

THE BASICS of STARTING a CHILD-CARE BUSINESS



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Marnie Forestieri

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INTRODUCTION

The scene of a new parent dropping off her child for the first time is something professionals in the industry have been accustomed to for generations. Early childhood professionals have accepted the responsibility of helping young parents deal with sacrificing time with their children and missing important milestones such as their child's first smile or first words.

In the twentieth century, a time characterized by constant change, including a monumental campaign for women's rights, women were motivated to pursue a college education and join the workforce in greater numbers. Working parents today face the same challenges as the generations that preceded them on how to provide care for their young children while away at work. New parents are increasingly aware of current research that proves the importance of the first five years of a child's development, a period in which the brain develops faster than at any other time in a child's life. The unique characteristics of millennials and the generations born into the digital era will demand more from providers than just child-care services.

Young parents want educational offerings that will set up the foundation for their children's mental health, academic performance, and social skills. Therefore, the new generation of parents entering the market will redefine the necessary skills and credentials that it will take to join the ranks of early childhood professionals. Market demands will require programs to adapt, and programs that fail to do so might close due to financial pressures. The challenge—and the opportunity—is to be able to meet the new expectations of the next generation of parents.

DEVELOPING THIS SERIES

This book is the first in a series on starting and operating a child-care business. To provide information relevant to people who want to start their own child-care business and to directors who want to understand the business better, we sent out a needs-assessment survey to providers in our community serving different market segments. One of the survey findings is that, regardless of the organizational structure or business model, all child-care providers face the same challenges, such as operations, marketing, understanding finances, and customer service, on a daily basis.



In most cases, directors who responded to our survey say they report to an owner who handles the business side of the operation. One of the challenges of this dual-management system model—an investor/owner and a child-care director—is that it prevents directors from having a holistic view of the company. The high costs of setting up a program and lack of understanding of the business side of the industry, financing options, and challenges of opening a new business have kept educators on one side of the operations and owners on the other side. Owners handle the business side of the operation, including location selection, marketing the facility, securing financing, processing payroll, collecting money, and paying business expenses. Educators manage staff, provide customer service, and ensure the program's quality metrics. Nevertheless, directors know from experience that decisions made in one area of the company will affect the rest of the organization. Child-care directors who have an understanding of the business side of the operation will be able to operate more efficiently and will be able to respond faster to market trends as the organizations of the twenty-first century will demand internal departments to be interconnected.



This book is not intended to give legal or financial advice. All financial and legal opinions contained herein are from the personal research and experience of the author and are intended as educational material. Seek the advice of a qualified professional before making legal and financial decisions.

HOW TO USE THIS BOOK

This book is designed to explain how to start a child-care business, for those who wish to operate their own centers. But it can also be used by current and aspiring center directors to help them do their jobs better. You will find the following features throughout the book:

- ▣  **Main questions:** key questions that shape each chapter
- ▣ **Case studies:** real-life or fictional scenarios that illustrate key concepts
- ▣  **Build your knowledge:** exercises to help you apply the concepts you are learning

We will share case studies of providers in different settings, including home care, independent day care, franchised locations, as well as data provided by funding sources. Each chapter focuses on a specific area of business management, offering terminology and concepts to help you understand the ins and outs of the child-care business. At the end of

each chapter, you will have the opportunity to build your knowledge with guided questions that will help you assess your progress.

BEFORE YOU BEGIN THE JOURNEY

Before you begin this journey, take stock of your strengths and don't forget to pack the following.

- ▣ **Your passion and the commitment to follow your heart:** What would you do with your time if you did not have to work for money? Your answer is a good clue to your passion. Combining your passion with your job leads to purpose. When I left the telecommunications industry, I was at the peak of my career. I had gained a reputation in that field, yet I was no longer passionate about the opportunities. I needed to find a new purpose, and in the field of child care I did. Purpose has nothing to do with income, status, or internal wiring—it is the fuel that starts your internal engine, enabling you to create change.
- ▣ **Your emotional intelligence:** In his *Harvard Business Review* article “What Makes a Leader?” Daniel Goleman explains that the most effective leaders have high levels of emotional intelligence. Self-awareness, self-regulation, motivation, empathy, and social skills enable leaders to maximize their own performance and that of their team. Empathy, in particular, is important. High-performing directors can relate to teachers because, in many cases, those directors started in the classroom themselves. They can build bridges with teachers and understand their daily struggles and challenges.
- ▣ **The right attitude:** James Strock states in his book *Serve to Lead: 21st-Century Leaders Manual* that leadership is about change. Similarly, Charles Darwin's theory of evolution reminds us that it is not the strongest nor the most intelligent species that survive; it is the ones that have the ability to respond to change.
- ▣ **Authenticity:** I have had many mentors with all sorts of personalities during my life. But these people all had one thing in common: They were true to who they were, and they encouraged me to follow that example. They made me realize that my uniqueness was a strength.

You don't need to have mastered all these qualities to begin your quest, but your path will be easier if you start with some skills in each of these areas. Growing into a high-performing director may be the hardest thing you have ever done, but take it from someone who has undergone the same process: It is worth every headache, frustrating moment, and sleepless night. Are you ready?

1 OVERVIEW OF THE CHILD-CARE BUSINESS



*Children are likely to live up to what
you believe of them.*

—LADY BIRD JOHNSON,
FORMER FIRST LADY OF THE UNITED STATES



MAIN QUESTIONS

- » How and why did the child-care business develop?
- » What are the market segments served by child-care businesses?
- » What business models do child-care providers use
and how do those work?
- » Which business model is right for you?

THE DEMAND

Child care represents a great opportunity for entrepreneurs because of the high demand for this service. Education researcher Suzanne Bouffard points out that 70 percent of single mothers and 80 percent of single fathers work outside the home. And in more than 60 percent of married households, both spouses work outside the home. According to their article for the Center for American Progress, “A New Vision for Child Care in the United States,” Katie Hamm and Carmel Martin assert that about 12 million U.S. children younger than age five have working parents. For most of those families, child care is an economic necessity, as 65 percent of children under six years old have all their available parents in the labor force.

The early childhood industry in the United States emerged during the twentieth century in response to the expanding demand from employers and dual-income families for child-care services. As a result, a diverse patchwork of solutions has arisen to support the growing need. These solutions vary in cost, characteristics, level of quality, and organizational structure.



Entrepreneur:

a person who organizes, manages, and assumes the risks of a business*

THE MARKET SEGMENTS

Policies, funding initiatives, tax credits, and regulations have shaped the child-care market. From a business perspective, we need to understand that financial statements and business plans will vary depending on the market segment and legal structure of an organization.

In a national landscape plagued by income inequality, different child-care solutions have developed organically to serve the different market segments. Sonia Michel, author of *Children's Interests/Mothers' Rights: The Shaping of America's Child Care Policy*, says that low-income parents typically enroll their children in publicly supported programs such as Head Start or programs that use Title I funding. Middle-class parents tend to choose group care centers, not-for-profit settings, or day-care solutions. Upper-class parents have a preference for in-home caregivers or child-care programs. Let's look at these segments more closely.

*Definitions are from *Merriam-Webster's Collegiate Dictionary*, 11th ed., or Investopedia.com

Programs Serving Low-Income Families

Providers serving low-income families are heavily dependent on public funding sources. Historically, as described in the *Handbook of Early Childhood Education*, edited by early childhood researcher Robert Pianta, a goal of public funding initiatives was to encourage low-income mothers to work to reduce their dependency on public assistance. These programs were intended to offer disadvantaged children a high-quality education so that they could eventually escape from poverty.

Head Start is a federal program that focuses on providing comprehensive services that promote school readiness, including education, health, and nutrition, for children from birth to age five.

Many Head Start programs also provide Early Head Start, serving infants, toddlers, and pregnant women and their families. According to the US Department of Health and Human Services Administration for Children and Families, during fiscal year 2010 Head Start received \$7.2 billion to support about 900,000 children. Nevertheless, Head Start historically has not received funding sufficient to serve all the eligible families in the income bracket.

In response to growing demand, private providers have started businesses relying on other funding streams tied to specific goals at state and local levels. Providers serving low-income families vary tremendously in quality and size. Regrettably, that means that some children of low-income families participate in high-quality programs while others with a similar background can access only lower-quality child care. According to the Center for American Progress and the US Department of Education, most children who have access to preschool attend moderate-quality programs. However, African American children and children from low-income families are the most likely to attend low-quality preschool programs and, conversely, the least likely to attend high-quality programs.



Fiscal year:

an accounting period of twelve months; does not necessarily correspond to a calendar year

Programs Serving Middle-Class Families

When selecting options for their children's care, families in the middle-income bracket might choose public programs, such as preschools in public schools. However, many select private alternatives, such as employer-sponsored, faith-based, family- or home-based, independent, or franchise or corporate child-care centers.

Providers serving the middle-income market segment receive funding from various sources, including parent fees, private contributions, and, in some instances, state funds. Therefore, providers have to coordinate multiple funding streams and regulations from such agencies as the US Department of Education and state child-care departments.

Beginning in the 1970s, corporate chains and franchises figured out that middle-income families were moving to affluent suburbs. As a result, these companies focused their efforts on attracting the clientele in these geographic areas—and the attached annual spending, state funds, and resources. These large companies structured their business plans around the demographic characteristics of this population, including average incomes, age range, and educational backgrounds. Preschools in public school systems, which have more access to infrastructure, resources, and quality improvement plans, also compete for part of this market segment.

Programs Serving High-Income Families

Families in the high-income range prefer to avoid group care during the early years of their children's lives. If they do decide to use group care, they choose providers offering part-time nursery care, home care, or corporate-sponsored programs when available. Because these families are not your primary market segment, this book primarily focuses on attracting low- and middle-income families to your business.

TYPES OF BUSINESS MODELS

New businesses need a plan for how to make money. There are many different business models through which to enter the child-care industry:

- ▣ Independent child-care providers
- ▣ Home day care
- ▣ Faith-based centers and nonprofit chains
- ▣ Employer-sponsored care
- ▣ Franchises
- ▣ Corporate chains

SO YOU WANT TO START YOUR OWN CHILD-CARE BUSINESS

As more families shift to both parents working outside the home, the demand for high-quality child care continues to rise, creating ample opportunity for entrepreneurs like you. Now that you've identified the market need, what's next? How do you set up something as complicated as a child-care center?

The Basics of Starting a Child-Care Business walks you through each step of planning, developing, and launching your own child-care business. Regardless of the scale—joining an established franchise, creating an on-site center at your office, or hosting a program in your home—entrepreneurial expert **Marnie Forestieri, CDA**, walks you through all facets of starting a child-care center. This practical and approachable guide will help you:

- Understand the **economics** of the child-care business
- Write a comprehensive **business plan**
- Prepare a thorough **financial plan**
- Develop efficient **operations** for smooth day-to-day functioning
- Master **marketing** to promote your business to potential customers
- Provide excellent **quality control** and **customer service**

Starting a business is always a challenge, but *The Basics of Starting a Child-Care Business* will relieve the complications and confusion and will answer many questions as it guides you through the process with exercises, case studies, and advice from an experienced entrepreneur.

What are you waiting for? Now's your time!


Gryphon House
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Marnie Forestieri, CDA, is an entrepreneur at heart with a passion for introducing innovative approaches to education. As a successful operator of a child-care franchise, she has been recognized in the industry with awards such as the Center of the Year by FACCM and finalist for the Director of the Year. She has earned a bachelor of science degree in business administration, is a former vice president of marketing for a major telecommunications company, and holds both a CDA credential and a director's credential.

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