An Exchange trendwatchers' report

Employer Child Care Growing and Consolidating

by Roger Neugebauer

"Should Corporate America Be in the Baby-Sitting Business?"

Working Woman *magazine asked this question in its February 1995 issue, and answered with an equivocal "maybe not." The article pointed to Bureau of Labor Statistics reports that from 1991 to 1993 the share of full-time employees in medium size and large private firms offered subsidized child care benefits dropped from 8% to 7%.*

Such pessimistic messages about employer child care come unexpectedly. For years we have become accustomed to reading pollyannaish success stories of on-site centers in the popular press.

Those who work actively in the employer child care world take with a grain of salt sweeping claims that child care will be the benefit of the '90s. Nor are they discouraged by occasional dips in interest.

Employer child care consultants and providers are fully aware that even now far less than 1% of US employers provides an on-site center, and that these centers represent less than 1% of all US child care centers. Furthermore, they are aware that even though the demand for child care is nearly recession proof (with the demand often increasing during a mild recession) that interest in employer child care is extremely sensitive to business and employment trends.

Within this cautious perspective, major players are optimistic about current trends. In our annual survey of *The Nation's Largest Employer Child Care Management Organizations* (see page 73), we found that the top ten firms more than doubled the number of employer-related centers they operated in the past 15 months. While much of the increase was due to acquisitions and takeovers, nearly 60% of the growth resulted from the opening of new centers for employers.

To better understand the trends behind the numbers, we interviewed a variety of people who keep their fingers on the pulse of child care. We probed these trendwatchers on their insights on current activity in the employer child care arena and here are their conclusions.

The number of employers taking action on child care benefits is steadily increasing.

The Exchange trendwatchers tended to agree that, overall, the demand for child care services by employers has grown steadily in the past 15 months. However, activity is slow in communities with struggling economies and industries undergoing difficulties. For example, hospitals, which for years were the leaders in providing child care benefits, have recently cooled to the idea as cost containment measures take hold and as the shortage of nurses has eased a bit.

Dana Friedman: *The continuing high interest of employers in child care always surprises me. But with six million employers, there's always going to be new employers awakening to the idea. What I've seen most recently is a growing interest among mid-size companies — those with from 500 to 1,500 employees.*

Duane Larson: *Interest remains steady — we still get about two to four new calls a week from employers. What has* *changed is that there is a much higher percentage of real players who call — employers who have already made the commitment to do something.*

Employers are now much more sophisticated in their understanding of child care.

As child care as an employee benefit becomes more commonplace, new players coming to the table have a much better understanding of the risks and opportunities involved. Discussions move quickly to service options and financial considerations.

Stephanie Fanjul: *Today, employers better understand the real risks of opening a child care center as opposed to the phantom risks. In the past, for example, employers would worry that scores of workers would desert their posts as they went to spend time with their babies at the center. Now they recognize that a more likely risk is that they will have frustrated employees because their center is not large enough to serve all the families that need it.*

Duane Larson: *We have achieved a critical mass of work site centers. Now a human resources specialist put in charge of investigating child care for his company will very likely be able to talk to one of his peers in his state who has already set up a center for his company.*

By the time they come to us, they already are well versed in the issues. For example, they accept that if they open a center they will have to open it to the general public, both for cash flow and public relations reasons.

Employers today are most likely to look to child care companies to manage centers for their employees.

In the early days of employer child care, the pioneering companies sought to maintain close control of centers for their employees. They often organized the centers as a division of the company or as non profit subsidiaries closely tied to the company. What many soon learned is that in doing so they inherited a lot of headaches (dealing with staffing problems, licensing hassles, angry parents, and sick child care issues) and risks. Today, employers opening centers typically recognize that they should stick to their knitting and contract out the operating of centers to the experts.

Mary Jane Murdock: *Today, employers are contracting out, mostly to distance themselves from potential liabilities, but also to keep costs down. When an employer operates a center in-house, they may have to absorb the child care workers into their own pay and benefit schemes, which often drives the cost of care out of sight.*

Even though employers now typically contract outside for child care services, there is no typical financial arrangement. Financial terms range from companies willing to provide generous subsidies to others not willing or able to put a penny into the pot.

Mark L. Rosenberg: *As a child care provider, it is a mistake to approach an employer with a preconceived idea of what to offer. Every employer is going to be different in terms of what motivates them to look into child care and what they can afford to do. You need to be flexible in the financial arrangements you offer. At the same time, you need to understand that employers do not appreciate the low profit levels in child care. They are accustomed to dealing with vendors who can offer deep discounts and still come out ahead. You need to be able to demonstrate that such generous margins don't exist in child care.*

Employers now recognize that quality is a key part of the package.

Most employers exploring the child care option in recent years have quickly accepted the fact that, if they are going to do anything, it must have a quality component. They do not help their employees by providing mediocre child care. Some employers respond by setting up "Cadillac" centers — centers that they can point to with pride as among the best centers in the nation. For others, it simply means building in safeguards that the quality of care will be above average in the community. More and more employers are requiring that their centers be accredited as a means of assuring and demonstrating quality. The findings of the **Cost, Quality and Child Outcomes in Child Care Study** demonstrate their efforts are making a difference (see **Child Care Information Exchange**, March 1995). Work-site centers receiving employ-er subsidies were ranked among the highest quality centers in the study.

Dana Friedman: *Among the larger companies, the biggest change in recent years is the money they are investing in quality. Not only are they insisting on quality in the centers they directly support, but they are also investing in quality enhancement efforts in their communities.*

Gwen Morgan: *Employers are now aware that the problem is not just the supply of child care, it is also the quality of that care. They are being pressured to provide or help employees find quality child care. Experience has proven that when employers get involved in child care, their involvement does improve the quality.*

Employers are exploring a broader array of options to meeting employees' child care needs.

When companies confront the child care issue, their first reaction is still to look into setting up an on-site center. However, today many companies that have sat on the sidelines in the past, as well as many companies that already have an on-site center in place, are looking beyond basic child care centers. Some employers are now subsidizing back-up or emergency child care centers to provide employees options when their primary child care arrangement breaks down or their child is mildly ill. In fact, one child care company, Children First, out of Boston operates exclusively back-up facilities in five states. In addition, many employers now accept the fact that family pressures impact on-the-job performance and are more willing to explore diverse avenues for alleviating these pressures.

Dr. Sandra Burud: *There are now over 30 different services that companies are offering to soften the impact of family issues. Some of these (expectant parent courses, nursing rooms) come under the umbrella of wellness programs. Others (part time work for women) arise from diversity efforts. Some, such as family/marriage counseling, have evolved from substance abuse programs. While these services may dilute company resources available to provide child care, they all contribute to easing family pressures.*

Gwen Morgan: *Employers are certainly getting involved in a wide range of areas. But there is one significant non-trend that I think is important to address. With the exception of a few enlightened CEOs, such as Elliot Lehman of Fel-Pro, employers do not see the connection between quality child care and education. America's businesses are well aware of the need for an educated work force if our economy is to remain competitive. Yet most of them deal with educational reform through separate initiatives. Child care is viewed narrowly as a dependent care issue. We need more employers like Lehman who see that quality child care is a critical early step in the education process.*

In dealing with child care concerns, companies, especially the mid-size companies, are now more willing to look into collaborating with two or three other community employers in setting up a child care facility. On the other hand, the option of purchasing slots for employees for care provided in existing centers does not seem to have caught on. In our last employer update (**Child Care Information Exchange**, November 1993), we reported that this was a new trend. However, none of the trendwatchers reported any current evidence of this trend. On the other hand, some companies have implemented significant projects to up-grade the overall supply of child care:

- Fifteen major corporations, including IBM, American Express, Johnson and Johnson, and Hewlett-Packard, have joined together in the American Business Collaboration for Quality Dependent Care to provide over $25 million to fund over 350 projects for preschool and school age children and for the elderly.

- NationsBank established a $25 million loan fund to finance the construction of new child care facilities.

- AT&T set up a $25 million Family Care Development Fund to provide $3,000 mini-grants to enhance the quality and supply of child and elder care services.

- IBM recently announced its continuing commitment to dependent care initiatives by setting aside $50 million to fund local dependent care projects through the year 2000.

Elder care issues loom large in the future, but companies are taking a wait and see attitude.

The expanding elder population is putting a second level of stress on families. Families in the sandwich generation must not only deal with child care issues, but increasingly with elder care issues at the same time. In the business press, there is a great deal of discussion about elder care issues; but to date, few employers are launching major initiatives in this area. And, while elder care would appear to be a natural extension for child care companies, none are moving aggressively in this area. Some have experimented with opening elder care centers, but most of these have closed after a few years due to lack of use.

Harold Lewis: *Every year or so, our company takes a hard look at elder care as a new niche to serve. However, so far we have always concluded that it is not something we want to try yet. I don't see any child care company that has hit on an effective model for delivering these services. Besides, there are still so many opportunities in providing child care that we don't want to dilute our efforts.*

Dana Friedman: *In 1986, I published the article "Elder Care: The Benefit of the '90s?" I added the question mark because I wasn't convinced that employers were moving quickly in this area. Today, the question mark is still there in my mind. I don't see employers getting actively involved in elder care services until the tidal wave hits them. Right now most surveys show that about 6% to 7% of workers in the US work force are facing serious elder care responsibilities. However, nearly 40% expect to be faced with these responsibilities within five years.*

The National Council on Aging reports a growing interest in elder care. According to its reports, there are now 4,000 elder day care centers, up from 2,000 five years ago. Yet, elder care issues don't lend themselves to easy solutions. To begin with, most workers' parents reside in a different community so that a company cannot readily deal with concerns with a local program. In addition, there are five levels of facilities needed for the elderly, depending upon their medical needs. Where I see employers getting most effectively involved is *through providing information and referral services — helping their employees wade through all the elder care issues and putting them in touch with agencies that can assist them.*

Increasingly, the management of employer child care centers is consolidating among the major national providers.

The trend toward consolidation in the provision of employer child care gained considerable momentum in the past year. A quick look at this year's list of *The Nation's Largest Employer Child Care Management Organizations* shows that a small number of national organizations are capturing a lion's share of the contracts. That is not to say that small local providers are out of the picture. Although no recent national statistics are available, it is likely that if you surveyed every employer-supported center in the nation, nearly half of them would be operated in-house or by a local provider. However, only a handful of child care organizations operate more than three of these centers.

One cause for the continuing consolidation among the players is the mergers and acquisitions that have taken place. The most notable among these is the acquisition of Prodigy Consulting, Inc. by Children's Discovery Centers. This acquisition vaulted CDC to the top of this year's list. While the bulk of Bright Horizons' growth in the past year came through the opening of new centers for employers, it too acquired nine existing centers in California from Burud & Associates and from Cornerstone-West. Likewise, part of Corporate Child Care's growth came from the acquisition of four work-site centers in Florida.

Transitions where an employer decides to change a center's operator also support the consolidation. In the past year, many centers that were being operated in-house by employers were contracted to outside child care companies.

In addition, there are always companies who are dissatisfied with the outside vendor and seek another vendor. In the past 12 months, for example, Corporate Child Care won bids for six and Bright Horizons for five centers in transition.

Harold Lewis: *Childtime has been increasingly successful in winning contracts from employers who are dissatisfied with their current child care arrangement. Frequently these employers are finding that the subsidies they are paying are greater than they had been led to expect, so they are looking for a more efficient operator.*

Mark L. Rosenberg: *In our part of the country, some of the top local child care providers are starting to land some employer contracts. However, by and large, local providers are operating at a disadvantage — they don't know how to play the game.*

National child care organizations are much more skilled at writing proposals, doing needs assessments, and making presentations. Local providers are most successful at winning contracts that are awarded informally. Those that go out to bid are won by the national companies.

The future looks bright, with increasing growth in the employer child care arena.

There is little indication that the current surge in demand for employer child care will diminish. The factors that drive the trend remain strong. The demand for educated workers continues to rise; the return of mothers to the work force continues unabated; and the supply of quality child care remains tight in most communities.

Ups and downs in the national and local economies will have short term impacts on growth but, by and large, the slow and steady upward trend should continue.

Stay tuned.

Exchange Trendwatchers

Child Care Information Exchange interviewed the following employer child care experts for this article. These and many other trendwatchers will be surveyed for upcoming articles on child care in the global economy, delivering quality services, the economics of child care, and the demographics of child care.

Dr. Sandra Burud, president, Burud & Associates, Pasadena, California.

Stephanie Fanjul, director, North Carolina Division of Child Development, Raleigh, North Carolina.

Dana Friedman, co-president, Families and Work Institute, New York, New York.

Duane Larson, CEO, Children's World Learning Centers, Golden, Colorado.

Harold Lewis, CEO, Childtime Child Care, Farmington Hills, Michigan.

Gwen Morgan, child care consultant, Work/Family Directions, Boston, Massachusetts.

Mary Jane Murdock, CEO, Child Care Partners, Denver, Colorado.

Mark L. Rosenberg, CEO, The Kids' Place Early Learning Centers, Bethesda, Maryland.

— The Exchange Top 30 —

The Nation's Largest Employer Child Care Management Organizations

Organization	Headquarters	CEO	Contracted Centers	Office Park Centers	Licensed Capacity
Children's Discovery Centers/Prodigy Consulting	San Rafael, CA	Dr. Elanna Yalow	55	35	* 8,594
Bright Horizons Children's Centers	Cambridge, MA	Roger Brown	65	21	7,830
Corporate Child Care Management Services	Nashville, TN	Marguerite W. Sallee	47	1	* 6,651
La Petite Academy, Inc.	Overland Park, KS	James R. Kahl	26	20	5,946
KinderCare at Work	Montgomery, AL	Tom McClelland	11	30	5,252
Children's World Learning Centers	Golden, CO	Duane V. Larson	16	15	* 3,781
Childtime Childcare, Inc.	Farmington Hills, MI	Harold Lewis	19	9	* 3,273
Tutor Time Child Care Learning Centers	Fort Lauderdale, FL	Michael Weissman	5	13	* 3,240
Resources for Child Care Management	Morristown, NJ	Robert Lurie	17	1	2,364
GreenTree/Child Care by ServiceMaster	Downers Grove, IL	Loren H. Oury	17	0	2,262
Nobel Education Dynamics, Inc.	Media, PA	A. J. Clegg	1	14	2,135
Children's Friend, Inc.	Warner Robins, GA	F. Dewayne Foskey	0	18	* 1,929
Rainbow Rascals Learning Centers, Inc.	Southfield, MI	Patrick Fenton	7	10	1,440
Creative World Schools, Inc.	Raytown, MO	Duane McCabe	3	6	1,334
Little People Day School Associates	Pottstown, PA	Robert Sprague	1	7	* 1,172
Next Generation	Carrollton, TX	Dr. Layton Revel	4	4	* 1,125
Mulberry Child Care Centers	Needham, MA	Clark Adams	8	4	* 950
Sunrise Preschools, Inc.	Scottsdale, AZ	James R. Evans	11	0	* 588
Discovery Care Centers	Norfolk, VA	Pat Thomas	0	4	561
The Peanut Gallery, Inc.	Carrollton, TX	Pat Burgesser	1	2	* 547
The Learning Tree Association of Pittsburgh	Pittsburgh, PA	Dr. Jamie MacIntyre-Southworth	6	0	500
Step By Step Learning Center	Springfield, IL	Faye B. Lee	1	0	446
Prime Time Pre-Schools of New York/New Jersey	Woodcliff Lake, NJ	Rochelle Wasserman	3	3	440
Bright Beginnings Preschools	Fontana, CA	Robert Orsi	1	1	* 402
The Harmony Schools, Inc.	Hopewell, NJ	Lisa T. Forrester	2	1	372
Day Nursery Association of Indianapolis	Indianapolis, IN	Dr. Barbara Batchelor	3	0	* 372
Montessori Schools of Irvine	Irvine, CA	Cheryll R. Ruszat	3	0	372
Marin Day Schools	Mill Valley, CA	Melinda Kanter-Levy	6	0	* 366
Seagull Schools, Inc.	Kailua, HI	Charles Larson	2	0	* 364
Workplace Options, Inc.	Raleigh, NC	C. Dean Debnam	1	1	349

NOTE: Organizations listed above in order of total licensed capacity of all contracted and office park centers as of February 15, 1995.
The "Contracted Centers" column displays the number of centers operated under contract to a single employer.
The "Office Park Centers" column displays centers operated in office parks or other commercial settings serving more than one employer.
Organizations whose "Licensed Capacity" is marked with an asterisk (*) operate additional non-employer based centers.
Based solely on information provided by organizations.
If your organization should be included in this list next year, please call Exchange at (800) 221-2864.