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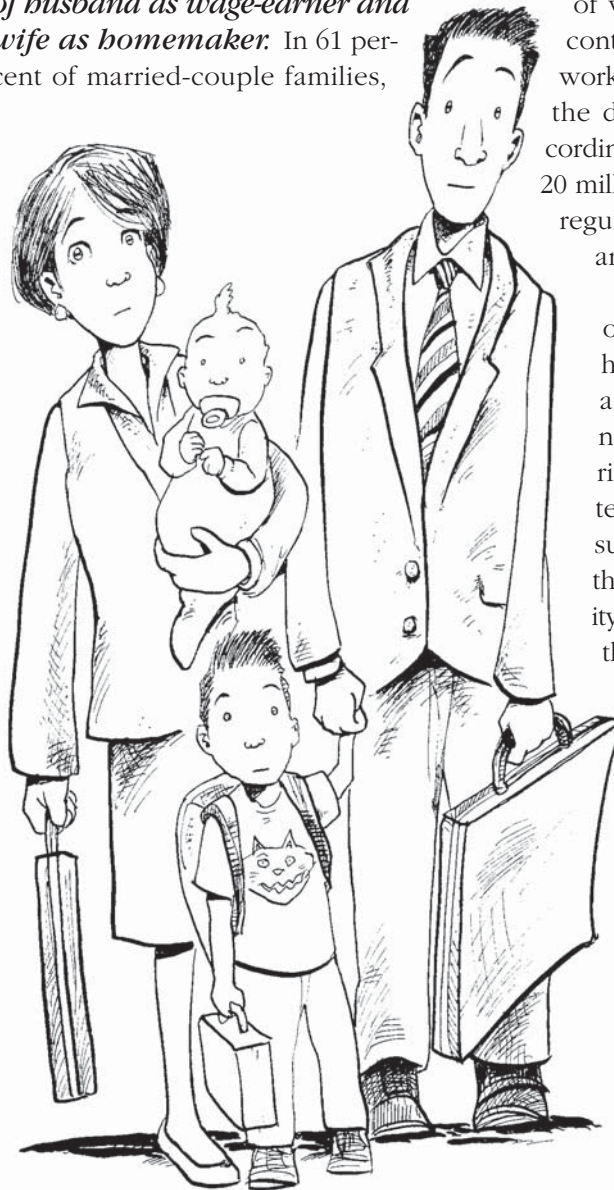
Introduction

One of the biggest challenges facing working American parents today is caring for the children. According to the Bureau of Labor Statistics, less than one-fourth of all families (about 22 percent) fit the traditional model of husband as wage-earner and wife as homemaker. In 61 percent of married-couple families,

both husband and wife work outside the home. In more than half of married-couple families with children under age 6, both parents are employed. Nearly two-thirds of mothers with children under age 3 are working, and the labor-force participation of women in their childbearing years continues to expand. As the number of working parents in America rises, so will the demand for child care. In fact, according to the Urban Institute, more than 20 million children in the United States are regularly in nonparental care when they are not in school.

Another issue that has an impact on child-care issues is the new, 24-hour global market. Occupations with a high number of employees working nights and weekends—such as janitorial, hospitality, customer service and technical support—are experiencing substantial growth, and workers in these fields are finding obtaining quality child care an even greater challenge than their 9-to-5 counterparts.

For many working parents, there is no single solution to their child-care needs. More than a third use more than one option, such as day-care centers part of the time and friends, neighbors or relatives on other occasions. A recent study conducted by the Urban Institute, a nonprofit policy research organization, revealed that about 30 percent of working parents have two child-care arrangements, and another 8 percent are



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using at least three. The study found that 65 percent of the parents juggling multiple child-care arrangements use a combination of formal day-care centers, Head Start programs, and baby-sitting by relatives and friends. Another 20 percent use two separate day-care centers.

In addition to child care, parents also need transportation for their children. Kids who are too young to drive or take public transportation without supervision still need to get back and forth to school, as well as to places after school, whether it's to games, museums, libraries, music lessons, doctor's appointments or whatever. But most parents can't leave their offices to take their children to these activities, so they're turning to transportation companies that specialize in schlepping children.

All this means opportunity for you. But before you take the leap into your own business, learn how others did it.

HOW DID THEY START?

The successful child-care and child transportation service business owners we interviewed for this book got their starts in a variety of ways.

A dare propelled Lois Mitten Rosenberry of Toledo, Ohio, into the child-care business. In 1982, through an internal political shake-up, she lost her job as the director of a church day-care center. She had two

young children of her own, and if she got a job in a different field, she would need child care for her daughters. When she looked around at the child-care options available to her, she didn't like what she saw. And in the meantime, a number of parents of the children from the church center were asking her to open her own facility.

The idea was appealing, but, she felt, economically out of the question. Her husband got laid off shortly after she left the day-care center, and the only job he was able to find didn't pay enough to support the family, much less provide startup capital for a new business. "Financially, we were absolutely at the end," she recalls. "My parents were making our house payment and giving us money for our living expenses, we qualified for the home energy assistance program, and our older daughter was on the free lunch program at school."

Mitten Rosenberry decided to ask her parents for a loan to open a child-care center. They agreed, but then she found out she was pregnant, and her parents withdrew their financial support for the business, saying her place was at home with her children. She argued, pointing out that running a child-care center was an excellent job for a working mother, but her parents were adamant. They would continue to help with living expenses, but they would not fund her business.

"I pretty much gave up on the idea," Mitten Rosenberry says. "Then I met with one of the parents who was anxious to get his daughter in our program and told him I couldn't get the funds. He said, 'I knew you wouldn't do it. I knew you'd get cold feet.'"

She took it as a dare, reacting at first with anger, then with determination. In 1982, she took out a second mortgage on the family home and was just one month away from the birth of her third child when she opened the first of seven Children's Discovery Centers in Toledo.



Smart Tip

Take yourself and your business seriously. A child-care service is more than a glorified baby-sitter; it's a serious business providing an important service, and it's capable of generating a substantial income.

Janet Hale started caring for children in her home in Exeter, California, in 1980, when her own daughter was 2. She had been working as a bookkeeper but wanted to be at home with her child. She operated on her own for six years before forming a partnership with a friend who also had a family child-care center. Together, the two women leased a building that had housed a YMCA and opened their first commercial center in Exeter. Eventually, that partnership dissolved (amicably; the partner wanted to move to another state), but Hale continued to operate the commercial center and her own center at home. Soon Hale formed another partnership and bought a second commercial center in nearby Visalia. Three centers were more than Hale could handle, so she closed the one in her home to concentrate on the two commercial operations.

Suzanne Wright spent 18 years working full time for a biomedical research laboratory, but she cut back to part time when her daughter was born. A few months later, the company went out of business. Rather than look for another part-time position, she decided to start her own home-based child-care business in Ellicott City, Maryland, in 1991. Her second daughter was born two years later. "I continued providing child care with the intention of returning to the 'outside' work force when my daughters entered elementary school," Wright says. "It is now 14 years later, and I am still in the child-care business."

Christine Srabian's story is similar. She wanted to stay home with her son, her sister was running a homebased child-care center, and she thought it was a great way to earn money and be at home. She started in 1992; though her son is a teenager, her child-care business near Baltimore continues to thrive.

Doris McNeill was a working mother when she saw the need for children's transportation in Gainesville, Florida, and saw

Stat Fact

According to the Bureau of Labor Statistics, in more than 18 million families with school-age children, one or both of the parents are employed. The gap between parents' work schedules and children's school schedules is typically 20 to 25 hours a week.



an entrepreneurial opportunity for herself. When her daughter earned a place on a gymnastics team, McNeill's job prevented her from getting her daughter to practice. She says, "I thought there had to be other people who had the same problem, so Kids on Wheels was born."

WHO'S RUNNING THE CENTERS?

What are the characteristics of a person who would do well operating a child-care center? Mitten Rosenberry answers, "The person needs to be energetic, business-minded, a competent leader, have a pleasant personality, be professional, be willing to take calculated risks, be a good role model, have strong financial resources, be consistent in expectations of the staff, and be consistent in the delivery of service."

If you're going to be running a family child-care center, you should enjoy children. Hale says, "A person who is going to own a child-care center needs to love children, be a people person, have a high tolerance for stress, have good insurance, and have some management skills."

A child-care business can easily be started in your home with just a few weeks of planning and a modest amount of startup cash. A commercially located center takes a greater investment of time, energy and

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money. The size and type of business you choose will depend on your startup resources and goals for the future. Many child-care providers are satisfied with a one-person operation in their home that generates a comfortable income while allowing them to do work they enjoy (and possibly even care for their own children). Others may start at home and eventually move to a commercial site as the business grows. Still others begin in a commercial location and are either content with one site or have plans to expand.

A special note if you're planning to care for children in your home: Homebased child-care centers are known as family child-care businesses, and they have changed significantly in recent years. As recently as 25 years ago, most providers charged by the hour, and they didn't get paid if a child didn't show at the last minute. Fees were the same for children of all ages, and there were few written contracts and no paid holidays or vacations. Even the providers didn't view their work as a professional service.

Today, family child-care providers are increasingly likely to see their work as a business. They love children and enjoy what they do, but they are taking a more professional approach to how they manage their operations. By reading this book before you open your business, you will be starting off on the right foot, and you won't face resistance down the road if you try to upgrade your operation and implement new procedures.

WHO IS YOUR MARKET?

Prime candidates who need full-time child care are parents with infants to 5-year-olds. Parents with children over 5 are good prospects for after-school care programs. The market segments most likely to use child-care services are dual-income families and single-parent households in most income brackets. A number of government programs help low-income families pay for child care

so the adults can stay in the work force.

Within this very broad market is the more narrow group of clients you will serve. Use market research to figure out who these people are and how you can best attract them to your center. Mitten Rosenberry says the primary market at five of her seven locations is parents who are upper-income working professionals; the other two centers serve a number of middle-income families as well as those being subsidized by public funds. Hale says about half her clientele consists of dual-income families, and the other half is single mothers who receive government assistance as they work through programs designed to get them off welfare.

The goal of market research is to identify your market, find out where it is, and develop a strategy to communicate with prospective customers in a way that will convince them to bring their children to you. The "Conducting Market Research" chapter in *Startup Basics* explains where to find the information you need.

When Mitten Rosenberry opened her first center, her demographic research revealed that there were 9,000 children from infant to 5 years old within a 5-mile radius of the site;

Stat Fact

According to the Urban Institute, for more than half of preschool children with employed mothers, the primary child-care provider is not related to the child; 32 percent of these children are in center-based child-care arrangements; and 16 percent are in family child-care centers. About 6 percent are cared for by a baby-sitter or nanny in the child's home.



half the preschool children in the area were in day care of some sort because their mothers (or both parents) worked; and the number of households in the area was expected to double within a decade. Contained in that 5-mile radius were six child-care centers serving approximately 800 children.

Srabian's research was not as sophisticated. She lives in a very large planned community (about 5,000 homes), and the evidence of children needing care was obvious to her. That, and wanting to stay home with her son, prompted her to start her child-care business. Because children's transportation is a relatively new business segment, many providers are the first in their communities. Study the demographics of the area (available through the Census Bureau) to determine if the market will support your operation. How many children are under the age of 18? How many workers are commuting a half-hour, hour or more (which means they may not be able to drive their children to school and other activities)? What is the income range of families with children? You need to be sure you'll have customers and that they can afford your services. Next, study the competition. Call the local public transportation service and see what they offer. Call private schools to see if they have their own transportation and whether or not they use (or will refer to) private companies.

BEFORE 9 AND AFTER 5

A growing market segment for child-care providers are parents who work nontraditional hours, including evenings, nights and weekends. There are no statistics on the number of child-care centers that operate in the evenings and on the weekends, but experts say supply doesn't meet demand.

There have been documented cases of workers at round-the-clock manufacturing facilities using their cars as "child care" of last resort. At one food processing plant

Bright Idea

Maximize your investment in facilities by offering child-care services during nontraditional hours, such as evenings, nights and weekends.



in western Idaho, young children were put to sleep and left unattended in cars in the plant's parking lot.

The issue of child care during nonstandard hours is growing in importance due to a number of major trends. The long-term trend toward a service-based economy has led to the operation of more businesses during early mornings, evenings, nights and weekends. Employers in all sectors are changing their schedules for reasons ranging from increased flexibility to enhanced customer satisfaction to reduced air pollution. A significant percentage of employees working nonstandard hours are women and mothers. Neighbors and grandmothers, the traditional sources of informal child care when the parents are not available, are also less likely to be found at home. They, too, are increasingly in the labor force.

Does this mean you should open a 24-hour child-care facility? Not necessarily. Though the demand is certainly there, many parents needing such a service earn low to moderate incomes and cannot afford to pay a lot for child care. Providers also find that extended hours cut into their own personal time, and that it is difficult to recruit and retain staff for nonstandard hours. But if you can figure out a way to overcome the obstacles, offering care during nontraditional hours can provide a valuable service while allowing you to maximize your facility.

FIRST THINGS FIRST

Many startup businesses are challenged by a lack of information and resources, but that is not the case for child-care providers. You have a wealth of public and private resources to turn to for advice, support, training and even funding.

Most communities have child-care resource and referral agencies (R&Rs) that can help you with a variety of issues, such as licensing, setting rates and even lending you toys and equipment. Once you're in business, these agencies will also refer families to you for your services. Make finding that agency your first priority after you finish this book. If you are not familiar with the agency nearest you, check with the National Child Care Information Center or the National Association for Family Child Care for assistance (see Appendix).

Your next step is to identify the various government agencies that oversee child-care providers. A good place to start is with your state's information department (look in the government section of your telephone directory). In most cases, you will find yourself dealing with multiple agencies with different and sometimes overlapping responsibilities. These agencies will tell you what is required to get your doors open for business. Consolidate their

information and create your own startup checklist like the one on page 1.7.

BUYING AN EXISTING CHILD-CARE SERVICE

Owning a child-care center doesn't necessarily require building the company from scratch. You might want to consider buying an existing child-care center, which is how Janet Hale acquired her second commercial center. If the appeal of being in business for yourself is in running the company rather than starting it, this route to business ownership is an option worth investigating. It allows you to bypass all the steps involved in creating a business infrastructure because the original owner has already done that. You can take over an operation that is already generating cash flow—and perhaps even profits. You will have a history on which to build your forecasts and a future that includes an established customer base. And there's generally less risk involved in buying an existing concern than there is in creating a whole new company.

Of course, there are drawbacks to buying a business. Though the actual dollar amounts depend on the size and type of business, it often takes more cash to buy an existing business than to start one yourself. When you buy a company's assets, you usually get stuck with at least some of its liabilities. And it's highly unlikely that you'll find an existing business that is precisely the company you would have built on your own. Even so, you just might find that the business you want is currently owned by someone else.

Why do people sell businesses—especially profitable ones? For a variety of reasons. Many entrepreneurs are happiest during the startup and early growth stages of a company; once the business is running smoothly, they get bored and begin looking for something new. Other business owners



Smart Tip

If you buy an existing child-care center, include a noncompete clause in your terms of sale. Your new business won't be worth much if the seller opens a competing operation down the street a few weeks after you take over the old company.

Startup Checklist

Use this checklist (and tailor it to your own needs) to make sure you've covered all your bases before starting your business.

- Type of center:** Will you operate from your home or a commercial location?
- Licensing:** What licenses are you required to have and from which agencies?
What are the requirements, costs and lead times?
- Training and certification:** What type of training and/or certification do you need?
- Market:** What are the child-care needs of your community?
- Location:** Choose a site that is appropriate and affordable.
- Legal requirements:** Check on zoning and any other legal issues.
- Financial issues:** Estimate your startup costs and identify the source(s) of your startup funds.
- Health and safety issues:** Plan for accident and illness prevention, and develop emergency procedures.
- Programs:** Develop an appropriate schedule of activities for the children.
- Equipment:** What do you need to adequately equip your center, where will you get it, and how much will it cost?
- Insurance:** What coverage do you need to adequately protect yourself and the children in your care?
- Staffing:** If you plan to hire people, know the required staff-to-child ratios and develop your human resources policies.
- Links:** What community and professional resources are available to you?

may grow tired of the responsibility or face health or other personal issues that motivate them to sell their companies. Some of the most successful entrepreneurs go into business with a solid plan for how they're going to get out of the business when the time comes.

If you decide to shop around for an existing child-care center, look at every service provider in the area that meets your requirements. Just because it isn't on the market doesn't mean it isn't for sale. Use your networking skills to find potential companies; let friends and professional colleagues know what you're looking for. You might even consider placing a "wanted to buy" classified ad.

Evaluating A Company

One of the most challenging financial calculations is figuring out what a business is worth. Research the selling price and terms of recently sold child-care centers in your area, and use them as a guide. You may value the company based on its after-tax cash flow or on the value of the company's assets, if they were liquidated, minus its debts and liabilities. You should call on your financial advisors to assist you with these calculations.

The figures are only part of the equation. Elements that are not as easy to assign a value to include the center's reputation and the strength of the relationship the current owner has with parents, suppliers and employees.

Thorough due diligence is an essential part of the acquisition process. This includes reviewing, auditing and verifying all relevant information regarding the business, so you'll know exactly what you are buying and from whom. Have your accountant assist you in evaluating the financial statements, your banker help with financing issues, and your attorney guide you in researching the legal aspects of buying the business. And remember that you can walk

away from the deal at any point in the negotiation process before a contract is signed.

OUTLOOK FOR THE FUTURE

Child-care center operators agree the future is bright. The need for services will continue to increase, and the options and opportunities should also expand.

Mitten Rosenberry is seeing an increase in the number of corporations that contact her looking for a center to meet the needs of their employees. While they don't want to subsidize a center as they may have done in the past, they are willing to make some concessions, such as with the land or building, to get a center in operation near their offices. "There will be more opportunities to move into some business parks, but the enticements will probably not be as big as they were at one time," she says.

Of course, there will always be challenges. Labor will continue to be tight, and this is definitely a labor-intensive business. Depending on individual market conditions, very small operators may find it tough to compete with larger chains for both employees and customers. And if you build a solid, profitable commercial center, you may find yourself the target of takeover

Beware!

Do enough research before opening your child-care service so you meet all your state's legal requirements and are able to operate a quality center. However, don't get so bogged down in the research process that you don't get your business open. You'll never know everything, and if you wait until you do, you'll never get started.



attempts. "I've been approached by several companies that wanted to buy me out," Mitten Rosenberry says. "They figure if they can

buy a successful operation, that allows them to immediately pick up another 10 percent in volume and keep on growing."