

Consolidation at the Top . . . At Last

Eighteenth Annual Status Report on For Profit Child Care

by Roger Neugebauer

For the past two decades, industry watchers have been predicting pending consolidation. Apart from a few mergers here and there, the consolidation hasn't happened until now.

Suddenly, in the past two years, the sixth largest for profit child care organization as of January 2003 (Knowledge Learning Corporation) has acquired the largest (KinderCare Learning Centers) and the third largest (Children's World Learning Centers) organizations.

The result of these mergers is that Knowledge Learning Corporation (KLC) is now the largest for profit child care organization in the world, operating 1,980 centers, 461 before and after school programs, and 134 employer-sponsored child care centers. KLC serves more than 200,000 children and employs nearly 45,000 early childhood professionals.

To learn more about the plans of KLC, *Exchange* recently interviewed the CEO Thomas Heymann. Here is what he had to say:

Exchange: *Was your recent acquisition of KinderCare Learning Centers part of a long range strategy or the result of an opportunity you couldn't pass up?*

Heymann: Our intentions had been to focus our energies on integrating the

services of Knowledge Learning Corporation and the Children's World centers we had recently acquired. We were just in the beginning phases of this effort when the folks at Kohlberg Kravis Roberts and Co (KKR), who owned controlling interest in KinderCare, knocked on our door indicating that they wanted to exit their investment. This was an opportunity we could not pass up, so for the past several months we have worked to bring this acquisition to completion.

Exchange: *You now own centers with a wide variety of brand names. Do you intend to change all the branding over to Knowledge Learning Corporation or to maintain the existing brands?*

Heymann: Our plan is to leave branding exactly as it is now. As soon as the acquisition of KinderCare is finalized — there are many mechanical details to work out — and after we have operated these 2,000 centers for a while, we will conduct a strategic evaluation of which directions to pursue with branding.

However, we intend to operate all the centers as a single company. We have already integrated the management functions of KLC and Children's World, and upon closing we will integrate the management of KinderCare as well. Internally, this will function as one company.

Exchange: *What do you see as the biggest challenge to integrating these three companies?*

Heymann: After a merger there is a tendency to get hung up on business issues — the technical stuff. We need to work hard not to be distracted by this. We want to maintain our attention on continuing to make improvements in the quality of the education and care that we are providing to the 200,000 children we serve. We must maintain our focus on our central mission.

Exchange: *Where do you go from here? Is your intention to continue to acquire the next largest chains?*

Heymann: Our desire is to focus on integration in the coming months. We want to continue to improve the services we provide to America's families. We want to upgrade our staff quality and to build enrollments in our centers.

In addition, as the nation's largest child care provider, we have a responsibility to be good corporate citizens. We take this responsibility very seriously. We need to provide leadership in the industry and to support the development of the entire industry. We intend to be active players in the industry, to support the growth and development of the entire industry, not just our part of it.

We are not sitting here plotting who's next. We are plotting how to improve our business and how to support the growth of the entire early childhood industry.

Exchange: *What do you see as the biggest challenges facing our industry today?*

Heymann: I am very optimistic about the future. There is a growing awareness of the importance of the early years in this nation, both with the general public and with state and federal officials. We intend to work with the public sector to make sure that their support of the early years results in good decisions. State and federal officials need to be aware of the importance of supporting disadvantaged populations.

In addition, we need to make the case for the valuable contributions of community programs. The great thing about our business is that because it is so competitive, every provider is in the position of needing to do a better job than it did last year. If they fail to improve, parents will go somewhere else. This pressure results in great services for families. We will be working at the federal and state levels to make sure that public officials and the existing industry work in concert to provide the best options possible for America's families.

Other news and views

Here are reports from other key players in the for profit community on developments and plans for their company as well as views on future opportunities:

Gary Graves, La Petite Academy: "Demand for care will continue to increase. However, it's the supply side that is concerning for profit providers. With the public school system getting into preschool and B&A care, it's an increasing risk that the for profit folks are going to have a higher percentage of infants/toddlers and that will cause more folks to exit the business. New

development (and most existing leases) cannot be justified without the higher margin, older preschool enrollments."

Dave Lissy, Bright Horizons Family Solutions: "An ongoing effort at Bright Horizons to which we will be giving renewed focus and attention in 2005 is to continue to build the Bright Horizons company culture that makes our organization a great place to work, especially throughout periods of strong growth. Bright Horizons has been named five times as one of *Fortune Magazine's* "100 Best Places to Work," and has been the only early education organization to achieve that recognition

"Bright Horizons recently conducted a New Workforce Reality Study in conjunction with the Simmons College School of Management. The results of the study project a major labor shortage in the US and a workforce with a higher concentration of female and more mature employees. These are all trends that suggest an even greater need for child care, as more and more women continue to enter the workforce, as employers need to lure top talent, and as older workers remain in the workforce, continuing a downward trend of extended family members able to provide informal child care."

Edward Follen, Children's Courtyard: "I believe the current demand, although dramatically better than last year, is still softer than several years ago, due to economic downturn and 9/11. I believe these are short-lived challenges. I believe that supply has shrunk during the last several years due to these challenges; and as demand returns to more historic levels, we will capture more share of the demand, as there are fewer providers."

Susan Dunkley, New Horizon Child Care: "The child care industry has suffered from the economic downturn. Growth opportunities will come as the economy recovers. There has also been a recent focus on school-readiness from

which we project a surge of children moving from family providers to center-based care. In addition, there has been an increase in the number of dual-income families."

Douglas MacKay, Mini-Skool: In 2004 Mini-Skool, at the time the 13th largest for profit organization, acquired Phoenix Schools, 17th largest organization. As a result, Mini-Skool moved up to #10 on the list (see "Exchange Top 40" on page 24).

Harold Lewis, Allegheny Child Care Academy: "We are working hard toward additional accreditation. In addition, we are expanding and changing our identity/name."

William Grant, Hildebrandt Learning Centers: "Presently, we are working with 26 employers at various stages to provide on-site child care for their organizations. We expect to open six new centers in 2005. Five will be located in Pennsylvania and one in New Jersey."

Rhonda Paver, Stepping Stone School: "Stepping Stone School is currently locating land to build one to two additional centers in geographic areas of high growth."

Ty Durekas, Children's Creative Learning Centers: "We have successfully opened our first out of state center and plan to actively seek programs with employers nationally I do believe the economy is changing and that parents are going back to work. We have seen many people that were laid off return to work, as our unemployment rate has dropped back to around 5%. Our programs are running at over 94% capacity."

Donna Bongarzone-Fluehr, Tot-Time Child Development Centers: "All of our centers are preparing for NAEYC accreditation! We are very excited and working towards this huge accomplish-

ment. We are also beginning another before and after school program in another school district in Bucks County, Pennsylvania. These programs are conducted on-site at the individual elementary schools."

John Marvin, ChildrenFirst: "In addition to continuing to provide the highest quality of care in our current back-up child care centers, ChildrenFirst plans to expand its operations with at least four new dedicated back-up child care centers in the United States and Canada. For ChildrenFirst, the demand for high-quality child care solutions for working parents continues to grow. As the ever demanding workplace has made the pursuit of work/life balance more challenging, we see a tremendous opportunity to continue delivering employer-sponsored support to working parents."

Philip A. Shumacher, Goddard

Systems: "With a goal of opening 50 schools per year by 2008, GSI has increased the size of our Operations staff to include additional IACET accredited trainers and NAEYC accredited Quality Assurance Representatives to support our schools. In addition, our program is growing to include new components that will be standard in all of our schools, including sign language, fitness, manners, art appreciation, and foreign language."

Jo Kirchner, Primrose Schools: "We will continue controlled, steady growth in establishing new schools in target markets. We will continue to increase same school revenue of mature schools by achieving higher student capacity and tuition fees. 2004 was an outstanding year for Primrose in all three categories. We have strengthened the after-school program in the past year and will continue to do so in 2005. A key project for 2005 is focused on developmentally appropriate assessment at the pre-kindergarten and kindergarten levels."

The Exchange Top 40

North America's Largest For Profit Child Care Organizations

Organization	Headquarters	CEO	Centers*	Capacity*
Knowledge Learning Corporation	Santa Monica, CA	Tom Heymann	2,027	267,000
La Petite Academy	Chicago, IL	Gary Graves	643	89,000
Learning Care Group, Inc.	Novi, MI	Bill Davis	466	72,000
Bright Horizons Family Solutions	Watertown, MA	David H. Lissy	560	62,000
Nobel Learning Communities	West Chester, PA	George Bernstein	168	28,100
Child Care Network	Columbus, GA	James F. Loudermilk	130	17,618
The Sunshine House	Greenwood, SC	Dennis Drew	121	15,779
Children's Courtyard	Arlington, TX	Edward Follen	76	13,255
New Horizon Child Care	Plymouth, MN	Susan Dunkley	89	12,381
Minnieland Private Day School	Woodbridge, VA	Jackie M. Leopold	89	10,134
Mini-Skool	Scottsdale, AZ	Douglas MacKay	65	10,000
Allegheny Child Care Academy	Pittsburgh, PA	Harold Lewis	38	7,036
Children's Friend	Warner Robins, GA	F. Dewayne Foskey	40	5,824
Pinecrest Schools	Sherman Oaks, CA	Don L. Dye	14	4,332
Rainbow Child Development Centers	Lathrup Village, MI	Patrick G. Fenton	40	4,322
Action Day Nurseries/Primary Plus	San Jose, CA	Carole Freitas	15	3,450
Sunrise Preschools	Tempe, AZ	Robert Orsi	17	3,376
Hildebrandt Learning Centers	Wilkes-Barre, PA	William J. Grant	32	3,148
Children's Choice Learning Centers	Plano, TX	Nate McClintock	10	2,634
Crème de la Crème	Greenwood Village, CO	Bruce T. Karpas	8	2,512
Country Home Learning Center	San Antonio, TX	Sharon K. Ford	8	2,504
Stepping Stone School	Austin, TX	Rhonda Paver	14	2,389
Children's Lighthouse Management	Fort Worth, TX	George Michael Brown	10	2,050
Children's Creative Learning Centers	Sunnyvale, CA	Ty Durekas	17	2,041
Tot-Time Child Development Centers	Plymouth Meeting, PA	Donna M. Bongarzone-Fluehr	19	2,035
Creative World School	Tampa, FL	Billie McCabe	17	2,012
Creative Playrooms	Solon, OH	Joan P. Wenk	7	1,900
Kid's Country	Snohomish, WA	Lynnda Langston	11	1,778
Child Care Connection	Lincoln, RI	Kevin Fusco	17	1,746
Bobbie Noonan's Child Care	Frankfort, IL	Judith Nevell	13	1,663
Celebre Learning Centers	Bel Air, MD	Richard Huffman	12	1,548
Rogy's Learning Place	East Peoria, IL	Don Meyer and Rick Rogy	13	1,526
Seven Oaks Academy	Westminster, CO	Ronald S. Faillaci	11	1,497
Kiddie Kare Schools	Fresno, CA	James Fisher, Jr.	10	1,492
ChildrenFirst	Waltham, MA	John Marvin	32	1,354
Sunny Daze	Edmond, OK	Mike North	7	1,304

National Child Care Franchising Organizations

Organization	Headquarters	CEO	Centers*	Capacity*
Kids R Kids International	Duluth, GA	Pat Vinson	111	27,750
Goddard Systems, Inc.	King of Prussia, PA	Philip A. Schumacher	185	24,000
Tutor Time Franchise, LLC	Novi, MI	Bill Davis	130	24,000
Primrose School Franchising Company	Acworth, GA	Jo Kirchner	125	20,000
Kiddie Academy	Bel Air, MD	Michael J. Miller	75	10,172

Data on capacity in above chart is the total licensed capacity for all centers as of January 1, 2005. Data for "Franchising Organizations" include both franchised and company owned centers. Based solely on information supplied by organizations listed.