

The Business of Child Care

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Overview

The child care business model is broken. To put it simply: supply does not meet demand. The cost to produce the service exceeds what most parents can afford to pay, and businesses operating on razor thin margins lack the revenue to pay teachers well and the capital to expand. The current system does not work well for parents, child care providers, or employers – in large part, because there is no system or plan to finance the gap between what it costs to produce care and what parents can afford.

Child Care Basics



The National Child Care Landscape

- 642,400 businesses in 2016
- Average size of centers varies widely
- Annual revenue of \$60B



Child care employs 2 million workers

- Split evenly between centers and family child care homes
- Workforce is aging
- 96% female
- Median years of experience:
 - Center: 10 years
 - FCCH: 13.7 years



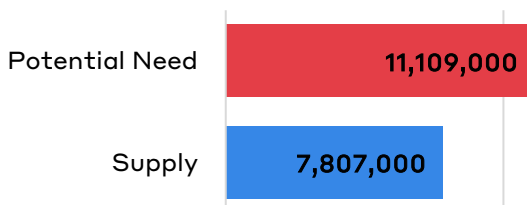
The average wage is low: \$13.71/hour / \$28,520 annually

- Federal poverty for a family of three is \$24,860
- Nearly half of child care workers are in a public assistance program
- Most lack benefits, including health insurance
- Considered essential workers during COVID

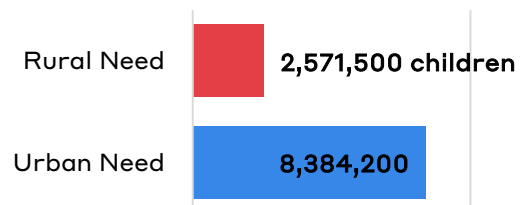
Child Care Supply Gap in 35 States

Over two-thirds of all children under age five have all available parents in the workforce.

Percent Gap: 31%



Rural vs. Urban Child Care Gap



A Failing Business Model

The Demand

- Unstable demand and unreliable income create challenges for businesses.
- Decrease in enrollment, no matter how small, can have dramatic impact.
 - Parents's needs change (work hours/work site)
 - Parent preferences change
 - Parents' ability to pay

The Supply

- Understanding the supply side—or operating costs:
 - Labor costs: 75%
 - Fixed costs: 25%
- Labor is the single biggest expense:
 - Adult/child ratios
 - Ages of children served
 - Capacity vs enrollment
 - Wages paid

Why does it cost so much if teachers are so poorly paid?

Here's an example of why:

- Adult ratios for infant = 1:4
- Hours of operation = 12/day
- Teacher wages alone cost = \$180
- Infant rate = \$43/day
- Income assuming full enrollment = \$172
- LOSS OF \$8 BEFORE FIXED COSTS, SUPPLIES
- If one child leaves, the loss is over \$50/day

“Child care is a textbook example of a broken market.”

– Janet L. Yellen, Secretary of the Treasury

Mending a Failing Business Model

Balancing income vs. expenses in child care is a constant challenge:

- Most programs don't operate at 100% occupancy.
- Parents resist paying when their children aren't present.
- Income from 3- and 4-year-olds offset the cost of younger children.
- Public Pre-K can destabilize child care if done incorrectly.

Understanding Parents' Use of Child Care

Most parents need child care between 6-8 a.m. and 6-8 p.m. Many parents prefer informal child care, even if formal care were free and convenient. Safety and trust are top of mind when making child care decisions.

25% don't know their schedules more than two weeks in advance.

56% report child care impacted their decision to accept a job.

25% need non-traditional hour and weekend child care.

38% report child care impacted their decision to quit a job.

52% report child care impacted their decision to reduce hours at work.

30% report child care impacted their decision to leave the workforce.