

Industry-Small Business

PROFILE

Child Day-Care Services

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ACKNOWLEDGEMENTS

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The Kansas State University Small Business Institute (SBI) began in 1970 as part of a pilot project initiated by the U. S. Small Business Administration to make the business knowledge within the nation's colleges available to individual small businesses. Since that time, the SBI has counseled 540 small business clients. Projects have covered every aspect of operating a small business: preparing business plans, conducting marketing surveys and new product surveys, analyzing cash flow, developing advertising strategies, training sales staff, automating accounting records, and improving plant layouts. While the small business clients come from a wide variety of industries, most are from the restaurant, child care, veterinary, mail order, retail, and service industries.

Dr. Rice encourages SBI teams to provide meaningful, quality help to small business owners. Through their work, students receive valuable exposure to real life business situations and learn that there are no easy answers for making a small business successful. Both the owners and students learn that success depends on the careful application of knowledge and experience, and that often a fresh viewpoint can lead a small business in a new, more successful direction.

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FORWARD

This publication is part of a new series of Industry - Small Business Profiles prepared by Small Business Institutes (SBIs). The institutes are organized through the Small Business Administration and currently are located at 520 college campuses around the nation. The institutes provide counseling by students and faculty to small business clients. The Industry Small Business Profiles are also prepared by institute faculty and student teams who conduct the research and write the Profile.

The Profiles are designed to be a reference resource for exiting and prospective small business owners,

particularly as they assess how their businesses are operating and develop plans for the future. Each Profile introduces the, small business owner to trends, opportunities, and small business examples that may be useful in the planning process.

Some Profiles summarize nonproprietary industry information that has been extracted from counseling cases of the institute's small business clients. These examples illustrate various ways in which small businesses are actually operating but are not meant to be instructions that small businesses should follow.

These profiles also are intended to be reference tools for SBI teams. In preparing to work with a specific small business client, each SBI team has needed to conduct its own background research into the client's industry. The Profiles reduce the preparation time needed by presenting the type of information generally collected in background research.

Other small business counselors, for example the Service, Corps of Retired Executives (SCORE) and the Small Business Development Centers (SBDCs), may also find the Profiles useful for their work with small business clients.

John R.Cox
Associate Administrator
for Business Development
U.S. Small Business Administration

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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 (Caldwell, 1987).

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 preschool children say they would take 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 (U.S. Census Bureau, 1982).

Employers and coworkers 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 (Wojahn, 1988). Coworkers 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 experience with a particular center or caregiver. Some employers are also providing financial assistance by arranging for parents to pay their child-care expenses with pretax 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 childcare facility or assistance program believe the benefits-public relations, increased employee dependability, and improved recruiting and retention efforts far outweigh the costs to them (Thompson, 1988). 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 homebased, 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 thirteen percent 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 (U.S. Census Bureau, 1982).

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. (Changing Times,

1984).

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 (see Appendices A and B for state regulatory agencies and licensing requirements).

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 \$1000 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 (Thompson, 1988).

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 (Shaw, 1986).

In 1981, the funds for Title XX were cut back at both the state and federal level. 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 (Shaw,1986).

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 (Shaw, 1986).

Day care providers need to stay informed of federal program 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 a 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 which 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 care giver's part.

The most common legal problems faced by childcare 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 inappropriate behavior or abuse has been inflicted by staff members (Corder, 1984).

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 a rider on 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 serves the special needs of that profession, such as the National Association for Family Day Care's group policy.

SMALL BUSINESS FACTORS

Startup 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 C 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 (see Appendix D for business plan guidelines). 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. A cash flow projection (see appendix E for cash flow analysis) can help determine the following:

- * startup costs,
- * estimate gross sales on a monthly basis,
- * the type of service(s) to provide,
- * monthly operating expenses,
- * expenses with industry averages,
- * monthly draw and how much additional cash will be needed,
- * and if 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 isn't 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 startup 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 cheapest-per-impression advertising available. Hand business cards out to every one. 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 homebased 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 way 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 her/his 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 which can be provided - registered and licensed. Some states further subdivide these categories depending on the number and 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, non-electric, etc. Most day care owners find they are better off investing in a few well made items rather than many cheap ones. Many items 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 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 (see Appendix C).

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 a 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 outlining 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 insuring the quality of care that their children receive. While the specific requirements differentiating licensed 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 which 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 set her fees competitively for her location and estimates her annual gross income is \$9000 with a net income of about \$8000 after expenses. However, with her various entitlement and tax write offs, her taxable income is only about \$1000 (KSU Small Business Institute(SBI), 1988).

Licensed Home Care Model

Jennie is a licensed provider who started baby sitting "informally" who 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 to 5:30, Monday through Friday. For tax purposes, she nets approximately \$1000, 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 1/3 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 (KSU-SBI,1988).

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 daycare 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 which may be provided through a variety of organizational structures including a corporate or employer sponsored centers, franchised business centers, cooperative centers, and non-profit agency centers.

A typical example illustrates the current income and expense structure of a day-care center in a mid-sized midwest community. The facility accommodates 10 toddlers, 24 children ages 3 to school age, and 29 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 \$8600 annual profit; part of which must be used to pay for capital expenditures or debt retirement (see Table 1).

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 day 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 parent 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 to the corporate sponsor.

An example of an employer-sponsored day care center is the Employee Center for Young Children (ECYC), Inc. a non-profit 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 the 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 which 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 (see Table 2).

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 setup 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 franchises 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 franchisees who operate 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.

- * Startup Provisions. This 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 renewal of terms, 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 of 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 model are:

- * 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 non-profit 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 coop 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 non-profit 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 coop 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. 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 which 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 coop to an agency center affiliated with the University's Department of Housing. This department is now responsible for centers 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 non-profit organization, is eligible for both federal and state tax exemption and recently became eligible for property tax exemption. The insurance purchased by the center includes general liability and workers compensation and content.

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 Associations (SGA) Childships, Social and Rehabilitative Services (SRS), and the USDA (see Table 3). The \$32,000 SGA Childship contributes a 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.

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 non-profit 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 other 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 breakeven 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 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 a 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 cheaper 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.

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 vary 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 organization - is a factor considered by parents when choosing day care. Parents also consider the location of the center, the convenience of the center-such as its 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 available, 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 service 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.

□

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□APPENDIX A

ADDRESSES OF STATE REGULATORY AGENCIES

ALABAMA

June S. Perry
State Department of Human Resources
503 Administrative Bldg.
64 N. Union Street
Montgomery AL 36130-1801

ALASKA

Patricia O'Brian
Dept of Health and Social Services
Division of Family and Youth Services
Box H-05
Juneau AK 99811

ARIZONA

Admin. For Children, Youth & Families
Department of Economic Security
Bldg. 1
3727 E. McDowell Rd.
Phoenix AZ 85008

ARKANSAS

Virginia Reed
Department of Human Services
Division of Children and Family
Services
PO Box 1437 Slot 720
Little Rock AR 72203

CALIFORNIA
Joyce Eng
Department of Social Services
Community Care Licensing Division
744 P St. M.S. 19-50
Sacramento CA 95814

COLORADO
Division of Family and Children
Services
Department of Social Services
State Social Services Bldg.
1575 Sherman St.
Denver CO 80203

CONNECTICUT
Judith Walker
State Department of Human Resources
1049 Asylum Avenue
Hartford CT 06105

DELAWARE
Pauline D. Koch
Licensing Services
Dept of Svcs for Chldrn, Youth & Fain
330 E. 30th Street
Wilmington DE 19802

DISTRICT OF COLUMBIA
Licensing Office
Department of Human Services
Randall School Bldg.
1st & I Sts., S.W.
Washington DC 20024

FLORIDA
Pamela Hutchinson
Dept. of Health and Rehab. Services

Children, Youth & Family Svcs Program
1317 Winewood Blvd.
Tallahassee FL 32301

GEORGIA
Div of Family and Children Services
Department of Human Resources
315 Health Bldg.
47 Trinity Ave., S.W.
Atlanta GA 30334-1202

IDAHO
Perry Ackerman
Department of Health and Welfare Towers
Bldg.
450 W. State St.
Boise ID 83720

ILLINOIS
Patricia E. Bennett
Dept of Children and Family Services
406 E. Monroe Street
Springfield IL 62706

INDIANA
Keith Carver
State Department of Public Welfare
Child Welfare/Social Svc Div
141 S. Meridian St., 6th Fl.
Indianapolis IN 46225

IOWA
Harold K. Poore
Department of Human Services
Hoover State Office Bldg.
1300 E. Walnut St.
Des Moines IA 50319

KANSAS
Children in Need of Care/ Youth Svcs
Depart of Social and Rehab Services
Smith-Wilson Bldg., State Hosp.
2700 W. 6th St.
Topeka KS 66606

□KENTUCKY
Children's Services Branch
Dept for Social Services
Cabinet for Human Resources
Human Rsrcs Bldg., 6th Fl.
W 275 E. Main St.

Frankfort KY 40621

LOUISIANA

Div of Children, Youth & Fam Svcs
Dept of Health and Human Resources
1755 Florida Blvd.
P.O.Box 4437
Baton Rouge LA 70804

MAINE

Division of Child and Family Services
Department of Human Services
Human Services Bldg.
State House, Station 11
Augusta ME 04333

MARYLAND

Office for Children and Youth
Executive Department
1502 State Office Bldg.
301 W. Preston St.
Baltimore MD 21201

MASSACHUSETTS

Marilyn Gallivan
Office for Children
10 West Street
Boston MA 02111

MICHIGAN

Ted DeWolf
Department of Social Services
Commerce Center
300 S. Capitol Ave.
Lansing MI 48909

MINNESOTA

Carla Brown
Department of Human Services
Human Services Building
444 Lafayette Road
St. Paul MN 55155-3802

MISSISSIPPI

Jane B. Emling
State Department of Health
P.O. Box 1700
Jackson MS 39215-1700

MISSOURI

Jerry Simon
Missouri Division of Family Services
Broadway State Office Bldg.
P.O. Box 88
Jefferson City MO 65103

MONTANA
Charlie McCarthy
Department of Family Services
Box 8005
Helena MT 59604

NEBRASKA
Deb Dawson
Department of Social Services
Box 95026
Lincoln NE 68509

NEVADA
Patricia J. Hedgecoth
Bureau of Services for Child Care
505 E. King - Room 606
Carson City NV 89710

NEW HAMPSHIRE
Robert Letellier
Department of Human Services
6 Hazen Drive
Concord NH 03301

NEW JERSEY
J. Patrick Byrne
Division of Youth and Family Services
Bureau of Licensing
1 S. Montgomery St. CN717
Trenton NJ 08625

NEW MEXICO
Social Services Division
Human Services Department
518 PERA Bldg.
P.O. Box 2348
Santa Fe NM 87503-2348

NEW YORK
State Operations
Department of Social Services

Ten Eyck Bldg., 9th Fl.
40 N. Pearl St
Albany NY 12243

NORTH CAROLINA
Dr. Nancy H. Brown
Child Day Care Section
701 Barbour Drive
Raleigh NC 27603-2008

NORTH DAKOTA
Children and Family Services Division
Department of Human Services
State Capital
Bismarck ND 58505

OHIO
M. Pauline Hosenfield
Department of Human Services
Bureau of Child Care Services
30 E. Broad St.
Columbus OH 43221

OKLAHOMA
Prins Ella Anderson
Department of Human Services
PO Box 25352
Oklahoma City OK 73125

OREGON
Karen Moffot
Children's Services Division
198 Commercial St., S.E.
Salem OR 99210

PENNSYLVANIA
Susan Miller
Office of Children, Youth, & Families
Department of Public Welfare
Health & Welfare Bldg, 1st Fl Annex
Harrisburg PA 17102

RHODE ISLAND
JoAnne K. Flodin
Dept for Children & Their Families
610 Mount Pleasant Ave.
Providence RI 02908

SOUTH CAROLINA

Office of Children's Services
Department of Social Services
North Tower Complex
1535 Confederate Ave, PO Box 120
Columbia SC 29202-9988

SOUTH DAKOTA
Clarice Turner
Child Protective Services
700 Governors Drive
Pierre SD 57501

TENNESSEE
Children's Services Division
Office of the Governor
1600 James K. Polk St. Bldg.
505 Deaderick St.
Nashville TN 37219

TEXAS
Office of Programs
Department of Human Resources
John H. Winters Human Ser Ctr
701 W. 5 1st St.
Austin TX 78751

UTAH
Lois M. Rudd
Department of Social Services
Office of Licensing
120 N. 200 W.
Salt Lake City UT 84103

VERMONT
Coleman Baker
Children's Day Care Unit
Dept of Social & Rehabilitative Svcs
103 S. Main St.
Waterbury VT 05676

VIRGINIA
Meredyth Partridge
Department of Social Services
Division of Licensing
8007 Discovery Dr.

Richmond VA 23229

WASHINGTON

Div of Children and Family Services
Dept of Social & Health Services
500-B Modular Bldg. Airdus.Pk.
7580 Armstrong St.
Olympia WA 98501

WEST VIRGINIA

Families and Children Unit
Department of Human Services
B-850 State Office Bldg. 6
1900 Washington St. E.
Charleston WV 25305

WISCONSIN

Dave Edie
Dept of Health & Social Services
Bureau for Children, Youth & Families
PO Box 7851 St.
Madison WI 53707

WYOMING

Ken Kaz
Dept of Public Assistance & Soc Svcs
383 Hathaway Bldg.
2300 Capitol Ave.
Cheyenne WY 82002

□

APPENDIX C
INFORMATION RESOURCES

Associations/Organizations

Child Care Action Campaign
99 Hudson St. Suite 1233
New York, NY 10013
Phone: (212) 334-9595

Child Welfare League of America
440 First St. N.W., Suite 310
Washington, DC 20001
Phone: (202) 638-2952

National Association for Family Day
Care (NAFDC)
815 15th St., N.W. Suite 928
Washington, D.C. 20001
Phone: (202) 347-3356

Small Business Development Centers
(SBDC)
Located on university or junior college
campuses in 48 states. They provide
free counseling and low cost classes

and are supported by the U.S. Small Business Administration (SBA).

Small Business Institutes (SBI)
Located at over 500 four-year college campuses across the nation. This program links small businesses to the resources and management expertise of business schools.

Service Corps of Retired Executives (SCORE)
SCORE matches retired executives with business owners. Contact your state SBA office for the nearest SCORE chapter in your area.

Publications

Business Use of Your Home
IRS Publication 587
PO Box 25866
Richmond, VA 23260

Business Opportunities Handbook
Enterprise Magazines, Inc.
1020 North Broadway, Suite 1 1 1
Milwaukee, WI 53202
Phone: (414)272-9977

Child Care Employee Project
P.O. Box 5603
Berkley, CA 94705
Phone: (415) 653-9889

Child Care in a Family Setting
A Comprehensive Guide to Family Day Care
Jaisinghani and Morris
Family Care Associates
P.O. Box 37
Cheltenham, PA 19012, 1986

A House Full of Kids: Running a Successful Day Care
Business in Your Own Home
Beacon Press

25 Beacon St.
Boston, MA 02108
Phone: (617)742-2111

How to Start a Child Care Center
Child Care Action Campaign
99 Hudson St., Suite 1233
New York, NY 10013
Phone: (212)334-9595

How to Start a Child Care Resource and
Referral Service in
Your Community
Child Care Action Campaign
99 Hudson St., Suite 1233
New York, NY 100 1 3
Phone: (212)334-9595

Kids Mean Business: How to Turn Your
Love For Children
Into a Profitable and Wonderfully
Satisfying Business
Live Oak Publications
P.O. Box 2193
Boulder, Colorado 80306
Phone: (303)530-1087

"Little Investment Becomes Big
Business" in Small Businesses
that Grow and Grow and Grow
Betterway Publications, Inc.
White Hall, VA 22987
Phone: (804) 823-5661

Opening your Door to Children: How to
Start a Family Day
Care Program
National Association for the
Education of Young Children
1834 Connecticut Ave., N.W.
Washington, D.C. 20009
Phone: (202)232-8777

Quality Child Care Makes Good Business
Sense
U.S. Small Business Administration
1441 L Street N.W.
Washington, D.C. 20009

Starting a Family Day Care Home
 Child Care Action Campaign
 99 Hudson St., Suite 1233
 New York, NY 100 1 3
 Phone: (212)334-9595

Starting a Home-Based Business
 Frederick H. Rice
 Small Business Development Center
 Kansas State University
 Manhattan, KS 66506
 Phone: (913)532-5529

Starting and Operating a Playgroup for
 Profit
 Pilot Books
 103 Cooper St.
 Babylon, NY 11702
 Phone: (516)422-2225

Tax Guide for Small Business
 IRS Publication 334
 PO Box 25866
 Richmond, VA 23260

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APPENDIX D
 BUSINESS PLAN GUIDELINES

Every business venture can benefit from the preparation of a carefully written business plan. The purpose of the business plan is to:

1. Help you through the venture and ensure that you have considered all your options and anticipated any potential difficulties.
2. Convince potential lenders and investors that you are in control of the project and that their money will be safe with you.
3. Serve as an operating guide as you turn your ideas into a viable business.

The following pages provide a suggested outline of the material that should be included in your business plan. The final product should be tailored to fit the circumstances and personality of you and your business.

Business Plan Outline

1. Cover: Name, address, and phone number of business. Give your plan a business like appearance by typing it on high quality paper and putting it in a vinyl or cardstock binder or a three-ring notebook.
2. Title Page: Repeat the business name, address, and phone number, and add the names and addresses of the principal owners. Also show the date of issue of so you can type "copy number ____" so you can number and control the copies.
3. Executive Summary: A brief (one-page) statement of the business plan objectives. Address the following questions and add additional information that will help you achieve your goals. (You may choose to write this page last.)
 - A. What is the purpose of this plan?
Will it be used as:
 - * an operating guide?
 - * a financing proposal?
 - B. What business structure have you chosen (i.e., sole proprietorship, partnership, corporation, S corporation)?
 - C. Who are the principals and what are their proportions of ownership?
 - D. Why will the venture be successful?

For a financing proposal:

- E. Who is requesting the funds and how much is needed?
 - G. How will the funds be repaid?
 - H. What collateral will be offered to secure the loan?
 - I. Why does a loan or an investment make sense,?
 - * impact on local economy
 - * job creation
 - * increased tax base
 - * investment in the future of the community
4. Table of Contents: A single page showing major topics and references.
5. Description of the Business: Answer as many of the following questions as are appropriate:
- A. What business are you in?
 - * type of business- Primarily merchandising, manufacturing, or service?
 - * what is the nature of the product(s) or service(s)?
 - * what will be special about your business?
 - B. What market do you intend to serve? What is the total market, and what is your expected share?
 - C. How can you serve the market better than your competition?
 - D. Present status of the business: start-up, expansion of going concern, or take-over of an existing business?
 - E. If you will be, doing any contract work, what are the terms?

Reference any firm contracts and include them as supporting documents.

- F. Do you have letters of intent from prospective suppliers?

For existing business:

- G. What is the history of the business?
- H. Why does the owner wish to sell at this time?
- I. If the business is going downhill, why? How can you turn it around?
- J. How will your management make the business more profitable?
- K. What changes do you plan to make in the business?
- L. What is the purchase price formula? Give break down for building, improvements, equipment, inventory, and goodwill.

Note: If yours will be a seasonal business, make sure the seasonality is reflected in your narrative and financial projections with a appropriate footnotes.

6. Business Location:

- A. What is your business address and why did you choose that location?
- B. Will the building be leased or owned?
- C. What are the terms and length of the lease contract?

- D. What renovations will be needed and at what cost?
 - E. Describe the neighborhood (e.g., stable, changing, improving, deteriorating).
 - F. What other kinds of businesses are in the neighborhood?
 - G. How much can your business expand before you will be forced to move or add on the present building?
7. Licenses and Permits:
- A. Is your business name registered with the secretary of state?
 - B. State how you will be affected by local zoning regulations.
 - C. What other licenses or permits will you be required to obtain?
8. Management:
- A. What is your business and management experience?
 - B. What education have you had, including both formal and informal courses, that contributes to your managerial abilities?
 - C. Are you physically suited to the job?
 - D. Do you have direct operational and/or managerial experience in this type of business?

- E. Describe your organizational structure and include a brief description of who does what. (Include an organizational chart if necessary.)
 - F. List proposed salaries and wages.
 - G. What other management resources will be available (accountant, lawyer, SBDC)?
9. Personnel: Write a paragraph or two about your personnel needs.
- A. What are your anticipated personnel needs?
 - B. What skills must your employees have?
 - C. Can you use part-time help to meet changing business volume?
 - D. Will you have to train people, and at what cost?
10. Insurance: Describe your potential business risks and tell what insurance coverage you will purchase to protect yourself.
11. The Market: Generally explain who needs your product or service and how you plan to reach them.
- A. What is the present size and growth potential of the market?
 - B. What percent of the market will you have now and in the future?
 - C. Describe age, sex, occupation, lifestyle,

income, etc., of you various market segments.

- D. How will you attract and keep your segment of the market?
 - * product quality
 - * price
 - * public relations
 - * personal selling
- E. What features or services will you offer that will justify your price?
- F. How will you handle credit sales?
 - * extend your own credit
 - * accept major credit cards
- 12. Competition: Briefly describe your competition and tell how their operations are similar and dissimilar to yours. What is your unique selling proposition and how will you use it to control your market share?
- 13. Financial Data:
 - A. Source and application of funds statement.
 - B. Capital equipment list.
 - C. Current balance sheet and income statement (less than 90 days old).
 - D. Break-even analysis.
 - E. Projected income statement
 - * detail by month, first year
 - * detail by quarter, second year

- * notes of explanation and assumptions

F. Cash flow projections

- * detail by month, first year
- * detail by quarter, second year
- * notes of explanation and assumptions

G. Projected balance sheet

- * notes of explanation and assumptions

H. For and existing business

- * income statements
- * balance sheets and/or
- * tax returns for past three years

14. Supporting Documents:

- A. Personal resumes for all principals.
- B. Personal financial statements for all principals
- C. Letters of reference.
- D. Letters of intent from prospective suppliers or customers.
- E. Copies of all leases, contracts, or agreements, deeds, or other legal documents.
- F. Any other information that might help your cause or

answer potential questions. □ □

The Business Plan Guideline is published by the Small Business Devel
 Frederick H. Rice, Director, 204 Calvin Hall, Manhattan, Kansas 6650

□ □TABLE 1

INCOME STATEMENT FOR A
 HYPOTHETICAL DAY-CARE CENTER

Income	Annual Amount
10 toddlers @ \$ 13/day x 260 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	Annual Amount
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

Sources: KSU-SBI, 1988.

*FTE - Full-time equivalent

After personnel and food, the center's largest expense item i
 costs. □ Table 2 - Characteristics of Sel

Name of Franchise	Total		Advertising	# of Franchis
	Company	Fee		
	Fee	Needed	Royalty	84

Owne

Tegeler Time Day Care Inc. 10 Forbes Road Braintree, MA 02184	\$25K	\$50K	NA	NA	60	N
Lollipop Daycare, Ltd. 10255 E. Via Linda #2039 Scottsdale, AZ 85258	\$35K	\$70-110K	NA			
Primary Prep, Inc. 10 5690 Roosevelt Blvd. Clearwater, FL 33520	\$15K	\$60K	NA	NA		
Youthland Academy 3174 Mack Road Fairfield, OH 45014	\$20K	\$50K		5%	\$250/mo	
Alphabetland Six Passaic Street Hackensack, NY 07601	\$20K	\$20K	-			10%
Mary Moppets 2404 W Huntington Dr. Tempe, AZ 85282	\$75K	\$40-50K				6%
Child Enrichment Six Passaic Street Hackensack, NY 07601	N/A	\$20K				NA

Source: Annual Franchising 500 Report, Entrepreneur, 1988; Show Sched Franchise Handbook, 1986-87; and Business Opportunities Handbook, 1988.

□Table 3

Child Care Cooperative
Projected Income and Expenses, 1989

Income

Regular Tuition.....	\$284,436	73%
SGA Childship.....	32,000	8%
SRS.....	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: Kansas State University

□ Table 4

Distribution of Operating Expenses
for an
Agency Sponsored Model

Salaries.....	66%
Food and Utilities.....	32%
Bookkeeping Costs..... (lessthan)	1%
Insurance:	
Property..... (less than)	1%
Workman's Compensation..... (less than)	1%
Liability and Accidental..... (less than)	1%

Source: Kansas State University - Small Business Institute Files.

□ IN APPRECIATION...

The SBA extends its appreciation to the following panel of reviewers
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Betsy Gatewood
Director, Center for Business & Economic Studies
Small Business Development Center
University of Georgia
Athens, Georgia

James Wright, Jr.
Office of Community Planning & Development
Department of Housing & Urban Development
Atlanta, Georgia

Frank Hoy
Carl R. Zerner Professor of Family-Owned Businesses
Georgia State University
Atlanta, Georgia

Dorothy Doton
Assistant District Director for Business Development
Small Business Administration
Atlanta, Georgia

Phil Mahoney
Assistant Regional Administrator for Business Development
Small Business Administration
Atlanta, Georgia

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