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A Capsule History of For Profit Child Care

by Bob Benson

Among many services offered in our society, child care is one of the most personal and emotion laden. I find it immensely healthy that most parents care enough about their child care decision to make it so. Were that it were universally true.

For decades, the nature of child care provider organizations reflected both this "personal" aspect and prevalent social values surrounding the child care decision. Families generally stayed intact. Most wives cared for their young children directly. Where that was not possible, families reached out to a relative or a small provider in their neighborhood. In certain large urban areas, social service agencies created child care programs for disadvantaged children.

Starting in the late 1960s, everything changed. It began with more women obtaining higher educations and being interested in putting this learning to use in the work world. Slowly, opportunities opened for women to participate in a broader array of occupations. Head Start burst upon the scene. Though focused upon early childhood development opportunities for low income children in need, Head Start had a broader impact of illustrating the benefits for all preschool age children of well designed programs to foster curiosity and create enriched learning environments.

During the 1970s, an increasingly pervasive entitlement mentality emerged. Home and car ownership no longer were goals; they became part of the assumed foundation. Stereo equipment, eating out, expensive vacations, and other extras became first part of the American dream, then what a majority of families grew to expect they were entitled to. For families to be able to afford this expansive lifestyle, wives participating in the labor force became less an election and more a necessity. As the stresses of increasing expectations grew and as women felt more liberated to opt out of poorly working marriages, divorce rates soared. Divorced parents with children absolutely had to work and needed child care.

The child care landscape entering the late 1960s was little changed from what it had been for decades. Highly atomized, dominated by sole proprietors and social service agencies, the players in the field were little motivated and ill prepared to anticipate and respond to the suddenly burgeoning demand for child care services. Most child care providers had no interest in expanding the scope of their facilities, generally located in their homes. Those few who did generally lacked business awareness, especially experience at raising capital. While Head Start grew and met the needs of a portion of its target population, a huge increase in demand for child care services by the American middle class was about to require a tremendous increase in capacity. From whence would spring that capacity was unclear.

Examination of the accompanying roster of the "Exchange Top 50" contains a history lesson. In educational aphorism terms, it seems to be "the early bird gets the worm."

The single most overwhelming fact is that, in terms of sheer numbers of children served, KinderCare and La Petite Academy were dominant 20 years ago and they still are today. Their 235,956 licensed capacity today equals the combined capacity of the next 25 largest for profit organizations.

How did that happen? The founders of both KinderCare and La Petite Academy sensed the same demographic/economic opportunity that a number of other new child care entrepreneurs did during the early 1970s, but they also brought an all consuming focus on getting buildings built and the real estate financing contacts to make that happen.

At least initially, getting the perfect location didn't matter. Neither did creating learning condusive interior space arrangements, hiring well qualified teachers, or being a leadership force for high industry standards. The all consuming focus was on sustaining rapid growth rates in the number of centers in order to establish market dominance and to impress Wall Street so that additional financing could be obtained upon inexpensive terms.

In purely business terms, this strategy worked. These two companies quickly dwarfed their competitors. Most of their facilities in existence today were put in place prior to the high inflation years of the late 1970s, making their current occupancy costs extraordinarily cheap.

In developmental terms, both KinderCare and La Petite now have much more enlightened leadership today. Their continued efforts to improve service quality should be encouraged; a lot of children will benefit from success at these efforts.

With industry maturity and huge increases over 20 years in land prices and real estate development costs, we have not seen for a decade and are unlikely to experience soon a really large new child care company being built from scratch, mostly building new structures, as did KinderCare, La Petite Academy, Children's World, and National Child Care. Today, it costs $700,000–$1,000,000 to build a 120 child capacity center versus $250,000–$300,000 20 years ago. That is just about triple. At the same time, the Consumer Price Index has also tripled. Child care tuition rates are also up a lot, though not quite triple.

If relative costs and prices have grown roughly apace, why aren't entrepreneurs equally encouraged today to build more child care centers? Partly the answer is one of market saturation. A lot more center capacity exists today than 20 years ago. At least three chains have substantial market penetration (and resultant economies of scale and an ability to marshal resources) in most of this country's major metropolitan areas. Perhaps the other constraining factor is inflationary expectations or, more precisely, the general lack thereof today. In the early 1970s, a guns and butter economy was pregnant with the seeds of high inflation. It was easier then to summon the courage to erect a child care facility which would need to find a market for its services for the next 20 plus years, knowing at least that occupancy costs would be relatively fixed and that rapid inflation could at least substantially mitigate ownership risk.

The Exchange rankings do highlight two companies, Bright Horizons and Corporate Family Solutions, which are somewhat exceptions to the rule. They have carved a special niche — employer sponsored, work site based care. They make the economics of new center development work by getting employers to assume a substantial portion of occupancy costs.

Otherwise, most of the recent large child care organization growth has occurred through consolidation. From an economist's perspective, the pattern is a classic mature industry rationalization process as certain firms strive to obtain economies of scale. Making this concentration possible on the other side are child care veterans, now getting a little long in the tooth to be scrambling to keep up with two year olds, deciding to reap the rewards of their labors by selling their centers. Certain large firms with an ability to raise capital are the principal buyers.

What is the potential for near future blockbuster acquisitions of large child care organizations by even larger companies in other fields? One should ever be humble in speculating about the psyches of decision makers in a myriad of corporate entities. Even so, I see the chances as slender of such firms being interested in acquiring a child care company, with the possible exception of Bright Horizons and Corporate Family Solutions because their corporate sponsorship ties may raise the comfort level for potential acquirers. For the most part, though, clouds over KinderCare and La Petite Academy at points in their respective histories have soured the potential appeal the industry once appeared to offer. That perception can change as more operators focus on quality of care and also perform well economically and gain visibility, but that will take time.

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