

How's Business? Status Report #6 on For Profit Child Care

by Roger Neugebauer

1989 was another eventful year in the for profit child care community. Expansion continued, although signs of a slowdown began to appear; new players emerged and a number of old players succumbed to mergers; the major chains concentrated on internal organizational matters; and employer child care developed as a growth niche.

Growth Continues, But For How Long?

In the 1980's the for profit sector of the child care industry grew at a rate of 10% to 12% per year. This rate of growth continued into 1989.

Industry watchers now maintain, with this decade of proprietary expansion coupled with the decline in support for non profit child care during the Reagan years, that for profit centers now comprise a majority of the nation's estimated 70,000 child care centers.

During 1989, however, harbingers of a potential slowdown emerged:

- **Inhibiting economic conditions.** Richard Niglio, CEO of Children's Discovery Centers of America, cites a number of factors which present a

"prescription for disturbed markets." These factors include the price sensitivity of the service, the shrinking labor supply, and threatened increases in licensing requirements.

Another economic factor slowing growth rates, according to Greg White, area vice president for Children's World Learning Centers, is the increasing difficulty and cost of developing new sites. This drives up fixed costs and makes it harder to end up with a profitable location. As a result, you need to be much more selective in site development.

- **Increasing competition.** Deborah Ludwig, head of Gerber Children's Centers, believes that this decade of expansion has resulted in stiffer competition than ever before. The rush of national chains and new operations to get a foothold in "hot" markets has resulted in an oversupply in many metropolitan areas.

- **Aging infrastructure.** Dick Richards, president of Child Care Center Brokerage, points out that a significant portion of centers owned by chains are starting to show their age. In fact, 38 out of the top 50 for profit organizations were organized before 1975. This means that many

organizations are finding it necessary to close centers in neighborhoods where demographics have shifted over the years, as well as to allocate considerable resources to remodeling older centers.

- **Leveling off of demand.** Many of the factors that drove the rapid expansion of the 1980's are beginning to tail off. While most of these factors—return of women to the work force, increase in number of births by baby boomers, increase in popularity of centers as a choice for the care of children—continue to be favorable, their rates of increase are declining. As a result, industry watchers predict that the demand for child care will increase much more slowly in the first half of the 1990's.

All these factors are contributing stress to for profit operators. A recent survey by the National Child Care Association, which represents independent proprietary centers, found vacancy rates averaging 27% among reporting centers.

In surveying organizations listed in "The Exchange Top 50" table, **Exchange** found that while enrollments are down in many parts of the

country, in other areas demand is still running ahead of supply.

Overall, center executives have become increasingly conservative in their planning. Organizations in the "Top 50" list are projecting only an average increase of 5% in new center construction in 1990. Most CEOs surveyed by **Exchange** reported that they intend to focus more attention on increasing enrollments in their existing centers than on opening new centers in the foreseeable future.

Expansion of Major Chains Slows

The three largest national chains—Kinder-Care, La Petite, and Children's World—opened less than 100 centers in 1989. This represents a combined annual expansion of only 3%, compared with average expansion rates of 26% per year from 1980 to 1985 and 12% per year from 1986 to 1988 for these three companies.

According to Dick Richards, this slowdown for the large chains should only be temporary. "Most of

the major players were preoccupied with internal difficulties in 1989," he explains, "and should get back on track in the not too distant future as these issues are resolved." Indeed, the projections for the big three call for a 5% expansion in 1990.

Kinder-Care underwent a major reorganization in 1989. Starting in late 1988, the organization began separating its child care operations from its financial and retail services. A new corporation, Kinder-Care Learning Centers, Inc., was created to operate the child care centers and Sylvan Learning Corporation. The Lodestar Group, an investment banking firm from New York, acquired majority interest in this new entity.

Children's World Learning Centers was still fine tuning all the massive changes that had to take place from the merger of the Children's World and DayBridge chains in 1988. At the close of the year it was in the midst of a search for a new CEO, with Julian Carr, a sector president from the parent company, ARA Services, taking care of business in the interim.

Mid-Size and Small Chains Accelerate Growth

Many of the nation's smaller chains had banner years in 1989. Mid-size chains (operating 40 to 125 centers) expanded by 20%, and small chains (operating 6 to 30 centers) expanded by 13%.

Rocking Horse Child Care Centers of America (Cherry Hill, New Jersey) was the big story. With the opening of new centers and its acquisition of Merryhill Country Schools (28 centers) in Northern California and Children's Park (8 centers) in North Carolina, it doubled its size to 100 centers.

Two new companies focusing primarily on opening centers for employers and in office parks took off last year. Bright Horizons Children's Centers (Cambridge, Massachusetts), organized in 1986, expanded from 11 to 23 centers. Discovery Learning Centers (Plano, Texas), organized in 1988, grew from 11 to 20 centers.

Children's Discovery Centers (San Rafael, California) underwent a major realignment of its holdings and ended up with a net gain of 8 centers. It sold off many of its centers in less promising markets and acquired two small chains, Total Learning Centers (8 centers) in Southern California and Indi-Kid (10 centers in Indiana).

The organization to watch in 1990 will be Gerber Children's Centers (Fremont, Michigan). Gerber's parent company (the baby food company) hung out a for sale sign on its child care division in 1989. There are currently several companies bidding to acquire this 117 center chain.

Several other growing companies also continued their steady progress

Annual Organizational Growth Rates

	1987	1988	1989	Average
Large Chains	8%	10%	3%	7%
Mid-Size Chains	9%	8%	20%	12%
Small Chains	9%	3%	13%	8%

Key: Large chains are the three chains operating more than 400 centers. Mid-size chains are the five chains operating between 40 and 120 centers. Small chains operate between 6 and 30 centers.

— The Exchange Top 50 —

The Nation's Largest For Profit Child Care Organizations

Organization	Headquarters	CEO	Centers (1/1/90)
Kinder-Care Learning Centers, Inc.	Montgomery, Alabama	Perry Mendel	1260
La Petite Academy, Inc.	Kansas City, Missouri	Jack L. Brozman	722
Children's World Learning Centers	Golden, Colorado	Julian Carr	474
Children's Discovery Centers	San Rafael, California	Richard A. Niglio	118
Gerber Children's Centers, Inc.	Fremont, Michigan	Deborah Ludwig	117
Rocking Horse Child Care Centers of America	Cherry Hill, New Jersey	Douglas E. Carneal	100
Creative World Schools	Raytown, Missouri	Billie J. McCabe	45
New Horizons Child Care, Inc.	Plymouth, Minnesota	Sue Dunkley	40
Magic Years Child Care and Learning Centers	Plains, Pennsylvania	Paul J. Reilly	40
Bright Horizons Children's Centers	Cambridge, Massachusetts	Roger Mason	23
Discovery Learning Centers, Inc.	Plano, Texas	Todd Etter	20
Forrester Day Care, Inc.	Dothan, Alabama	Phillip L. Forrester	20
Pinecrest Schools	Sherman Oaks, California	Don L. Dye	18
Children's Friend Learning Centers	Warner Robbins, Georgia	F. Dewayne Foskey	18
Young World, Inc.	Greensboro, North Carolina	Dr. John L. Irvin	16
Sunrise Preschools, Inc.	Scottsdale, Arizona	James R. Evans	14
ECLC Learning Centers, Inc.	Providence, Rhode Island	Ronald Bates	13
Do Re Mi Learning Centers, Inc.	Oak Park, Michigan	Leicester L. Allen	13
Enrichment Preschools, Inc.	Nashville, Tennessee	Dorsey Tynes	13
American Family Service	King of Prussia, Pennsylvania	Carol L. Rabe	12
Creative Child Care, Inc.	Hurst, Texas	Gene Little	12
Minnieland Private Day Schools, Inc.	Woodbridge, Virginia	Chuck Leopold	12
Apple Tree Children's Center, Inc.	Des Moines, Iowa	Dr. Pamela Michelfelder	11
Playcare Child Care Centers	Rochester, New York	Sandra B. Alexander	11
Small World Preschools	Los Alamitos, California	Darold W. Baker	11
Especially for Children, Inc.	Edina, Minnesota	Priscilla Williams	11
Pacific Northwest Childcare, Inc.	Olympia, Washington	Joan S. Halverstadt	11
Tender Care Learning Centers	Pittsburgh, Pennsylvania	Frank Reabe	11
Child Learning Services, Inc.	Wilmington, Delaware	Dr. JoAnne H. Strickland	10
Kiddie Kare Schools, Inc.	Fresno, California	Patricia Fisher	9
Educo, Inc.	Vienna, Virginia	Richard V. McCool	9
Little People Day School Associates, Inc.	Norristown, Pennsylvania	Bob Sprague/Hal Wood	9
The Sunshine House, Inc.	Greenwood, South Carolina	Dennis E. Drew	8
Creative World of Child Care, Inc.	Dayton, Ohio	Martha J. Lampe	8
Little Pow Wow, Inc.	Johnson City, Tennessee	Kenneth R. Bates	8
Learning Tree Association of Pittsburgh	Pittsburgh, Pennsylvania	Jamie MacIntyre Southworth	8
Up with Children Child Care Centers, Inc.	Pittsburgh, Pennsylvania	Nancy Boehm	8
Next Generation Child Development Centers	Dallas, Texas	Dr. Layton Revel	7
Children's Social and Learning Centers	Las Vegas, Nevada	Gary E. Mohler	7
Kiddie Academy Day Care Learning Centers	Baltimore, Maryland	Pauline Miller	7
Creative Day School	Greensboro, North Carolina	Belvin G. Smith	6
Kiddie Korner Day Schools, Inc.	Charlotte, North Carolina	Sylvia I. Eagle	6
Lit'l Scholar Academy of Early Learning	Las Vegas, Nevada	Gary Vause	6
Youthland Academy, Inc.	Marrietta, Georgia	Jan Schmidt	6
Holly Tree Child Care Centers, Inc.	Brentwood, Tennessee	Sara G. Stephens	6
Kids Kingdom, Inc.	Minneapolis, Minnesota	Marc I. Teren	6
Children's Place and Tiny Tot Child Care Centers	Crown Point, Indiana	Sandra L. Duncan	6
Lil People's School, Inc.	Carmichael, California	Jean Hill/Dave Smith	6
Apple-A-Daycare Centers	Fairport, New York	Mark A. Walsh	6
Thomas Learning Centers	Denver, Colorado	Dr. Leon Thomas	6
A-Karrasel Enterprises	Maywood, Illinois	Anthony P. Morelli	6
Little People's College	South Dartmouth, Massachusetts	Joyce deSousa/Sandra Rego	6
Orange Goose Schools, Inc.	San Antonio, Texas	Isabelle Christian	6
Bianchi Schools	Concord, California	Leonora Bianchi	6

— New Kids on the Block —

Organizations in the Center Management Business

Organization	Headquarters	CEO	Centers (1/1/90)
Developmental Day Schools	Liberty, Utah	Craig Boswell	16
Cornerstone Child Care Centers	Lexington, Massachusetts	Patrice Kenney Clifford	9
Ogden Allied Child Care Services	New York, New York	George Tremblay	7
Future Generations	Elizabeth, New Jersey	Janna E. Gaughan	7
Corporate Child Care, Inc.	Nashville, Tennessee	Marguerite Salle	6
Child Care Systems of America	Franklin, Tennessee	J. D. Stephens	5
Pay and Learn Child Care Services	Silver Springs, Maryland	Cheri L. Sheridan	5
National Pediatric Support Services	Irvine, California	Sheri A. Senter	4
CUB Management Services	Cincinnati, Ohio	Deborah Rivera	3
Resources for Child Care Management	Berkeley Heights, New Jersey	Robert Lurie	3
Contemporary Ventures in Child Care	Tempe, Arizona	Nadine Mathis	3
Fried and Sher	Herndon, Virginia	Madeline Fried/Margery Sher	3
Workplace Connections	Waltham, Massachusetts	Eleanor Nelson	3
Romaine and Associates	Dallas, Texas	Dr. Michael Romaine	1
Workplace Options	Raleigh, North Carolina	Stephanie Debnam-Fanjul	1
Burud and Associates	Pasadena, California	Sandra Burud	1
Corporate Child Care Consultants, Ltd.	Atlanta, Georgia	Betsy Richards	1

in 1989. These include Creative World Schools (Raytown, Missouri), Magic Years Child Care and Learning Centers (Plains, Pennsylvania), New Horizons Child Care (Plymouth, Minnesota), Pinecrest Schools (Sherman Oaks, California), and Sunrise Preschools (Scottsdale, Arizona).

New Kids on the Block

In recent years a new type of player has emerged on the child care scene. This is the company that manages centers for employers. Businesses being served by these companies range from hospitals to office park developers, from Campbell's Soup to the CIA.

Many of the "Top 50" organizations also manage centers for employers. Kinder-Care, for example, is managing 17 employer centers. However, these new companies have set themselves up primarily to manage

centers for others, not to own centers.

These companies come in all shapes and sizes. Some are organized on a for profit and others on a non profit basis. Some manage for profit centers, others manage only non profit centers. Some only manage centers, others own some and manage others. Most also offer consultation services for employers as a primary or secondary source of revenue.

In preparing this report, we decided to develop a separate list of management companies. Our first stab at this list is included above. (We may have unintentionally omitted some key players—please notify us of any omissions so we can make our list more complete next year).

While some of the organizations on this list do not intend to aggressively seek additional contracts, look for

major expansion in this niche in the next several years. Because of the typically slow corporate decision-making process, it takes several years to nurse one of these contracts along from an initial needs assessment to the actual opening of a center. Many of these companies have additional projects in the pipeline which should come to fruition in the next 18 months.

Putting Everything in Perspective

Once again we observed a great deal of activity among the for profit chains. But all this activity must be put in its proper perspective. The largest 10 chains still operate less than 9% of the estimated 35,000 for profit child care centers. Even if you count the largest 100 chains, you only account for 10% of all for profit centers. This is still an industry dominated by the operator of one of two centers.