U.S. Small Business Administration

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Child Day-Care Services

Management and Planning Series

U. S. Small Business Administration
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*Helping Small Business **Start**, **Grow** and **Succeed***

CHILD DAY-CARE SERVICES

Management and Planning Series
MP -30

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NOTE TO READER: This publication was written in the early 1990’s. Some aspects of the research and data are outdated. However, it is still offered in SBA’s online library because much of the content is relevant and applicable in today’s business climate. A new publication on this topic is planned for the future.

Office of Entrepreneurship Education
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INDUSTRY AND BUSINESS ENVIRONMENT

Trends Affecting the Industry

Approximately one-half of the children in the United States today are cared for by someone other than an immediate family member during some portion of each day. In two-thirds of two-parent homes, both parents work, providing a large and ever growing consumer base for the day-care industry. In addition, 12 million children, more than 20% of the children in the United States, live with single parents who need child care in order to work.

Married women with children have been the fastest growing segment of the labor force since 1972. Estimates show that 67% of all new jobs from 1988 to 1995 will be held by women, 80% of whom will have children at some point during their career. A national survey conducted in 1982 indicates that 27% of mothers of pre-school children say they would seek a job if they could find adequate child care, and 21% of part-time working mothers claimed they would seek more hours of work if given better child care.

Employers and co-workers often feel the impact of inadequate or unreliable day care. Sometimes parents are preoccupied at work about their children's care. They may arrive late and leave early to meet their children's schedules. Absenteeism may occur or time may be lost in making phone calls to check on children. Both mothers and fathers have been known to reject promotions because of conflict with their parental obligations. Co-workers may be affected by lost productivity and may feel resentment if called upon to pick up the slack.

Some employers are taking steps to reduce the struggle between career and parental obligations by offering flexible work schedules and parental leave, both for mothers and fathers. Employers are also helping employees find options for quality child care, by offering referral services to employees seeking day care. This usually provides a starting point for the parents by giving them a better idea of what is available and allows them to talk with other parents who have had some experience with a particular caregiver. Some employers are also providing financial assistance by arranging for parents to pay their child-care expenses with pre-tax dollars or offering child-care subsidies as part of their benefit package.

A less common practice that has gained support is on-site child care, a day-care facility sponsored by the company and located on its property. Since on-site care can be very expensive, employers normally do not underwrite the entire cost. Usually, parents have part of the expense deducted from their paychecks or elect a flexible benefit option. Depending on the amount of subsidy provided by the employer, rates for on-site care can be below that of other quality day-care centers. However, most companies that have some type of child-care facility or assistance program believe the benefits, public relations, increased employee dependability and improved recruiting and retention efforts far outweigh the costs to them. With the additional advantage of proximity, parents do not have to go out of their way to drop their children off before work and are able to visit them during breaks and the lunch hour. Because of the growing demand in the day-care industry, many opportunities exist for potential small business owners. Parents now place a high value on quality child care and are willing to search for the best care providers.

Current State of the Industry

Almost 4,800 small businesses with less than 20 employees each provided child day-care services in 1986. These small businesses account for approximately 70% of the businesses in the industry (see Chart 1). They were also the fastest growing segment of the industry from 1980 to 1986, adding more than 20,000 workers a 106% increase.

For-profit businesses are only one of the several different types of day care that now exist with each type used by different groups within the day-care market. Many of the small child day-care businesses are home-based, or operated out of a privately owned home. By contrast, center-based operations tend to be larger in size and include franchise, on-site company sponsored, cooperative and individually owned centers. Currently, 15% of employed mothers use center-based day care for their preschool children as their primary source of child care. An additional 13% of working mothers use center-based care as their secondary source and use a baby-sitter or family member as their first choice. Surveys show that more affluent, better educated families rely more on paid care and center-based care than lower income families, who rely primarily on relatives.

The market demand for child care has also led to the development of chains of day-care facilities. Changing Times reported in 1984 that . . . top chains enroll just 6% of all children under 6 years old who attend day-care centers and nursery schools. Not surprisingly, the chains' managements say they intend to expand as quickly as staff, time, capital resources, and interest rates allow . . . Enrollments are soaring everywhere.

Some of the chain leaders of day-care operations are Kinder-Care, founded in 1969, with more than 850 locations in 40 states and Canada; LaPetite Academy, started in 1970, with 358 centers in 20 states; ARA Services, which bought National Child Care in 1980, with 142 schools in 11 states; and Gerber Products with 57 Gerber Children's Centers in six states.

Government's Role in the Industry

Child-care needs have recently attracted national attention with the U.S. Congress debating whether to establish a national program and regulatory standards. However, individual states already regulate child-care providers. State laws are extremely diverse, ranging from strict licensing requirements to almost no regulation at all. Each state has its own laws regarding zoning ordinances and insurance requirements, as well as regulations for the actual facility, such as capacity limits, fire alarms, fenced play areas, number of exits and health standards for food preparation areas. In addition, there are usually regulations regarding the minimal number of staff required for specific levels of enrollment.

Current federal proposals emphasize the cost and availability of child care, as well as setting national health and safety standards. One proposal, called the Child Care Services Improvement Act, would authorize tax credits of up to $1,000 to low-income parents, issue grants to public, private and family day-care centers and provide an insurance pool to help lower the cost of liability coverage. The plan also includes a revolving loan fund to improve child-care facilities.

Another proposal, called the Act for Better Child Care, would subsidize day care for low-income families. In addition, this bill would provide funds to improve the training of child-care workers and establish minimum federal standards for child-care providers.

The federal government already provides some assistance to low-income families through Title XX of the Social Security Act, passed in 1974. Families with an income below 115% of their state's median income are eligible for benefits, and families with an income above 80% of their state's median income are required to pay some part of the expenses based on their income level.

In 1981, the funds for Title XX were cut back at both the state and federal levels. Originally, the federal government contributed 75% of the funding and the states contributed 25%. The program was then cut back 21% at the federal level; the states were no longer required to contribute, resulting in many children being dropped from the program due to more limited eligibility requirements. Funding has since increased but still does not match the original, pre-1981 level (Shaw, 1986).

Head Start is another federally funded program aimed at low-income children. The purpose of this program is to prepare children from very low-income families for school by focusing on reading and positive social interaction. Some perceived that low-income families were unable to provide their children with the books, games and activities that middle-class children enjoyed. An unforeseen by-product of this program is free child care to parents who enroll their children. The federal government continues to fund Head Start and approximately 350,000 children are currently enrolled.

In addition, a tax credit is available that reduces families' federal income taxes to help compensate for child-care expenses. In 1976, the tax credit was established at 20% of total child-care costs up to $400 for one child and $800 for two or more children. In 1981, the credit was changed to favor lower income families. The rate was increased to 30% for households earning less than $10,000 and declined gradually to 20% for families earning over $28,000. The maximum credit is $720 for one child and $1,440 for two or more children (U.S. Department of the Treasury, 1984). Unfortunately, few poverty-level households are actually able to benefit from the entire credit because they cannot receive an amount larger than their original tax liability. Therefore, the prime beneficiaries from the credit are middle- to upper-income families.

Day-care providers need to stay informed of federal programs and proposals because of the direct consequences on new and existing day-care businesses. For example, new financing opportunities might be created or a major shift in public attitudes towards the provision of quality child care might occur.

The Legal Environment

Although starting a day-care business is relatively easy, the legal issues facing the potential day-care center operator or in-home provider are complex. Because of recent court cases, day-care providers must have substantial knowledge of the laws for operating a center or providing care in the home.

Child-care providers need to have a clear understanding of their relationship with the children and which decisions are theirs to make concerning the children in their care. An important step in precluding lawsuits filed by parents is to require them to sign a consent form that outlines the policies of the center and the procedures to be followed in special situations and emergencies. Also, the responsibilities and expectations of the day-care provider and the parents should be clearly understood. Signed consent forms will not always prevent lawsuits from being filed; however, the written document is important evidence of good faith on the caregiver's part.

The most common legal problems faced by child-care providers involve negligence by a staff member whose failure to act responsibly or follow specified procedures results in injury or civil rights violations. Civil rights cases are typically filed when a parent or the state feels there has been inappropriate behavior or abuse by staff members.

Proper insurance coverage is essential to cover the costs of lawsuits, liabilities and unexpected expenses. Even though precautions may be taken, accidents can happen. Therefore, the child-care provider should be covered with liability insurance in case of an accident resulting in injury. An insurance agent can advise what type of coverage is needed and prepare a plan specifically designed for the owner's particular needs. Coverage for a day-care operation should include the following:

- General liability, which protects against claims of injury or property damage involving clients.
- Fire, business interruption and crime insurance.

- Workers' compensation, unemployment insurance and optional employee benefits such as health and life insurance.

Some ways to obtain the coverage include adding a rider to a homeowner's policy, purchasing a separate policy to cover day-care related accidents or purchasing a separate family day-care group policy from agencies that serve the special needs of that profession, such as the National Association for Family Day Care's group policy.

SMALL BUSINESS FACTORS

Start-up Information

Training is available for starting and running a child-care facility through either specific classes or literature. The local child-care Resource and Referral Agency or local Family Day Care Association can be contacted for information. In some states, such as Massachusetts, New Jersey, Texas, New York and Georgia, assistance is provided through community agencies that recruit, license, train and monitor family day-care providers (see Appendix E for information resources). One source of particular interest is the National Association for Family Day Care (NAFDC), a nonprofit organization that provides literature, quarterly newsletters and group insurance to home day-care providers.

Business Plan

No matter how small a business is, one can benefit from writing a business plan. It helps organize thoughts and assures that all information needed to start a business is available. A plan should include goals and objectives and the step-by-step details of how to reach them. In addition, a business plan should include financial requirements and projections. If financial assistance is needed, a business plan is an invaluable aid in convincing lenders of one's seriousness and dedication.

Cash Flow Analysis

All businesses require a cash investment to get started. Cash flow is often limited in the first few months, so it makes sense to keep expenses as minimal as possible; for example, by shopping around for the best price for rent, fixing up an office and buying a business telephone. Utilizing home furnishings for a while will enable more money to be used for essential business equipment. How much financing is needed? A business plan can provide a good idea of how much money will be required to start and sustain a business for the first few weeks or months. An income projection can help determine the following:

- Start-up costs.
- Estimated gross monthly sales.
- Type of service(s) to be provided.
- Monthly operating expenses.
- Expenses with industry averages.
- Monthly draw and how much additional cash will be needed.
- Whether the business can support its debt service.

Financial Sources

Once it is determined how much money is needed, sources for obtaining these funds may include the following:

- Personal savings.
- Cash value of life insurance.
- Value of stock or bonds.
- Cash value of other assets available or that may be used for collateral.
- Cash loans from relatives or friends.
- Investments from partners.

- Chattel mortgages on vehicle or equipment purchases.
- Advance payments from contracts or prepaid memberships.
- Commercial bank loans (usually limited to a few thousand dollars on signature loans).
- Second mortgage on real estate or other assets (it is common to pledge two dollars in assets for every dollar you borrow).

Banks are not speculators or gamblers; consequently, most small businesses are financed through private sources. However, even if a bank offers financial assistance, it is not wise to commit to specific payments in the first few months. A flexible repayment schedule is important so that as much operating capital as possible can be retained in the business during the initial period.

Government loan guarantees through the Small Business Administration (SBA) or the Farmers Home Administration are available during the initial start-up and later expansion phase of a business. Specific eligibility criteria must be met to qualify for these programs.

Marketing

Once the training, business plan and financing are complete, the small business owner must attract potential customers through an effective marketing program. The more care and attention devoted to marketing, the more successful the business can be.

The minimal marketing program should include

Name -- Be sure to have a memorable and distinctive name. If it is easy for prospects to remember the name, the marketing program will be more cost effective.

Logo -- Choose a memorable style in which to print the name. If well done, the logo will tell the story efficiently. Have original art work photo-reproduced so it can be used consistently.

Business cards -- This is a simple way of creating a business-like image and probably the least expensive-per-impression advertising available. Hand business cards out to everyone. One never knows when a contact will turn into a business referral.

Flyers -- Visit a local quick-print shop to learn how to use clip art and dry-transfer lettering to create flyers. Post them on bulletin boards and hand them out to prospective (expecting) parents.

Signs -- A plastic magnetic sign on the door of a car or van will attract a lot of attention at a low cost.

T-shirts -- These are a popular and low-cost method of spreading the word. They are also a natural for field trips to keep track of groups by color coding the children.

Classified ads -- Learn how to write short attention grabbers. Get results cheaply. Action words attract attention.

Brochure -- As the business grows, the owner may wish to invest in a brochure to enhance the business' image while telling the story in a professional manner.

MODELS OF DAY-CARE OPERATIONS

Child day-care activities often are classified according to where the services are provided, as home-based or center-based. Home-based operations are small businesses run out of a person's home. Center-based operations may be small or large businesses or nonprofits.

While each form of day care has its own unique considerations, several issues are universally applicable such as licensing, financing, health and safety, record-keeping, insurance and marketing. The ways in which these and other activities affect the prospective business person are discussed as each form or model of child care is examined in greater detail.

The Home-based Business

Offering home day care is a good, low-cost method of starting a business that is especially attractive to people who have children themselves and want to stay at home to raise them.

For a home-based operation, the prospective small business owner needs to consider whether his or her house is suitable for child care by consulting the state regulations. Some common requirements include smoke alarms, railed stairways and an outdoor play area protected from nearby traffic or other hazards.

From a state regulatory standpoint, there are two basic kinds of home-based care that can be provided, registered and licensed. Some states further subdivide these categories depending on the number of ages of children being cared for. Registered care may entail as little work as a basic background check by the police department unless someone lodges a complaint against the business owner. Licensing entails more stringent requirements, such as annual checks by the health and/or fire departments, periodic drop-in inspections, etc. In some states it is possible to operate home-based child care without any regulatory status; however, the move is toward some type of control. Being registered or licensed is often a consideration of parents when looking for care and can also be a valuable advertising tool. Many states and cities maintain lists of licensed and registered providers that are shared upon request with parents and employers looking for quality child care. Being listed may provide the day-care business with exposure, advertising and an implied endorsement. Since the regulations vary greatly from state to state, obtaining a copy of the state regulations is a necessary first step.

Another issue to consider is financing. While caring for children at home is not usually capital intensive, there will be costs associated with running a business such as costs to equip the home with the appropriate toys and other equipment. All new or expensive equipment is not necessary, however, safety and liability should be kept in mind. Toys should be selected that are too large to swallow, made with nontoxic materials, nonelectric, etc. Most day-care owners find they are better off investing in a few well-made items rather than many cheap ones. Many items that are needed can be found at garage sales or thrift shops. Some states maintain resource banks for day-care providers that make toys and other equipment available on a loan or exchange basis.

State agencies can also provide information on programs and support networks to assist the business owner with the day-to-day operation of the business. Although it is entirely possible to run a successful business without information on current events, staying abreast of pertinent legal issues, industry trends and new ideas will help the small business owner to provide better care and to increase the chances of being profitable. At the national level, the National Association for Family Day Care provides family day-care support.

For example, the Child Care Food Program (CCFP), administered in most states by the State Department of Education, helps child-care centers and family and group day-care homes serve nutritious, well-balanced meals. Each month providers complete the appropriate forms and are then reimbursed for the meals they serve. The amount paid depends upon the number of meals served per month multiplied by the reimbursement rate. The maximum reimbursement is two meals and one snack per child per day. The current rates per child are $.3725 for snacks, $.6675 for breakfast, and $1.2525 for lunch or dinner.

Well-defined policies, contracts and procedures are essential to running a day-care business. Having the parent sign a contract at the initial interview will legalize the business agreement and help to avoid conflict in the future. Obtaining all the necessary emergency information and the first payment at this time is advisable. Receiving each period's payment up front is considered normal practice, and for good reason. Prepayment ensures that the money needed will be available to provide food and other items for the children. It also avoids the unfortunate, but not infrequent, problem of caring for children, then finding that the parents cannot or will not pay.

A good record-keeping system is important to track payments received and for tax purposes. A detailed list of all revenues and expenses must be kept for the business. Accurate records also are needed for parents who want to figure their tax credits. A separate weekly income record or attendance form can be used to record income. In either case, the total number of hours of care for each child and the amount received should be included as well as the reimbursements received from the CCFP. Reimbursements are considered income and must be included on a tax return.

Certain expenses can be deducted from business income on a tax return. Such expenses are classified as direct and indirect. Direct expenses benefit the children only. The full amount paid may be deducted from these items. Some examples are food, toys, bookkeeping costs, depreciation and tax credit allowances for major purchases. Indirect expenses benefit both the business and personal parts of the home. Only the business portion of these expenses can be deducted. Some examples are utility costs, real estate taxes, homeowner's insurance and home repairs and maintenance. All receipts should be kept to substantiate expense deductions on an income tax return. More detailed information on record keeping for tax purposes can be obtained from an accountant or found in publications such as Tax Guide for Small Businesses (PUB 334) and Business Use of Your Home (PUB 587) available from the Internal Revenue Service (IRS).

Development of business procedures should include setting up a daily schedule that outlines what the children will do during the day. Parents generally feel more comfortable knowing what their children will be doing, and children adapt more readily when there is a sense of order to their day.

The final step is to develop a marketing plan for the business and selecting ways to advertise, for example, listing the business at the local governmental agency, placing an advertisement in local papers, passing out flyers, putting notices on public bulletin boards, telling friends, contacting schools and churches, etc. Any place frequented by families of working parents is a good place to advertise.

Advantages of home day care are that the owner can sometimes provide the service at a lower cost to parents than center-based care, while providing a closer, family-type setting for the children. Both of these features should play heavily in advertising as cost and a home-like environment are of utmost concern to parents who must leave their children on a daily basis. Disadvantages to the business owner include long hours 10- to 12-hour days are not uncommon. Working alone and being the sole operator of the business can also be a problem if the owner becomes ill or needs a day off. Therefore, planning ahead for backup support is necessary.

The following case histories illustrate the differences between a registered and a licensed home care provider.

Registered Home Care Model

Vicky is a registered home day-care provider in Kansas. In her state, this means that she can care for no more than six children, including her own, under 16 years of age. No more than three may be under 18 months of age. Being registered indicates that the provider has assured the state department of health that all requirements are being met. In this less formal type of regulatory environment, parents play an integral role in ensuring the quality of care that their children receive. While the specific requirements differentiating licenses and registered care vary from state to state, in general, registered care entails fewer regulatory constraints but allows the owner to care for fewer children. Specific requirements pertinent to each state can be obtained from each state's health department.

Vicky went through a three-step process to become registered. First, she obtained and completed an application packet from the health department. Second, she filled out a Kansas Bureau of Investigation form that authorized the state to do a background investigation for arrests or convictions, especially as they pertain to abuse issues. And finally, she paid an application fee of $5 and must pay an annual renewal fee of $5.

To help reduce her operating costs, Vicky participates in the Child Care Food Program, which reimburses day-care providers for some food costs. To be reimbursed she completes two forms each month: an attendance sheet verifying the number of children served meals and a menu chart for each meal served, which must meet state guidelines. She is reimbursed the following month at the current standard rate, which currently covers all her food costs. Vicky's marketing strategy to advertise by word of mouth has kept her home day-care business at maximum capacity since 1982. Vicky also sets her fees competitively for her location and estimates her annual gross income is $9,000 with a net income of about $8,000 after expenses. However, with her various entitlement and tax write-offs, her taxable income is only about $1,000.

Licensed Home Care Model

Jennie is a licensed provider who started baby-sitting informally and became aware of the many programs and tax deductions available as she became more established in her work. As a licensed provider, Jennie may care for up to ten children under the age of 14. No more than six may be younger than kindergarten age and no more than three may be under 18 months of age. Licensing requires that her home be inspected annually for health, safety and program offerings.

The rates she charges are competitive for her community. She participates in her local Family Home Association Food Program to subsidize her food costs, following the same procedures as those in the registered care example. The insurance needed to cover her family home day-care business is provided by a rider on her homeowner's policy. Jennie works from 7:30 A.M. to 5:30 P.M., Monday through Friday. For tax purposes, she nets approximately $1,000; however, she realizes significantly more for the reasons cited in the previous example.

Since Jennie became licensed, she has fenced in her yard, bought a swing set and an eight-passenger van, and has transformed a room of her house into a playroom for the children. Also, she deducts one-third of the utilities from her taxes based on the square footage of her house devoted to the business. Jennie shops for toys and equipment at garage sales and discount department stores. In order to adhere to the state requirements, her home is inspected annually, the first time by the fire department and thereafter by the health department. Jennie's marketing strategy is simple. I don't advertise, she says. I believe that word of mouth from satisfied parents gets better results. Her perception as to why parents choose home care is that it is less expensive than center-based care, the children contract fewer illnesses at her home and that shy children can easily get lost in the crowd at a day-care center. She feels that providing a warm home environment for the children to enjoy while their parents are at work is beneficial and appealing to families.

The Center-based Business

While the need for day care continues to grow, individuals interested in providing this service may find it is not a profitable activity. Day care on a scale that requires more than one employee can be expensive to provide due to the caregiver-to-child ratios that are strictly enforced by state regulators. The potential day-care owner should, therefore, fully analyze revenues and expenses early in the start-up process to determine if some form of sponsorship is necessary to cover costs. An alternative is center-based care that may be provided through a variety of organizational structures including corporate- or employer-sponsored centers, franchised business centers, cooperative centers and nonprofit agency centers.

A typical example illustrates the current income and expense structure of a day-care center in a mid-size mid-west community. The facility accommodates 10 toddlers, 24 children ages 3 to school age and 28 kindergartners, attending on a half-day basis with one-fourth of the children eligible for Social Rehabilitative Services (SRS) reimbursement for meals.

After total expenses are deducted from total income, this hypothetical center earns approximately an $8,600 annual profit, part of which must be used to pay for capital expenditures or debt retirement (see Table 1).

Table 1 – Sample Annual Income Statement for a Hypothetical Day-care Center

Income	
10 toddlers @ $13/dayx260 days	$ 33,800
24 3-yr. to school age children @$11.50	71,760
28 kindergartners @ $10.50	76,440
SRS food reimbursement	7,346
Total income	$189,346
Expenses	
Rent (3600 sq.ft.@$4.00)	$ 14,400
Utilities	9,600
Custodian	2,400
Custodial supplies	600
Play and art supplies	1,300
Kitchen-help	2,400
Kitchen supplies	250
Lunch expense	20,150
Snacks	9,235
Building maintenance	1,500
Equipment repair	300
Office supplies	300
In-service training	200
Insurance	800
Lead teacher salary 3 FTE* 40 hrs/wk, @$5/hr	31,200
Asst-teacher salary 4 FTE* 50 hrs/wk, @$4.30	44,720
Payroll taxes and insurance est. of 15%	11,388
Owner's salary	30,000
Total expenses	$180,743

* Full time equivalent

When initial decisions on the facility location and layout are made, the cost is only one factor that should be considered. Others are zoning, health and safety, convenience and availability of existing facilities. In the ideal case, when a wide range of locations are available, the most important considerations should be the convenience to parents, the quality of the neighborhood and zoning restrictions. Ideally, a center should be located on the approach to the business district of the city, on the right-hand side of the street and with a covered carport to make drop-off and pick-up of children as convenient as possible. Using a building vacated by a business has many advantages, such as zoning restrictions are usually not a problem; the basic structure is in place; and parking is generally available. While an existing building may be otherwise suitable, health and safety must also be considered. If, for example, the facility is located in a run-down section of town or is located near hazardous industrial sites, parents may hesitate to enroll their children, fearing for their children's well-being.

The Corporate Center Model

Corporate-sponsored centers have grown phenomenally as companies realize that they need to address family issues affecting their employees. Most of the companies that already offer child care are fairly large corporations but opportunities do exist for small business entrepreneurs. Other large corporations may be interested in providing day-care services if properly approached by an entrepreneur who could take on the responsibility of setting up and running the center in exchange for the financial backing and/or other support necessary to get the venture off the ground. The small business owner would then have the financial resources needed to get started while the company would have the benefit of on-site care for its employees.

Corporate-sponsored day care may be either on or off the job site. On-site day care is the most desirable to employees because of the convenience. Having the center located in the same building or complex allows the working parents peace of mind and the freedom to visit their children during breaks. The advantages, such as reduced absenteeism and turnover, increased productivity, and improved morale and employee-employer relations, increase the cost-effectiveness for the corporate sponsor.

An example of an employer-sponsored day-care center is the Employee Center for Young Children (ECYC), Inc., a nonprofit corporation established in 1980 and funded by Merck and Co., a New Jersey-based pharmaceutical firm. Recognizing the need for this type of service for its employees, Merck obtained a $100,000 grant, leased a building and hired a director. Operating revenues came from fund-raisers and tuition paid by parents. Merck subsidizes phone, mail and duplicating services and provides an annual grant for staff development. Current management of the center is by a board of eleven trustees, six elected by the members, parents and interested persons, and five elected by the board of trustees themselves.

Several variations of this corporate-sponsored model exist, such as the consortium model in which two or more persons or businesses work together to run the center. In addition, industrial parks often have center-based care available with several corporations providing the financial backing for the operation. Sometimes these centers are labeled cooperatives as parents are active participants in governing the center's activities in exchange for providing their time to build and repair recreational equipment, paint, create bulletin boards and offer many other services that significantly reduce operational expenses.

The Franchise Model

Franchise day-care centers are another area of opportunity for the small business entrepreneur. Under a franchise, a company that develops a prototype sells to an individual the legal rights to open and operate centers based on the prototype. The individual pays a franchise fee to get started and then pays a percentage of gross income for the ongoing use of the franchise.

The franchisor trains the franchisee, sets policy and conducts audits of the operations of each franchise. The franchisor provides prototype building and program plans, logos, brochures and advertisements and, in some cases, will help select the location, build the building, buy the equipment and otherwise do much of the set-up work. The franchisor also continually monitors the franchised centers to ensure compliance with company standards of quality and management.

From the viewpoint of the prospective entrepreneur, there are both advantages and disadvantages to a franchise. Standardization, name recognition and reputation are advantages because they help to market the center. Standardization of the educational and/or the day-care program itself appeals to many parents because they know that their child will be enrolled in a program that has been designed to meet children's needs. Name recognition of the franchisor and its reputation can also influence a parent's decision. For example, a parent who is looking for day care for the first time may favor a center that is familiar and that has a reputation of providing good quality care.

Disadvantages for the franchisee are hidden costs such as royalties paid to the franchisor, advertising assessments, requirements to buy materials, equipment or supplies from the franchisor and legal fees. These requirements are part of the contract agreement between the franchisor and the franchisee who operates the day-care center. In general, this agreement includes the following:

- *General provisions* -- These would include a description of the parties involved (franchisee and franchisor), the nature of the business of the franchise, the territories contained in the franchise, a protection from competition clause and clauses stating the promises of both parties.

- *Start-up provisions* -- These must cover the deposit fee and how it will be paid, who will provide the equipment and facilities, the required training of the applicant, a transmission of standards and details for the opening of the business.

- *Operating provisions* -- Included here might be information about obtaining assistance in purchasing, guidance in bookkeeping, management and promotion procedures, standard fee and tuition levels, expected performance by franchisee, details of reports and royalties, procedure of payment of insurance and taxes and confidentiality of disclosures.

- *Termination provisions* -- These would state the terms of renewal, the transfer of rights, terminations for cause, terminations without cause, obligations on termination, resolution of disputes, relationship of parties and other miscellaneous provisions (Vaughn, 1974).

The Cooperative Model

Cooperative day-care facilities are typically started by a group of parents who have a need or desire to have a direct influence on the kind of care their children receive. Since a cooperative belongs to the people who use it, the owners are also the customers of this type of business so that making a profit is not a goal.

In a day-care cooperative, the parents share in management decisions and responsibilities. They volunteer their time, work closely with the staff and set the policies of the center. The parents also work closely with the director who could be a cooperative member or hired from outside the membership. A parent with minimal financial resources interested in getting into the child-care business on a larger scale than home-based care might find a cooperative appealing. The opportunity for direct parental involvement in their children's care can help make the center a success if properly channeled. Satisfied parents are likely to be the best form of advertisement, fueling continued growth by bringing in new members.

However, some possible disadvantages of the cooperative modes are the following:

- Good-intentioned parents may not have the business experience to make the difficult decisions of running an organization.

- The manager may receive confused messages from a board with mixed agendas.

- The nonprofit mentality does not allow for the accumulation of a sufficient cash cushion to weather financial difficulties and may lead to loose fiscal controls in the areas of tuition collection, expense control and supervision of personnel.

An example of a parent-sponsored co-op is the Childcare Cooperative at Kansas State University (KSU). It began operation in August 1985 in response to the increasing need for child care for the university's staff and students. To be enrolled, a child must have one family member affiliated with the university. The center was started as a nonprofit entity, receiving administrative assistance from the KSU Division of Continuing Education. To help fund the center, a loan was obtained from the university and money was allocated by the Student Governing Association (SGA) from available student fee funds.

A cooperative organizational structure was chosen by the parents who believed that the co-op structure would provide a superior educational program for their children. Parents were required to pay membership dues and to volunteer time for the center's operation. A board of directors was formed by the parents. The board has been very involved in fund-raising, building equipment and maintenance of the facilities.

The licensing requirements set by the state of Kansas and followed by the center allow the facility to hold a maximum of 223 children; currently, there are 177 children enrolled. The facility also is inspected on an annual basis by the state. The daily rate for each child is competitive for the area and includes transportation to and from area schools.

In January 1987, financial and management problems led to a reorganization from a parent co-op to an agency center affiliated with the university's Department of Housing. This department is now responsible for the center's finances while the child-care center itself is responsible for the curriculum.

The day-to-day operations of the agency-sponsored center remain the same as they were under the cooperative structure. The center, as a nonprofit organization, is eligible for both federal and state tax exemptions, and recently became eligible for property tax exemption. The insurance purchased by the center includes general liability and workmen's compensation and fire insurance on the building's contents. The buses available for transportation are state vehicles and are covered by the university's insurance. Accident insurance is covered by the children's parents. The center's projected budget for the year 1989 shows income comes from four main sources: tuition, Student Governing Association (SGA) Childships, Social and Rehabilitative Services (SRS), and the USDA (see Table 3). The $32,000 SGA Childship contributes an allocation from the Student Senate to help needy families afford the day-care center. The allocation allows the center to be an SRS recipient and also helps those who do not qualify for SRS funding. The $29,000 from the USDA is a federal government subsidy for the center's food costs.

Table 3 - Child-care Cooperative
Projected Income and Expenses, 1989

Income		
Regular Tuition	$284,436	73%
SGA Childship	32,000	8%
SRA	32,000	8%
USDA	29,000	7%
Other	11,850	3%
Total	$389,286	100%
Expenses		
Salaries and wages	$280,000	72%
Rent	24,000	6%
Food service	48,000	12%
Other	36,700	10%
Total	$388,700	100%

Source: KSU

The Agency-sponsored Model

Located in both rural and urban areas, agency day-care operations serve families of all income levels and are financially supported by the sponsoring agency. Included are nonprofit early childhood education programs sponsored by community agencies, such as church groups, labor unions, community centers and neighborhood organizations. Agency-sponsored day care may be full day-care centers or half-day enrichment programs that serve children from infancy through school age. Some are center-based while others include a network of day-care homes. Most agencies set up a board of directors to assist in the development of a business plan, as well as to retain the right to accept or reject the plan. Additional support is obtained from tuition and/or government funds. The break-even point based on the expected number of children and costs determines the amount of tuition charged, which should be enough to cover costs and yet be competitive with rates charged by comparable facilities in the area.

While licensing requirements vary by state, liability insurance covering both teachers and assistants is mandatory in many states, as is an annual safety inspection of the center. Setting up an agency-sponsored day-care center is similar to other models in that each state and local government has certain regulations that must be followed, such as the number of children allowed, the square footage required per child and the zoning regulations.

Normally a church, school or civic organization sponsors the center with funding from grants, donations, in-kind contributions and matching funds. Obtaining a suitable facility at low or no cost is often easier in this situation. Several alternatives are to rent a vacant home with a large lot for playground space (be sure to check out the city zoning regulations) or to use a church, school or civic club facility. Usually the cost of remodeling is much less expensive than constructing a new building.

A parochial school-sponsored day-care center in a mid-size town is one example of an agency-sponsored center. The start-up cost was financed by a $15,000 grant from the parish, which also allows rent-free use of the building in which the day care is conducted. The center also received loans from the diocese and the Catholic school system in the amount of approximately $29,000. These funds were used to renovate the building, obtain equipment and pay salaries and other expenses. Salaries are the principal operating expense of the center (see Table 4). Donations provided many of the smaller cost items including toys and equipment.

Table 4 -- Distribution of Operating Expenses for an Agency-sponsored Model

Salaries	66%
Food and utilities	32%
Bookkeeping costs	(less than) 1%
Insurance:	
Property	(less than) 1%
Workman's	(less than) 1%
Compensation	
Liability and accidental	(less than) 1%

Source: KSU- SBI files

The center hires personnel by advertising positions in newspapers and through placement centers. All applicants are screened to ensure that they are qualified and that they meet the job description. The turnover rate is very high -- most teachers stay one to two years due to low wages, moving and other circumstances -- making it hard to find qualified workers. Wages range from $3.80 an hour for assistants to $4.65 an hour for lead teachers.

This day-care center currently has 85 children. The teacher-to-student ratios are dictated by state law, which varies by state. Most of those who attend the center are from families with children attending the Catholic school system; however, other children are accepted.

The agency affiliation -- whether it is a church, school or civic association -- is a factor considered by parents when choosing day care. Parents also consider the location of the center, the convenience of the center (operating hours, part-time care and availability of transportation services), the quality of the teachers and educational program, the safety of their children, the facility itself (the size and the amount of equipment) and, of course, the fees.

CONCLUSION

With the increasing demand for child day-care services, many small business owners now have opportunities to provide quality services that weren't available in the past. Many programs are now being established by private organizations to assist the small business owner in providing quality care. Federal and state agencies are providing guidance through regulations and offering help through aid programs. Prospective business owners need only find the type of day care for which they qualify; and then, by staying informed of developments in the industry and implementing good business practices, a successful business can be achieved.

INFORMATION RESOURCES

The SBA offers an expansive network of business resources to assist small business customers. Use these resources to help build a successful business.

Small Business Training Network (SBTN)
The SBA operates a virtual campus featuring numerous free online courses. The courses cover a variety of topics, including how to start a business, finance, business planning, marketing, management, technology, government contracting and many other topics. Approximately 1,500 small business customers each day register for SBA's free online courses.

Small Business Development Centers (SBDC)
The Office of Small Business Development Centers (SBDC) provides management assistance to current and prospective small business owners. SBDCs offer one-stop assistance to individuals and small businesses by providing a wide variety of information and guidance in central and easily accessible branch locations. The program is a cooperative effort of the private sector, the educational community and federal, state and local governments and is an integral component of Entrepreneurial Development's network of training and counseling services.

SCORE
SCORE (Counselors to America's Small Business) is a resource partner of the SBA dedicated to entrepreneur education and the formation, growth and success of small businesses nationwide. There are more than 10,500 SCORE volunteers in 374 chapters operating in over 800 locations who assist small businesses with business counseling and training. SCORE also operates an active online training and counseling initiative.

Women's Business Centers (WBC)
Women's Business Centers represent a national network of nearly 100 educational centers designed to assist women. WBCs help entrepreneurs, especially women who are economically or socially disadvantaged, to start and grow successful small businesses.

SBA District Offices
In addition to its resource partners, the SBA operates full service district offices in every state of the country. Locate the district office closest to you.

URL Directory of Hyperlinks

Small Business Training Network	**http://www.sba.gov/services/training/onlinecourses/index.html**
Small Business Development Centers	**http://www.sba.gov/aboutsba/sbaprograms/sbdc/index.html**
SCORE	**http://www.score.org/index.html**
Women Business Centers	**http://www.sba.gov/services/counseling/wbc/index.html**
SBA District Offices	**http://www.sba.gov/localresources/index.html**

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Office of Entrepreneurship Education
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