In 2003, approximately 65% of mothers with at least one child under the age of 6 worked year-round. In 2002 the US Census Bureau estimated that 34.9% of the total children under the age of 5 had non relative care and 22.7% were in organized care faculties.

The estimated number of day care establishments in the United States totals almost 150,000 with estimated annual sales of over $20,600 million. Daycare services are typically either family daycare homes or daycare centers. Family daycare homes are based in private residences and typically have 1 provider who cares for 6 or fewer children. This snapshot will focus on the daycare centers typically serving 50 to 100 children and falling under government regulation.

**Demographics**

The most common Day Care Center target market is primarily married, working couples/parents, single working parents, and unmarried partner households. The following chart shows the number households with children under 18 years old with one or both parents employed. This is based on 2006 household type and family income.
According to the 2006 ThirdWave Research report, the total potential market for daycare centers, nursery and preschools was $24.7 billion. The following outlines the demographic breakdown of this potential $20 billion market:

**Age Range:**
25-44 year olds represent 82% of the market;
45-54 year olds represent 10.77%
Under 25 and over 55 year old represent 7.33%.

**Ethnic breakdown:**
White, non-Hispanic = 71.94%
Non-Hispanic = 12.23%

**Income levels:**
$50,000 - $99,000 = 42.93%
Over $100,000 = 32.46%

Between 2006 and 2015, the 5 year and under segment of the population is expected to grow from 19 million to over 21 million and to 30 million by 2050. This represents a daycare sales potential of $26.3 billion in 2011.
Industry Trends

The increase in the number of single working parents and couples in which both parties work has loaned itself to a new trend in the day care industry. Corporate America is adding child care to their employee benefits. When the Clinton administration’s welfare-to-work program caused thousands of mothers to enter the workforce in the late 1990s, the limited availability of child care worsened.

Employers are finding that lack of child care is a barrier for qualified workers and the cost of providing benefits by either sponsoring child care centers in or near the office outweighs the cost. Morale increases while absenteeism decreases. Child Care centers can work with local employers to set up direct financial assistance, discounts for child care, trade outs or other co-operations. As many as 73% of companies with $1 billion or more in revenue provide some kind of child care benefits.

Child Care as Education

Currently, child care facilities are focusing on what kind of activities they can provide to help children develop their intellectual, physical, social and emotional skills. Focusing on making the play area a learning center to prepare children for their next stages in life can not only be personally awarding for the child care provider, but also a strong attraction for the care center. As most of the children are under the age of 5, parents want to know that the child is not only safe but in an environment that will help promote his or her growth.

It should go without saying that all the federal, state, and local laws and regulations are met without condition. The increase in demand for child care centers is still causing parents to look to the government to help ensure their child’s safety. Thus, it is important for a center to continuously update to ensure regulatory compliance. Most areas require training and/or certification of caregivers in teaching, safety and CPR. Still, it is useful for the center to utilize these training programs to further promote safety and education within the facility and therefore increase the potential market’s trust in the facility.

Food Programs and Promoting Health

When selecting a childcare facility, parents are strongly advised to take into consideration the day care’s nutritional programs and food safety/sanitation practices. The United States Department of Agriculture’s Healthy Meals Resource system offers an online library to help childcare providers. The site helps providers plan menus and recipes, ensure food is safely served, and understand special diets. Many providers can enroll in government subsidized
food programs like the CACFP, which will reimburse providers for a portion of food expenses. The Center for Disease Control and Prevention offers information on vaccines and immunizations that are required by most day care centers. This helps promote safety as well as ease the mind of parents.

Technology

With a new product called “I See You”, parents are able to cyber visit their child’s day care room via the internet throughout the day. With the daycare providers’ consent, a camera is placed in the center that allows still screens to be taken every 30 seconds. These photos can be viewed online by logging on and providing an access code. Simple Knowledge, the company that designed the new product, claims that it is “re-creating the nuclear family from a distance,” helping parents to reduce guilt and anxiety. The day care center is responsible for the internet connection, equipment and maintenance fees; the parent is only responsible for an online provider fee. Enhancing security technology is also a growing trend within childcare.

The School Leader software, a Dell Computers product, tracks each person that enters and leaves the center by requiring authorized individuals to log in at a security station in order to gain entry. The software also includes a built-in messaging system to increase and improve communication between staff and parents.

The internet has added convenience to both the parents and providers by allowing providers to cost effectively post their information on the web and parents to easily search for and view locations in their area. The opportunity to take virtual tours of potential centers is rapidly growing. An example of such is http://www.edaycare.com/.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Location</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>L.P.A Holding Corp.</td>
<td>Overland Park, Kansas</td>
<td>11,340M Sales</td>
</tr>
<tr>
<td>ServiceMaster Co.</td>
<td>Downers Grove, Illinois</td>
<td>3,429.1M Operating revenue</td>
</tr>
<tr>
<td>Knowledge Learning Corp</td>
<td>Portland, Oregon</td>
<td>890M Operating revenue</td>
</tr>
<tr>
<td>KinderCare Learning Corp</td>
<td>Portland, Oregon</td>
<td>855.9M Operating revenue</td>
</tr>
<tr>
<td>Bright Horizons FamilySolutions Inc.</td>
<td>Watertown, Massachusetts</td>
<td>697.9M Operating revenue</td>
</tr>
</tbody>
</table>

Franchising

The child daycare franchise industry is growing rapidly. The increase in the number of
women in the workforce together with the growth in number of children under the age 5 years, has driven the increase in the popularity of franchise opportunities. The child market is still strongly fragmented; the business with the highest portion only holds 3% of the market so companies are still open to tremendous growth potential. Some of the common franchises currently available are: Tutor Time, The Learning Experience, Kiddie Academy, Children’s Lighthouse, and the Primrose School. Choosing to open a franchise offers many marketing benefits such as name and signage recognition, pre-planned learning and food programs. Franchises also provide help with employee training and regulatory compliance requirements.

Marketing and Advertising

Since the average parent prefers their daycare to be close to home rather than their work, when finding a location for a day care center, it is usually best to find a safe location with the following criteria:

- large neighborhood
- average annual income of $50,000 or higher
- population concentration in the 25 to 44 age group with children.

Using the local schools and online resources to set up a direct mailing list to households within a 2 mile radius typically has the best return on dollars spent. Direct mailing should include a brochure that shows pictures of the facility, lists of amenities, certification or training held by the staff, and anything else that the center offers that may set them above the competition. Working with the local apartment complexes to have the brochure added to their welcome packet can also be a useful tool.

Though parents typically prefer locations close to home, marketing to the local businesses to promote discounts for employees can also prove beneficial. Online child care providers’ advocates and associations like, http://www.childcarelinks.org/, provide creative ideas such as attaching the business card to candy passed out in the neighborhood on Halloween. Adding a bus or van to pick up children from school for after-school programs can be added as an amenity and promote the center during trips. Attending local neighborhood and school events can open up new opportunities and word of mouth referral discounts should never be discarded. The center can also look into advertising on church bulletins and the local homeowners association’s webpage or newsletter.
Recession’s Effect on the Industry

A growing number of child care providers are reporting a drop in enrollment as parents lose jobs or try to cut back on expenses, according to an organization that helps connect families with quality day care. “We’re talking to centers and for the first time we’re finding vacancies,” said Becky Hancock, program coordinator of Child Care Resource and Referral. “Normally, especially for infants, we’ll have to call five, six or seven centers or home-care providers for the little guys. Now we’re calling and being able to place them immediately. Even for large families, centers are having openings.” A lot of home care providers are changing their hours, adding weekend hours, exchanging their hours. They’re being flexible with vacation time off – especially for parents who are struggling in keeping their jobs right now,” she said.

According to Linda Smith, director of the National Association of Child Care Resource and Referral Agencies, it’s a nationwide trend — a sign of the economic environment. “We’re hearing that all over the country parents are taking their children out (of child care),” Smith said during a phone interview from Virginia. “The impact will probably outlast the current economic downturn.”

A drop in quality day care could hinder the U.S. economy as it struggles to come back from this recession, Smith said. “It’s going to take a long time to rebuild child care,” Smith said. “We’ve done a lot of work in response to hurricanes or fire — Hurricane Katrina and the hurricane in Galveston this year. We know people can’t go to work if they don’t have child care. As more and more people get laid off and child care centers close down, when the economy starts to pick back up, with child care not there, it’ll be a hard situation.”

Common Expenses

According to the Nonfarm Sole Proprietorships: Income Statements, by Industrial Sectors, Tax Year 2005; sole proprietorships child day care services received about:

- a $9.5 billion in income from sales and operations
- about $6.2 billion or 63% of that was reported in business deductions.

Child Care Liability insurance and Child Care Accident insurance can be a very costly expense for daycare centers but are extremely important in protecting the center against accident liability. Mortgage or rent can also be costly but there are some tricks available to help lower these costs. Many daycare centers are choosing to rent church buildings during the week rather than solely pay rent on a building or open a new location.
Providing food is another major expense for the childcare facility but as mentioned before, there are federal food reimbursement programs for qualifying locations. Researching how to have the facility meet the requirements of different reimbursement programs could help reduce meal expenses.

Planning for the expense of employee salaries and training should also be considered. Checking for average pay comparisons in the area and calculating the number of staff required for the number of children that the facility plans to take on are important in the planning process. Teacher to child ration regulations vary by state and children’s ages. Though the facility should base its ratios on the local standards, the following is an example on how ratios may appear:

**Florida’s Administrative Code Child Care Standards, Ratios**

- The staff-to-child ratio, as established in s. 402.305(4), F.S., is based on primary responsibility for the direct supervision of children and applies at all times while children are in care.
- Mixed Age Groups.
  - In groups of mixed age ranges, where children under one (1) year of age are included, one (1) staff member shall be responsible for no more than four (4) children of any age group, at all times.
  - In groups of mixed age ranges, where children one (1) year of age but under two (2) years of age are included, one (1) staff member shall be responsible for no more than six (6) children of any age group, at all times.
- For every 20 children, a child care facility must have one (1) credentialed staff member pursuant to s.402.305(3), F.S.

The following is a list of other expenses a day care center may encounter, as listed by the CCVillage:

- Child care membership dues, fees, subscriptions for child care purposes
- Educational supplies (toys, games, books)
- Consumable materials (craft supplies, baby bottles, child proofing devices, party supplies, diapers, paper products, first aid supplies, cleaning supplies, etc.)
- Equipment (child furniture, bookcases, computers for use by the children
- Field trip expenses
- Mileage
- Professional services (bookkeeping, advertising, accounting, laundry and cleaning services, bank fees on business accounts, legal advice, etc.)
- Property taxes
- General office expenses (utilities, phones, paper, ink cartridges, staples, postal fees, etc.

**Associations**

National Association of Child Care Professionals – [http://www.naccp.org](http://www.naccp.org)
National Child Care Association – [http://www.nccanet.org](http://www.nccanet.org)
National Association for the Education of Young Children – [http://www.naeyc.org](http://www.naeyc.org)
USA Child Care – [http://www.usachildcare.org](http://www.usachildcare.org)
National Association for Family Child Care – [http://www.nafcc.org](http://www.nafcc.org)

**Sources**


7 “Household Spending (2006) for housing: Day car centers, nursery, and preschool.” Market
Research Tools. Third Wave Research . 27 Sep 2007


10“Child Care Centers Face Dropping Enrollment” online article. accessed Jan. 2009.

SBDCNet distributes limited competitor and/or supplier lists from industry accepted resources, but cannot guaranty accuracy. SBDCNet does not provide marketing lists, medical or legal advice. Preliminary patent and trademark searches do not constitute legal advice and consultation with an intellectual property attorney is advised. This material is based upon work supported by the U.S. Small Business Administration. Any opinions, findings, conclusions or recommendations expressed are those of SBDCNet and do not necessarily reflect the views of the U.S. SBA. This U.S. Small Business Administration (SBA) Grant is funded by the SBA. SBA’s funding is not an endorsement of any products, opinions, or services. All SBA funded programs are extended to the public on a nondiscriminatory basis. This material may be protected by Copyright law (Title 17 U.S. Code).

Sharing is caring!

- Share
- Tweet
- LinkedIn