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Evaluation of a day care organization's plans for geographic expansion

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An Evaluation of a Day Care Organization's Plans for Geographic Expansion

by

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CASE SUMMARY

The purpose of this paper was to evaluate a high-growth small community in Wisconsin where there was a perceived need for day care, and determine whether a privately owned firm in Madison, Wisconsin should open a day care facility in that community in 1990.

The evaluation process included a review of the organization's origin and evolution, mission statement, long-term objectives, and capabilities and limitations. Additional components of the evaluation process were an overview of the community under consideration, an assessment of that community's need for day care, and a review of the environmental opportunities, threats, and trends that could impact the organization's chances for success in that community.

After reviewing the available information, it became clear that there were only 2 viable alternatives. One alternative was to open a new facility and the other alternative was to do nothing in that community. The alternative that was selected as being most consistent with the firm's capabilities and objectives was to do nothing but focus the firm's resources on its existing business in Madison for the remainder of 1990.

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ACKNOWLEDGMENTS

The researcher would like to thank the founder of the day care organization which is the focus of this paper, and Shelley Smith--who is the Director of one of the day care organization's facilities, for their cooperation.

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CHAPTER 1

INTRODUCTION

The focus of this report is on whether the owner (herein referred to as the "Founder") of a day care center business in Madison, Wisconsin (herein referred to as "Center Care"), should consider expanding the business into a municipality located near Milwaukee. The rest of this introduction is dedicated to providing information on the events that led up to the need to make this decision.

The Founder has spent the last eleven years developing Center Care, a successful childrens' day care center business in Madison. The business was started in 1979 with one day care facility and has since expanded to three day care facilities.

The Founder credits the majority of his success in developing Center Care, all things equal, to Madison's positive economic growth and business development from 1979 to 1989. This growth and development created jobs and helped draw additional people to the city. Accompanying the increase in population and new-household formations was a mini "baby-boom" in the latter half of the 1980's, all of which contributed to an increase in the demand for Center Care's day care services.

In 1987, the Founder decided that, even though Center Care's facilities were profitable and the forseeable economic climate in Madison looked favorable, it was time to re-examine the overall business and to plan for the future. With some assistance from outside counsel, the Founder went through that process and found that, in order to ensure the profitability and continuity of Center Care, two issues had to be addressed. The first issue dealt with the need to better control business operating expenses. It was found to be the key to increasing the profitability of existing Center Care business. The second issue dealt with business expansion outside the city of Madison. The Founder believed that opening new day care facilities in different high-growth communities in Wisconsin would offset some of Center Care's dependence on Madison's economic climate and employment levels, and help to ensure continuity of the firm.

After that business review was completed in 1987, the Founder took steps to lower, as well as control, operating expenses at the three Center Care facilities. This action resulted in increased profitability of each facility in 1988 and 1989.

The Founder has made no real progress, however, with regard to the business expansion issue. There are two reasons for this lack of progress: First, he has not had time to evaluate what the different communities in Wisconsin have to offer in terms of business and population growth. Second, outside counsel advised him that, once a specific community is identified, it is important to conduct a formal study and evaluation of that community and its specific day care needs to determine the level of business potential for a new Center Care facility. Because the Founder had never done a study of that type, and was unsure how to proceed with one, he put off his plans for expansion.

In 1989, this information was made known to the researcher through the researcher's sister in-law, the Director of a Center Care facility. Following a discussion on this subject, it was agreed that the researcher would assist the Founder by conducting a formal study and evaluation of a specific high-growth community in Wisconsin, where there was a perceived need for day care. The ultimate objective of the study and evaluation would be to determine whether the firm should consider opening a day care facility in that community in 1990.

The Village of Sussex, located in the northern part of Waukesha County was the specific high-growth area, or community, selected for the study and evaluation. It was selected because one of the Founder's friends, already familiar with the Founder's business objectives, had indicated that Sussex fit the definition of a high growth area. Sussex's economic development, business expansion, and population growth levels had increased by a significant percentage from 1980 to 1989, and it seemed likely that these levels would continue to increase at an above average rate for the forseeable future.

This report is the written summary of the researcher's study and evaluation process. The elements are: an evaluation of Center Care's organizational capabilities and limitations; an evaluation of Sussex as a possible location for a new Center Care facility; the identification of opportunities and threats in the external environment; an analysis of the day care industry; the definition and analysis of the problems involved in the decision making process; and, the identification and selection of an appropriate solution.

CHAPTER 2

HISTORY AND BACKGROUND INFORMATION

Center Care

An overview of Center Care is intended to provide insight as to its description and location, origin, mission, objectives, and internal capabilities and limitations. An understanding of these categories is needed in order to eliminate the possible options, for opening a new day care center in Sussex, that are not consistent with the firm's goals, objectives, and internal resources and capabilities.

Description

Center Care is for-profit, and is licensed to operate in the state of Wisconsin. Three separate day care facilities comprise the firm's business. The business is incorporated and is solely owned by the Founder, a resident of Madison.

The principal product is the provision of group day care service (See APPENDIX A for Definitions). Each of the three Center Care facilities is licensed to provide day care for children between the ages of 6 weeks and 6 years. This age range includes infants, toddlers, and pre-school children (See APPENDIX A for Definitions). Full-day and half-day services are available on a daily or weekly basis.

There is no consistency, in terms of age, marital status, occupation, or income level, in the customer base at each facility. The only apparent common denominator, or consistency, in the customer base is that they need day care for their children.

The three Center Care facilities are located in the city of Madison. This city is located in the south central part of the state, approximately 77 miles west of the city of Milwaukee and 50 miles north of the Illinois-Wisconsin state line. Madison serves as the state capitol, as well as being "home" to the University of Wisconsin and a diverse cross-section of industries, businesses, and people. Madison's population in 1986 was 175,664 (Greater Madison Chamber of Commerce, 1989, p. 2).

Origin

The purpose of this section is to highlight and summarize Center Care's beginnings as a children's day care business. On the surface, it may seem that the firm's history is unimportant with regard to expansion into the Village of Sussex. However, the value of this historical overview is that it provides the reader with a foundation for understanding the Founder's ability to start and build a day care business into a successful operation. In addition to other variables, as the reader will discover later in this text, the Founder's ability to open and successfully run a day care business is an important part of the decision making process with regard to opening a day care facility in Sussex. Information in this section that the researcher considers pertinent is: when and where each Center Care day care facility was started; the type of day care offered; initial enrollment and staffing; when each facility became profitable; and, what variables contributed to, or hindered, each facility's initial success. Information on the firm's current operations, which is intended to take this overview one step farther, is presented in the Internal Analysis section of this chapter.

Center Care-Vilas. The Founder obtained a license for his first day care facility in 1979 and began operations that year. It was located in a large home on Vilas Avenue in the central part of Madison. He rented the home, on a year-to-year basis, to use exclusively for the business. Due to the location, it became known as "Center Care-Vilas."

The Founder structured his first day care program to be licensed to offer full-day and half-day care for infants, toddlers, and pre-school children. With a maximum licensed daily capacity (See APPENDIX A for Definitions) of 40 children, enrollment was low in the first month but increased significantly within 6 months. Average daily enrollment increased from 6 to 25 children. The total number of day care providers (See APPENDIX A for Definitions) on staff the first 6 months increased from two, the Founder and his wife, to six. Two of the four people hired worked on a part-time basis.

As a result of the Founder's initiative and aggressive approach to building the level of enrollment, Center Care-Vilas' revenues increased to the break-even level within 12 months of the opening and it has been profitable since that time. More specifically, the Founder's approach to promotional campaigns and his innovation in the type of day care services offered were largely responsible for the initial success of the facility. For example, the Founder encouraged his staff to actively solicit new business. In addition, he took out half-page advertisements in the Madison Yellow Pages and arranged to have fliers distributed in shopping center parking lots. When it came to innovative day care services, Center Care-Vilas was the first group day care facility in the Madison area to offer infant care. It was well received, due to the shortage of available infant care in Madison.

Center Care-Hawthorne. Because the first facility was doing well financially, the Founder decided to open a second one. The second Center Care facility was licensed and began operation in 1980. Located in a commercial building on the East side of Madison, the Founder rented eight rooms in one of its unused sections. The lease stipulated that the owners of the building could reclaim the use of the rented rooms with 1 year's advance notice. The facility was referred to as "Center Care-Hawthorne" due to the proximity to Hawthorne Elementary School.

As with the first facility, the Founder structured the day care program so that it could be licensed to offer full-day and half-day care for infants, toddlers, and pre-school children. It had a maximum licensed daily capacity of 20 children. Of the eight rooms rented, only two were put in use the first 6 months of business.

Enrollment in the first 6 months increased from 4 children to the licensed capacity of 20. At the end of that period, a new license was obtained to allow the facility to increase the daily capacity from 20 to 40 children. The number of day care providers on staff the first 6 months increased from two to four full-time employees. Within the first year, enrollment was close to the licensed daily capacity of 40, and the number of full-time day care providers on staff increased to seven.

Center Care-Hawthorne's revenues increased to the level needed to break-even within 12 months of the opening and it has been profitable since that first year. Within 2 years from the date of opening for business, all eight classrooms were put to use.

Center Care-Hawthorne's profitability and growth are attributable to the Founder's aggressive approach to promotional campaigns--which were similar to those used for Center Care-Vilas, and the type of facility the day care center was located in. One of the advantages of the facility was that preparatory work needed to meet state day care licensing codes and standards was minimal. This helped to minimize the start-up costs. The other advantage of the facility was that parents liked the proximity to the elementary school.

The status of Center Care-Hawthorne is expected to change some time during the first-quarter of 1991. In February of 1990, the Founder announced plans to build a new 15,000 square foot facility--which will be located near the present one, and move from the current location to the new facility. By the end of the second-quarter, he had purchased land upon which to build the structure. Construction is scheduled to begin in July, 1990 and be completed by year-end.

Center Care-Highlands. With the success of the first two day care facilities behind him, the Founder decided to open a third facility. He obtained a license for the third facility and began its operation in 1983. The location was, and still is, in a commercial building on the West side of Madison. The Founder decided to purchase the building at that location, rather than rent. The facility became known as "Center Care-Highlands" because it was located close to a neighborhood that bore the name of "The Highlands."

The structure of the program at Center Care-Highlands was designed to be similar to the structure of the programs at the other two facilities. Accordingly, the Founder obtained a license to offer full-day and half-day care for infants, toddlers, and pre-school children.

The licensed daily capacity permitted up to 90 children in the facility at any given time.

The facility opened with an enrollment of 10 children. It took 3 to 4 months after the opening for the average daily enrollment to increase to 15 children. There were three day care providers on staff the first 6 months of business. Enrollment and staff levels were fairly constant the remainder of the first year.

Even with promotional campaigns similar to the ones used for the first two facilities, it took approximately 2 years from the time that Center Care-Highlands opened for its revenues to reach the break-even point. Since that time it has been profitable. The Founder believes that the reason it took longer to break-even was the monthly expenses associated with the purchase of the building and the slow start in terms of enrollment in the first year.

<u>Mission Statement</u>

Reviewing Center Care's mission statement is important in that it provides insight into this organization's purpose and what it hopes to accomplish as a business. Center Care's mission statement, which was obtained in an interview with the Founder, contains information about its product/service, types of customers, geographic domain, technology, philosophy, concern for survival, and self concept and public image (Pearce & Robinson, 1988, chap. 3). This type of information is useful because it helps to serve as a guide for making Center Care's business plans and setting long-term business objectives, as well as ensuring unanimity of purpose. The firm's mission statement begins on next page.

Center Care's Product/Service. Center Care provides full-day and half-day care, on a daily or weekly basis, for children between the ages of 6 weeks and 6 years.

Center Care's Customers. Center Care will accept children between 6 weeks and 6 years of age, regardless of race, religion, sex, or cultural diversity. In addition, the firm will always provide adequate staffing and equipment to care for children with mild or moderate handicaps.

Center Care's Geographic Domain. Center Care management's objective is to maintain the existing facilities in Madison and to restrict the opening of new day care facilities to communities in Wisconsin that are within a reasonable commuting distance of Madison for the Founder.

Center Care's Technology. Center Care's "technology," in this sense, has to do with its rendition of day care services. This includes the day care philosophy and teaching techniques. The staff will do all it can to make sure that their philosophies and teaching techniques are current and well above the standards established by the state of Wisconsin.

Center Care's Philosophy. Providing quality day care is the corner-stone of the firm's philosophy. The Founder and his staff believe that providing quality day care extends beyond baby-sitting. The objective is to foster the development of children by providing a safe and comfortable environment, promoting good health, and by offering personal, social, motor, intellectual, and language development in a group day care setting.

In addition, the Founder and Directors (See APPENDIX A for Definitions) will attempt to surpass the needs of the childrens' parents as well as the needs of the firm's employees. Without that goal, the odds of providing quality day care are diminished.

Center Care's Survival. The Founder's goals are to remain an independently owned business and to maintain a high degree of autonomy from external sources, in the ongoing management of each facility. Every effort will be made to ensure continuity and profitability of existing facilities, as well as overall growth of the firm.

Center Care's Concept and Image. The Center Care organization is well managed and has a solid understanding of children's daily needs. It is the organization's goal to be responsive to the needs of the communities where facilities are located, and to be viewed in a positive way by the people in these communities.

Long-Term Objectives

The Founder's objectives for Center Care are important because they delineate the specific results he wants to achieve for this business in a 3 to 5 year time frame, and they are used as a framework for planning (Pearce & Robinson, 1988, chap. 9). As a component of the evaluation process, the following review of his long-term objectives will help to determine the appropriateness of solution choices.

With a sound infrastructure in place, the Founder's long-term objectives revolve around maintaining continuity and increasing the profitability of existing facilities, and the overall growth of the business. For the most part, this set of objectives was derived from the survival section of Center Care's mission statement, and are 3 to 5 years in length.

To maintain continuity and increase profitability of existing facilities, the Founder's first objective is to develop one or two new types of day care services in the next 3 years. This will help keep the firm competitive with new services being developed and offered at other day care organizations, and will help increase revenues due to the premiums that are usually received for providing these "extra" services.

A second long-term objective that relates to continuity and profitability is the reduction of employee turnover. Based on his conversations with other day care center owners, the Founder believes that the average annual turnover rate of 25% at the three Center Care facilities is lower than the average annual turnover rate at other day care firms in the Madison area. However, his goal is to improve on Center Care's turnover rate by reducing it to 20% within the next 3 years. In accordance with this goal, the Founder will focus on keeping the firm's wage/benefits package competitive so as to reduce the number of day care providers that leave to go to work for other day care firms strictly for more money or benefits. Eventually, this will help to minimize disruptions in the business, reduce the amount of money spent on training new people, and provide greater continuity in care for the children.

The third long-term objective, associated with continuity and profitability, is to keep each facility's operating expenses at no more 90% to 91% of operating revenues, and to increase annual revenues by a total of 18% within the next 3 years. Because it is difficult to cut back on wage/benefits packages and still be competitive in the labor market, the goal will be to achieve better control of non-wage related expenses.

To provide for overall growth of the business, the Founder's long-term objectives are to increase total enrollment at existing facilities from an average of 79% of total licensed capacity to an average of 85%, and to open three new day care facilities within the next 5 years.

Internal Analysis

Even though a Director would be hired to manage the Sussex facility, Center Care's Directors in Madison have indicated that for all practical purposes, the Founder would make all major business decisions until it reached the break-even point. Consequently, his management experience--or expertise--is vital to the success of the Sussex facility. The purpose of the following Internal Analysis is to address the Founder's current capabilities and limitations in greater detail than what was presented in the Origin section of this chapter (Pearce & Robinson, 1988, chap. 8).

In this particular analysis, only two issues need to be considered (Pearce & Robinson, 1988, p. 215). The first issue pertains to how the Founder currently manages Center Care's major functional areas. The second one has to do with how well his approach in each functional area might work in the Village of Sussex. Discussed below are the firm's functional areas of Marketing, Personnel, Operations and Finance.

Marketing. The four primary components of Center Care's Marketing function are service, price, location, and promotional activities.

Each of these components will be considered with respect to the Founder's management expertise.

In terms of services offered, Center Care's Founder has always made available a variety of enrollment schedules, nutritional programs, games and activities, and educational programs. Because the firm's parental customer base covers a wide range of socio-economic backgrounds, on occasion he has made minor changes in the combination of services offered in order to accommodate different needs.

Although direct comparisons of different day care programs are difficult to make due to the many different combinations of services offered, the researcher has drawn a general conclusion about Center Care's existing services. The researcher's conclusion is based on studies of the day care industry, a telephone survey of other Madison day care organizations, and ongoing discussions with the Director of a Center Care facility. Based on this information, the conclusion is that the firm's services are comparable to the majority of other day care services available in the Madison area (Table 1, p. 60). Even though Center Care's services are important to children, and have been well received by parents, it is doubtful that the services alone offer the firm any type of significant advantage or disadvantage in terms of attracting new customers in Madison.

Because the day care services offered in Sussex would be tailored to the needs of parents living or working in that area, an evaluation of the firm's existing services may seem to be unnecessary. However, what is demonstrated in this review is the fact that the Founder has shown a willingness to remain flexible and to consider other options when it comes to meeting the needs of Center Care's customers in

Madison. This flexibility would also be an important aspect of adapting to the needs of the Sussex marketplace, and would certainly help the firm.

The second component of Center Care's Marketing function is its enrollment prices. In this evaluation, the Founder's methods used to establish enrollment price levels, as well as his ability to compete in price in Madison, and the Village of Sussex, are considered.

In the past, the Founder used a two-step process to establish prices for enrollment. The first step was to review the local marketplace and determine the enrollment prices for different age groups at other day care firms that offered similar services. The second step was to pick a price that was in the middle of each range, and then work "backward" to arrive at the type of services that Center Care could afford to offer on a profitable basis.

The Founder's strategy has been, and is currently, to set and keep enrollment prices somewhere in the middle of the local competition's price range (Table 2, p. 61). This strategy stems from the Founder's belief that the only way to justify being priced at the high end of the range and not lose business is to offer specialized services, which Center Care does not have. Conversely, he believes that if the firm's enrollment prices are at, or under, the low end of the competitive range, it is possible that parents may subconsciously question whether his firm can afford to offer high quality day care services at the lower prices. As a case in point, the researcher recently had reason to consider this possibility as a result of seeking out day care services for his own child.

Additionally, the Founder's pricing strategy includes 10% discounts for more than one child, a $5 charge for late payment, and an extra 22¢ per minute charge for children picked up after a facility closes for the day.

To date, this pricing strategy has been effective for the Founder in the Madison marketplace. There has been no noticeable resistance to the prices that parents have paid for Center Care day care, and the firm has been able to charge prices that allow it to adequately cover its expenses and make a profit.

Even though the success of his pricing strategy in Sussex would depend on local day care competition and price sensitivity of local day care customers, there is no reason to believe that this would not be an appropriate strategy for the Founder to use. In addition to the reasons already given for his use of this strategy, there is another consideration relating to an increase in competition. The inevitable increase in the number of competitors in Sussex will give parents in need of day care more options to choose from. As a result, his approach to competitive pricing should work in his favor in Sussex.

The third component of Center Care's Marketing function is location. The relevance of this component is that it provides insight as to what steps to take when looking for a site in Sussex, and what parents consider important with regard to physical amenities of a day care facility.

In selecting sites, the first step that the Founder took was to look for areas in Madison where residential and business development overlapped. He felt that this would make Center Care facilities attractive to parents living in the neighborhood--who wanted a day care facility near the home, and to parents working in the immediate area--who wanted to have their children close to the work place.

His second step was to narrow down the possible sites to those that were located close to major thoroughfares. The objective was to have a site that was easily accessible to potential customers.

Based on ongoing discussions with the Director of a Center Care facility, it is the researcher's opinion that the Founder's strategy has been effective. Using this approach to site selection in Sussex might provide the firm with a competitive advantage in terms of location.

When it comes to the physical amenities of Center Care's facilities, the Founder has tried to maintain pleasant surroundings. The existing facilities are spacious, well lit and decorated with appropriate children's furniture, and have separate areas for different age groups and large fenced in yards for children to play in. Parents have indicated to staff members that these amenities are important to them when choosing a day care firm. However, there is nothing that the Founder offers currently that the majority of Madison day care firms do not already offer. Because the group day care firms in Sussex have taken a similar approach, it is doubtful that the Founder's current approach to physical layout and decoration of facilities would provide him with any type of competitive edge in Sussex. On the other hand, this approach probably would not hinder his success.

The fourth component of Center Care's Marketing function is promotional activity. This component consists of advertising, publicity, and individual promotion.

As mentioned previously, one of the keys to the Founder's success with new facilities was advertising. Frequent newspaper ads, handouts, and Yellow Pages listings, were used before a new center was opened, and were continued after it was full. According to Center Care's Directors, the Yellow Pages ads, which are one half page in size, are responsible for the majority of inquiries and for business that is not the result of a referral.

Publicity for the firm is minimal. There have been occasions in the past where staff members were interviewed for newspaper articles, but the interviews have been infrequent. Even though the articles have helped to build a positive image for Center Care in the Community, the amount of business that has come from publicity is indeterminable.

Individual promotion, which could be referred to as "selling" at Center Care, is used on a consistent basis. As indicated previously, the Founder has always encouraged staff members to solicit new business whether it be through their direct "solicitation" or through their asking for referrals. Additionally, Open-Houses are held on a periodic basis. Although total enrollment declines somewhat in the summer, this has helped to maintain an average daily enrollment of 250 children out of a total licensed capacity of 320 children.

The Founder's emphasis on all promotional activities has been instrumental in Center Care's success in Madison. Because the firm would be entering a new market by opening a facility in Sussex, the Founder would probably want to use the same types of aggressive promotional campaigns that he used with his first three facilities. Even though it is impossible to predict how potential customers in Sussex might react to his promotional methods, it is the researcher's opinion that the Founder's experience in, and willingness to try, different promotional activities would help him in the competition for day care business in Sussex.

Personnel. The four components of Center Care's Personnel function are staffing, salaries and benefits, organizational effectiveness, and interaction with children and parents. Each of these are considered with regard to the Founder's abilities and/or philosophies.

The firm has 39 full-time and part-time staff members. That total includes a full-time Director for each facility, a part-time cook at two facilities and a full-time cook at another, and 33 day care providers, which are divided according to the number of children enrolled at each location.

These totals, in and of themselves, are not as relevant as the ratios of day care providers to the number of children in different age groups. These ratios are important because they have a direct effect on the quality and frequency of one-on-one interaction between a day care provider and a child. In general, provider-to-child ratios are usually a consideration when parents compare one day care organization to another.

The Founder has set provider-to-child ratios that meet the state guidelines, and are within the local competition's ranges of ratios (Table 3, p. 62). According to the firm's management, although parents consider these ratios when evaluating a Center Care facility, they place more emphasis on the staff and the surroundings. This point has been confirmed by owners and managers of other day care organizations. From this information, the researcher believes it is safe to conclude that the Founder's setting of ratios that are slightly higher or lower than the local competition's ratios is not that critical, as long as his ratios are within the state's licensing guidelines. It is likely that this would also be true in Sussex.

In addition to maintenance of proper ratios, the Founder requires all Directors and day care providers to receive 40 hours of in-service training on an annual basis. Although this additional training helps improve the quality of Center Care's services, the firm's Directors have indicated that it has not provided the firm with any type of significant competitive edge. It is uncertain as to whether it might provide an advantage in Sussex.

The second component of the Personnel function is wages and benefits. The Founder pays day care providers $4.50 to start, which is purported to be the norm in Madison, with a raise in 90 days. Directors are paid a salary, and a monthly bonus based on profitability. Even though exact levels of salaries and bonuses are not available, it has been said that they are generous. Benefits for all staff members include a health, life, and dental insurance plan, a discount if they enroll their children, no evening work, up to 2 weeks of vacation, and free meals.

Competitive salaries, bonuses, and benefits have been well received by the firm's employees. Even though they have pushed labor expenses higher than necessary, these items have been instrumental in keeping the average annual turnover rate at the respectable level of 25% in each of the past 4 years. This helps to reduce disruption to the business, lowers recruiting and training expenses, and provides more continuity in care for children.

A study by Professor David Riley (cited in Scommegna, 1989, p. 8) indicates that employee benefits are uncommon in the day care industry, and that annual turnover rates can average 30% to 40% per year (Kinder-Care, 1990, p. 10). As a result, the fact that the Founder offers competitive salaries, bonuses, and benefits probably offers his firm an advantage in terms of attracting qualified people in Madison. The same approach would probably work equally well for him in Sussex.

Organizational effectiveness is the third component of Center Care's Personnel function. Three important elements of this component are the channels of communication, policies and procedures, and the willingness of staff members to work as a team to achieve objectives.

In terms of communication, the Founder, Directors, and day care providers discuss issues and problems pertinent to the three facilities on an almost-daily basis. This is done either by phone or in person. In addition, Directors hold monthly meetings at which time ongoing concerns, curriculum plans, and new information are addressed.

The Founder's approach to policies and procedures could best be described as "Loose-Tight" (Peters and Waterman, 1982, p. 318). Directors and day care providers are empowered with a certain amount of discretion as to how they meet the requirements of the firm. This gives employees a degree of autonomy, which helps to improve morale.

According to Center Care's management staff, employees work together well and take pride in their work. Because goals and objectives are reasonable, they are usually met.

Although it is difficult to conclude whether these three elements have given Center Care a direct competitive edge in Madison, indirectly, they have increased the firm's efficiency. Utilizing this approach in

Sussex could also be beneficial. For example, in the beginning, effective communications would be critical. After the start-up period, or time period required to break-even, a certain amount of autonomy would be needed in order to operate smoothly in a remote location.

The fourth component of the Personnel function, interaction with children and parents, is possibly the most important. It is vital that Directors and day care providers develop good relationships with these two groups, not only to keep existing customers happy but also to develop or maintain a good reputation in the community. A good reputation is often the difference between profitable and marginal survival.

Center Care's employees have been successful in developing good relationships with children and the children's parents. While part of this is a function of the personality types of staff members, much of it is due to the Founder's emphasis on doing the "extra" things that parents and children would not normally expect. This emphasis has resulted in a higher degree of parent loyalty to the Center Care day care programs and frequent referrals to other parents. This type of emphasis in Sussex would likely enable the firm to develop a good reputation there as well.

Operations. The relevant components of the Operations function are the Founder's control systems and procedures for purchasing and inventory, and effective use of personnel. To a certain extent, these components overlap the components in the Personnel function.

The purchasing and inventory controls systems vary slightly between the three facilities. Even though each facility purchases certain items such as food and toys from the same group of vendors, which provides for economies of scale, Directors have discretion to buy other items from different vendors on an as-needed basis. This is allowed as long as they stay within a predetermined price range. Major capital expenditures, such as office furniture, business machines, kitchen equipment, and transport vehicles, must be approved by the Founder. Whenever possible, the firm leases rather than purchases equipment. Inventory of consumer non-durable items is taken on a weekly basis, while other items are inventoried quarterly.

On an overall basis, the Founder's existing purchasing and inventory control system has met the needs of the firm in Madison. Even though he would initially want to maintain tighter control over the Sussex facility, until it reached a break-even point and a certain level of autonomy was desirable, the same system would be appropriate for him to implement. What must be kept in mind is that economies of scale might be lost in Sussex if the existing group of vendors do not offer their products in that area.

The second component of the firm's Operations function is effective use of personnel. What is important here is the Founder's delegation of the assigning and scheduling of responsibilities for the day care providers to the Director of each facility.

Center Care's Directors are responsible for assigning tasks to, and making weekly schedules for, the day care providers at each facility. Each day care provider is assigned to different tasks or responsibilities on a periodic basis, which helps reduce monotony. In addition, Directors are careful not to over-staff when they make up schedules. This approach has been effective for the three facilities in Madison and would probably be equally effective in Sussex.

Finance. Center Care's debt levels and its operating expenses are the relevant components of the Finance function. These components are useful because they provide insight as to whether the Founder has access to the resources necessary to open a new facility in Sussex, and the ability to operate it profitably. Even though data is unavailable regarding specific dollar amounts of total debt and profitability, debt-to-equity and operating expense ratios are provided. From this information, it is possible to draw general conclusions.

Through May of 1990, Center Care's financial position was sound. Daily and weekly enrollment payments for child care services are usually received in cash and generally have been sufficient to meet the operating needs of the firm. Also, the firm had enough money in the bank to pay for 5 months' worth of operating expenses for any one of its facilities. As of May 1990, the firm was debt free and the Founder had a good relationship with his bank.

In June of 1990, however, the firm's financial position changed. A 15 year loan of approximately $375,000 was secured for the purpose of building a new Center Care facility. The structure will be 15,000 square feet, cost approximately $500,000 to build, and initially be licensed for 250 children. It will be built on land that was purchased for cash on the East side of Madison. Because of this loan, the firm's debt-to-equity ratio went from 0% to 48%. This compares to the 1989 industry average of 55% (Dun & Bradstreet Business Credit Services, 1990, p. 194).

From 1987 through 1989, Center Care's total revenues increased an average of 6 1/2% per year and were approximately 1/2% higher than the industry average for those years (Kinder-Care, 1990, p. 11). Modest increases in the number of children enrolled and fee increases of 5% per year contributed to the 6 1/2% gains. During those same years, an average of 98% of the firm's revenues came from the standard daily or weekly enrollment fees, with the other 2% coming from charges associated with late enrollment fee payments or late child-pick-up, and interest on savings. Of the fees received for enrollment, no single age group accounted for a disproportionate percentage of business from one year to the next (Table 4, p. 63).

Regarding operating expenses in those same years, the firm has operated within an acceptable range. This is based on a comparison with two large national day care chains, which are generally considered to be well managed and efficient (Table 5, p. 63).

Because Center Care's Founder and Directors have appropriate controls in place to manage expenses, the firm has been able to maintain a break-even occupancy rate of approximately 70%, which is within an acceptable range for day care organizations. With the exception of annual insurance premiums, Center Care's management has held yearly increases in expenses to a 4% to 6% range. Even though the Founder runs the risk of a liquidity problem by building a new facility in Madison, his ability to control expenses would be beneficial to the firm, should a new facility be opened in Sussex.

Village Of Sussex

Center Care's Founder and management staff have demonstrated their abilities to successfully operate the three existing facilities in Madison, but that is no guarantee of success in a new market. The success of a day care organization is heavily dependent upon the type of community selected. Geographic location, economic development, demographics, need and demand for group day care, and the availability of sites for a facility, are components of the community selection process.

<u>Location</u>

The Village of Sussex is located in the North-Central portion of Waukesha County, approximately 8 miles from the western edge of Milwaukee County, and 65 miles from the city of Madison. Even though the Village is somewhat removed from the major business districts and residential areas of Milwaukee, it is still in close proximity and is accessible. There are three primary roads leading to Sussex from Milwaukee as well as from the southern part of Waukesha County.

The Village of Sussex encompasses approximately 10,225 acres, or 16 square miles. Out of this total area, 7,640 acres are rural. This includes farmland, wetlands, woodlands, and surface water. The remaining 2,585 acres are urban, with 58% of that land zoned as residential, and the balance zoned for commercial, industrial, governmental, and recreational use (Village of Sussex, Land-Use Task Force [VSLUTF], 1990, p. 21). Residential pockets are scattered throughout the Village. Businesses and government facilities are clustered along Highway 74.

Adjacent to Sussex are the municipalities of Lannon, Lisbon, Merton, Menomonee Falls and Pewaukee (Figure 1, p. 70). Population estimates for those municipalities, in 1989, ranged from 959 in Lannon to 22,574 in Menomonee Falls (Southeastern Wisconsin Regional Planning Commission [SEWRPC], 1990, p.1). Menomonee Falls and Pewaukee have central business districts. The other three municipalities are predominately semi-rural, residential areas.

Economic Development

There are four variables that should be taken into account when assessing a community's economic "vitality," and its ability to support a new day care business (Wisconsin Child Care Improvement Project [WCCIP], 1990, pp. 1-4). Those variables are: local business growth and expansion, stability of existing business, creation of local jobs, and the percentage of local residents on unemployment.

Business Growth. Throughout the 1980's, Sussex experienced a significant increase in terms of business growth and expansion. Evidence of this is the increase of new, and utilized, industrial space. From 1980 through 1988, industrial space increased from 124,000 to 1,525,000 square feet (VSLUTF, 1990, p.1). Preliminary figures for 1989 indicate that an additional increase of 300,000 square feet of industrial space had been completed and was being utilized (Kendall, 1990, p. 14). This increase and utilization of industrial space helped to place Sussex as number one, out of the 38 municipalities in the Milwaukee area, in terms of percentage increase in business expansion and development from 1980 through 1989 (Interview with Tim McElhatten, Senior Researcher with Public Policy Forum, April 20, 1990). The majority of the increase in space was due to businesses building new facilities in a 122 acre industrial park on the Eastern edge of Sussex.

All things considered, this growth has been possible for two reasons. First, Sussex administrators have been aggressive with regard to business development. This is evidenced by long range plans and incentives for businesses. Long range plans have included the re-zoning of an additional 258 acres on the Western edge of the Village for use as an industrial park. Incentives have ranged from tax-incremental financing being made available to companies building in the existing industrial park, to changes in zoning restrictions, making it possible for certain businesses to build facilities in Sussex that would not have been permitted under previous zoning regulations (VSLUTF, 1990, p. 6).

The second reason is the general location and setting. Sussex is a relatively short distance from Milwaukee, and commercial land and property taxes are less than in surrounding areas (Bragstad, 1990, p. 20).

Business Stability. The types of businesses located in the Village range from retail and service-oriented, to commercial and industrial (Table 6, p. 64). The majority of the firms are in industries that are considered "defensive," which means that these particular industries are usually stable in most economic environments. There is no record of extensive or prolonged lay-offs by any of the local businesses.

It is worth noting that the largest employer in the community is Quad-Graphics Printing Company. Although exact numbers are not available, it is estimated that the firm occupies roughly 25% of the industrial park and employs 600 to 700 people. An organization this large could have a negative effect on Sussex's tax base, as well as on local employment levels, if it were to fall on difficult times or move operations out of the community.

It is likely that economic growth, and stability, will continue. The same factors that have played a part in Sussex's growth, as well as the variety and stability of industries and support-services already in place, will likely appeal to companies seeking to migrate out of Milwaukee County.

Creation of Jobs. From 1980 through 1989, the number of industrial jobs increased from 128 to 2,576 (VSLUTF, 1990, p. 19). The impetus was the expansion of local businesses, and the relocation of businesses to the Village. This increase in jobs accounted for approximately 9% of the total increase in industrial jobs in Waukesha County during that same time period (Steinke, 1990, p. 1B). Information as to the number of Village residents employed at local businesses is not documented.

Unemployment Levels. Specific information regarding unemployment in Sussex is not documented. In the absence of this information, the researcher believes it is safe to hypothesize that unemployment has likely been in the range of general unemployment levels in Milwaukee, Washington, and Waukesha counties. Unemployment levels for those counties, in the first quarter of 1990, were 3.4%, 3.3%, and 3.3% respectively, as compared to the national unemployment level of 5.2% ("Growth Robust", 1990, p. 1). From 1988 through 1989, unemployment levels in the three counties fluctuated between 3.0% and 4.5%.

Demographics

In an assessment of a community's demographics, at least nine different categories should be considered. Those categories are: population, age distribution, race and sex distribution, housing units, number of households, family units, education levels, employment profiles, and income levels.

Regarding Sussex, however, documented statistical data more recent than the 1980 census pertains only to population, housing units, and income levels. State and local government agencies, privately owned research firms, local school district administrators, and libraries do not have data that is more recent than 1980 for the other six categories. Because of the time that has elapsed, and the growth that the Village has undergone, it is the researcher's opinion that the use of 1980 census data for Sussex would not be appropriate.

Population. Located in the third most populous county in the state, the Village is one of Waukesha's fastest growing municipalities. From 1980 through 1989, Sussex's population went from 3,482 to an estimated 4,745, an increase of 36%. This percentage increase was higher than the changes of the five previously mentioned surrounding municipalities, as well as being higher than the percentage increase in population for Waukesha County during those years. The second highest percentage increase in population, in Waukesha, was in the city of Delafield (Table 7, p. 65).

There are two possible reasons why people have moved to Sussex. The first one is that employees of local businesses might want to live closer to the work place. The second possible reason for the population increase is that prices for residential property tend to be less, as compared to prices for similar sized lots in Milwaukee. This makes it a desirable area in which to build a new home. Recent studies project that, if this trend continues, the Village's population will increase by an additional 3,000 by the year 2000 (VSLUTF, 1990, p. 17).

Housing Units. From 1980 through 1989, the total number of housing units increased by 76%, which was distributed among single-family, two-family, and multi-family units (Table 8, p. 66). Equalized valuation of residential property increased 125%, from $77,502,150 to $174,409,700. In addition, 346 multi-family units were started in 1989 and scheduled for completion in late 1990. To accommodate future population growth in an orderly fashion, the local governing body has made plans to set aside an additional 600 to 700 acres of land for use as medium-density to high-density housing in the mid-1990's.

From information that is available, the people moving into the two-family and multi-family units tend to be either young singles or young married couples. Single-family units vary in size and price range. Purchasers range from first-time buyers or builders, to individuals who have previously owned a house.

Income Levels. As of September 1988, adjusted gross income (AGI) per capita for residents of Sussex was $17,824. This is in contrast to the highest AGI per capita of $82,531 in the village of Chenequa, the lowest AGI per capita of $10,845 in the town of Vernon, and a county average of $16,628. When compared to the 5 surrounding municipalities, the Village has the second highest AGI per capita (Table 9, p. 67). As a point of reference, the reader should note that in relation to the three areas where Center Care already has facilities, Sussex's AGI ranges between $500 to $2,000 higher (Greater Madison Chamber of Commerce, 1989, p. 3).

Based on this data, one could conclude that Sussex residents with children have an advantage over their counterparts residing in the surrounding municipalities, with respect to their ability to afford group day care. While there are several plausible explanations for this apparent advantage, it is possible that there are more dual income families living in Sussex, as a percentage of the total population, than in surrounding areas.

Day Care Needs and Demand Assessment

In 1989, there was enough total licensed capacity in Wisconsin group or family day care (See APPENDIX A for Definitions) facilities, to accommodate one out of every four children with a need for day care (WCCIP, 1990, pp. 1-4).

Waukesha County's ratio, for 1989, was in the range of state and nearby counties' averages. Total licensed capacity in Waukesha County's day care facilities could accommodate approximately 30% of the 19,000 children in that county that were in need of day care (WCCIP, 1990, p. 1). Even though there are no statistics available to support their opinion, representatives from the Wisconsin Child Care Improvement Project are of the opinion that the rest of the children were cared for either by baby-sitters, relatives, or unlicensed day care organizations. The previously indicated ratios are not expected to change significantly in 1990 (Table 10, p.68).

In January, 1990, there were 141 licensed day care facilities, both group and family, in Waukesha County (Division of Community Services, Southeastern Region, 1990, p. 1). Collectively, they had a total licensed capacity of 5,837 children. Approximately 33% of these day care facilities were located in the City, or Township, of Waukesha. Another 33% were located in the eastern tier communities of Brookfield, New Berlin, Elm Grove, and Menomonee Falls. The rest of the facilities were located in other areas of Waukesha County.

When coupled with the fact that the number of dual income families and single parents entering the local work-force has been increasing

(Martino, 1989, p. 2B), the aforementioned statistics suggest that there is probably a need for additional licensed day care services in Waukesha County. However, these statistics are broad, and they may or may not apply to all parts of Waukesha County. This information, combined with Center Care's success in the day care industry, and the growth and stability of Sussex, does not necessarily increase the odds of success for a new Center Care facility in Sussex. It is possible, for example, that there could be an unmet need for day care services in and around the Village, but the parents in <u>need</u> of services for their children may not like the idea of group or family day care, or, be willing or able to pay the enrollment fee at a group or family day care facility, and have chosen other alternatives. In other words, there may be no existing <u>demand</u> for an additional group or family day care center in Sussex (Kotler, 1988, p. 4).

The next step in the process is to identify whether there are gaps between the current demand, and the existing licensed capacity of day care services, in the Sussex area. Because enrollment levels are critical to the success of day care businesses, the objective is to determine the potential levels of enrollment in a new Center Care facility, in the different age groups. As the reader will discover in Chapter 6, this information is the key to determining whether Center Care should consider opening a facility in Sussex. Following is a summary of the researcher's findings, regarding the gaps in group and family day care, as of Spring, 1990 (See APPENDIX B for Demand Assessment: Scope and Research Methodology).

<u>Infants.</u> The general consensus of the people interviewed was that there is an increasing gap between demand and licensed capacity of

group and family day care services for this age category in Sussex. The same holds true for contiguous municipalities of Lannon, Lisbon, and Menomonee Falls. The primary reason for the gap is that increases in demand over the last several years have exceeded the increases in total licensed capacity. (The reader should note that this information, and the rest of the information in the Infant section--unless otherwise specified, is based on interviews with representatives from the day care industry between April 2, 1990 and April 30, 1990. The names of individuals who were sources of information are listed in the ACKNOWLEDGEMENTS section).

Owners and directors of day care firms in these communities indicated that from 1987 through 1989, the level of demand for infants increased faster than demand for any other age category. These people get calls every week from parents who are looking for an immediate opening or wanting to reserve a spot several months in advance.

Representatives of local day care referral-and-placement agencies confirmed this information. According to them, the highest percentage of calls from parents in Waukesha County looking for assistance in finding group or family day care for their children are from those unable to find day care openings for infants. Calls coming in from the northern part of Waukesha County tend to come from parents living in Menomonee Falls, due to the concentration of the population. However, the number of calls from parents living in Sussex has started to increase.

There are five possible reasons for this increase in demand. First, state and national statistics show that there has been a mini "baby-boom" the last several years among women over 30 (Ward, 1989, p. 2B). If one were to assume that the demographics of Northern Waukesha County were comparable, this could account for the increase in demand.

The second possibility is, rather than a "baby-boom", there was simply a high concentration of young people moving to Northern Waukesha County, that either had very young children when they moved or had increased the size of their families shortly thereafter.

A third possible explanation for the increase in demand may have to do with an increase in dual income families and single working parents, indicated previously. Without specific demographic data on the area, however, it is difficult to draw conclusions about these first three possibilities.

The fourth possibility is that there may be a correlation between demand and the increase in the number, and size, of businesses in Sussex. For example, with more jobs having been created, it is possible that there are more nonresidents working in the Village who have infants and who want to bring them to a day care facility that is close to work.

Finally, the increase may be due to attitudinal changes and the recognition of the benefits associated with group and/or family day care. It is possible that there were parents who had been taking their children to baby-sitters and/or relatives that decided to make the switch.

In terms of existing licensed capacity, the group day care and family day care facilities that accept infants are generally at 100% occupancy levels. The majority of these day care firms maintain on-going waiting lists. At the time this data was gathered, the number of people signed up on various lists ranged from four to nine. According to day care owners and directors in Northern Waukesha County, the lists of names continue to increase in number and in size.

Representatives from the regional day care licensing office were in agreement about the licensed capacity shortage. Indications were that the day care facilities in the aforementioned municipalities, licensed to accept infants, maintained infant-occupancy levels close to, or at, 100% of licensed capacity and were not sufficient to accommodate existing demand.

There are two possible reasons for the shortage of licensed capacity. One possibility is that operating expenses are higher for infants than for other age categories. Increasing licensed capacity for infants in a new or existing day care facility, with a finite amount of physical space, means there are that many fewer spaces available for older children, where operating expenses are lower and contribution margins are higher. This can have a direct impact on a day care firm's break-even levels and/or profitability. As a result, there may have been a tendency to place a "cap" on infant capacity in order to leave room for expansion of licensed capacity for older children. This is not to imply that all day care centers do this, but the researcher is aware of for-profit and non-profit firms that have done so.

The second possibility might be related to availability of labor. Day care owners and directors may have had difficulty finding, and hiring, enough people who were willing to care for infants, so there was no reason to consider increased licensed capacity.

Based on the best information available at present, the researcher believes it is reasonable to assume that there are at least 15 to 20 more infants that would be enrolled in group day care services in Sussex, if the services were available. The reader is advised to keep in mind that while this preliminary estimate is arbitrary, the researcher is confident that it is realistic.

Toddlers and Pre-School. Because existing licensed capacity approximates existing demand, there are no significant gaps in group or family day care for either of these two age categories in Sussex, or in the three contiguous municipalities (This information, and the rest of the information in the Toddler and Pre-School section--unless otherwise specified, is based on interviews with representatives from the day care industry between April 2, 1990 and April 30, 1990. The names of individuals who were sources of information are listed in the ACKNOWLEDGEMENTS section).

The consensus of owners and directors of day care firms in these communities was that demand for day care increased more in the toddler category than in the pre-school category, in 1988 and 1989. This stands to reason due to an increased infant population, one to two years previously. Representatives from local day care referral-and-placement agencies confirmed this information.

With regard to present licensed capacity, there does not seem to be a shortage. Depending on the exact location of the day care facility, some have openings for more children and some do not. The two group day care facilities in Sussex, for example, are getting close to their licensed capacity, but could accept more children in both age categories.

Representatives from the regional day care licensing office agreed with this information. Their observations were that there are day care firms, in the communities of interest, with openings for children in these two age categories but that the occupancy levels are subject to occasional fluctuation.

One possible reason why there is no significant shortage of licensed capacity for either category in Sussex, as there is with the infant category, could be due to a previous excess of licensed capacity at established day care facilities, that has gradually been filled in. In addition, new day care facilities have opened in the three immediately adjacent municipalities within the last 1 to 2 years.

Even though there are no significant gaps between demand and licensed capacity, the researcher believes that it is within the realm of possibility that Center Care would be able to enroll a dozen or more toddlers and/or pre-schoolers in a new facility in Sussex, over the course of one year. For example, as is detailed in the The Operating Environment section of Chapter 2, there are likely to be parents with children in this age group who would consider switching from their existing day care service to the service offered by Center Care. This is an arbitrary estimate, but the researcher has based this conclusion on the best available information and believes it to be realistic.

<u>School-Age.</u> If there are gaps between existing demand and licensed capacity of group and/or family day care for school-age children in Sussex, and the three contiguous municipalities, they are narrowing. In this case, licensed capacity may be catching up with,

and possibly exceeding, the demand for before/after-school care. (This information, and any other information in the School-Age section--unless otherwise specified, is based on interviews with representatives from the day care industry between April 2, 1990 and April 30, 1990. The names of the individuals who were sources of information are listed in the ACKNOWLEDGEMENTS section).

According to day care owners and directors, there has been an increase in demand for school-age child care in the past 2 to 3 years. Prior to that, demand was reported to be sporadic. Local day care referral-and-placement agency representatives, and day care consultants, confirmed this information.

One possible explanation for the increased demand is that there has been a pronounced national focus on problems associated with "latch-key" children. Parents are more aware of the problems that can occur when supervision is inadequate, and of the benefits afforded their children in a structured setting.

In terms of licensed capacity, there are no apparent shortages. Information sources indicate that, in most group and family day care facilities, more school age children could be enrolled than there are at present. This is due in part to a before/after-school program, which can accommodate hundreds of children, being offered on-site at local schools.

As with the toddler and pre-school age groups, even though there does not appear to be a significant gap between demand and licensed capacity, it is within the realm of possibility that Center Care would enroll 6 to 12 children in this age group over the course of 1 year.

This might occur as a result of referrals or marketing efforts. Once again, this is an estimate but it is believed to be a realistic one.

Site Availability

Typically, there are three possible alternatives available for day care firms. One alternative is to lease space in either a house, school, church, or other small building that is zoned for commercial use. This is often the option selected by day care firms that are opening new facilities in areas where they do not have an established customer base. The second possibility is to purchase an existing building and the third option is to buy land and build a new structure.

In the Village of Sussex, there are few sites currently available for lease. First, there are very few houses located in the Village that are zoned for commercial use. Those that are zoned as such are not currently available for lease. Also, according to administrators from the local school district, any classrooms not being used by schools currently will be put to use within the next 1 to 2 school years. This was confirmed by the Director of Quad-Care, one of the group day care firms in the Village. This day care firm is currently leasing space in a local school, but has been informed that it must vacate within the next year due to rising school enrollment.

In addition, there is no available space in the local churches. Of all the churches in and around the Village, there is only one church with either the room to offer a day care program or the interest in offering a program. That church is presently occupied by Wee-Welcome Day Care.

Currently, commercial buildings offer the only lease alternative. Of the buildings available for lease at this time, there is only one that could be suitable for use as a day care facility. Located near the Sussex industrial park, it is 8,000 square feet in size. Of the total area, approximately 1,500 square feet is existing office space. With some alterations this area could be converted into staff offices, a kitchen, storage, and bathroom facilities. The remaining 6,500 square feet would be designated as a play-and-activities area and would be large enough to accommodate up to 185 children. Also, there is access to 20,000 square feet of land, including a parking lot, in the lease.

The lease would be $5,300 per month for three years and is Triple-Net. This means that Center Care would pay for the property taxes, property and casualty insurance premiums, all repairs, and utilities. According to the leasing agent, property taxes are $12,000 for 1990, property and casualty insurance premium estimates for a day care facility in that space are $4,400 to $4,600 for 12 month's coverage, and the utilities would likely be $4,800 to $5,300 for 12 months. Current estimates for the necessary interior modifications range between $20,000 to $30,000. In addition, it would cost approximately $9,000 to grade, sod, and fence the outdoor play area.

The second alternative is to purchase an existing building. There are buildings for sale, in different areas of the Village, that range between 10,000 to 15,000 square feet. Even though they would accommodate a large number of children, they are a more expensive option to consider initially. Prices range between $300,000 to $435,000 respectively. In addition, there would be the added expenses associated with interior and exterior modifications, as mentioned in the lease option. Estimates for all of these changes range between

$40,000 to $65,000. Because these buildings are 20% to 80% larger than the building available for lease, the leasing agent, Village property assessor and utility companies estimate that the insurance, taxes and utility costs would be approximately 20% to 80% higher than the costs for the lease option.

The third alternative is to build a new facility. Currently, there are parcels of land for sale that are between 2 to 14 acres in size, zoned for commercial use, in and around the Village. Listed prices of those lots are averaging $40,000 per acre. Based on estimates from local contractors experienced in building day care facilities, the cost to build a new day care facility can run between $30 to $40 per square foot. According to the Village property assessor, for the year 1990, property taxes are based on 78% of fair market value, with a rate of $33.09 per $1,000 of valuation. Insurance and utilities would be based on the structure built.

Even though ownership of a building offers equity and tax advantages, there are risks involved. The primary risk in ownership for Center Care would revolve around liquidity. For example, in the event that the firm was not profitable in Sussex and decided to close, the firm might have a difficult time selling the facility. This is because day care facilities are converted or built to serve a rather unique purpose. There is always a possibility that Center Care could end up having a great deal of money tied up in a non-performing asset for an indefinite period of time. If this were to happen, the firm would be faced with taking money out of savings in order to meet the mortgage payments. In turn, if Center Care were forced to withdraw money from savings over a long period of time, the rest of the business might suffer or be put in jeopardy. This risk is very real and should be considered when evaluating the lease/buy/build alternatives.

External Environment

Recognition of the external forces in Center Care's remote environment and its operating environment will assist in formulating a strategy that will put the firm in a better position to capitalize on opportunities and to minimize possible threats (Pearce and Robinson, 1988, chap. 4).

The Remote Environment

The remote environment consists of forces "that originate beyond and usually irrespective of any firm's operating situation" (Pearce and Robinson, 1988, p. 99). These forces can occur as a result of economic, social, political, and technological trends.

First, recent studies indicate that the economy in the Metropolitan Milwaukee area, which includes Waukesha County and the Village of Sussex, is positive and is expanding (Engel, 1990, p. 2B). In addition, a recent business survey, conducted in the Metropolitan Milwaukee area, reveals that the outlook for job expansion is above average (Causey, 1990, p. 5).

This bodes well for continued stability and growth in the Village of Sussex and the adjacent communities, but there are forces working on the national and local economies that could ultimately have an impact on the demand for, and supply of, day care services in the community of interest. Even though there are many forces that affect the economy, and cause-effect relationships are difficult to determine, it is possible to identify at least three of the current economic issues that could impact a new Center Care facility.

For example, it is starting to become more difficult to borrow money. Loan officers in the banking industry are becoming more selective about the types and sizes of loans that they make to businesses and consumers. Instances of this happening in the Milwaukee area are already visible (Spivak, 1990, p. 1D).

The consequences of this trend could be similar to the side effects associated with increases in interest rates, or the fear of a recession. Possible consequences are: declines in commercial and residential construction, cut backs on research budgets, departmental consolidations, and slow downs in orders-placed in certain sectors of business. Any one of these consequences could result in employee lay-offs, which could ultimately have a negative effect on demand for day care services.

Even though it might become more difficult for Center Care to obtain loans in the future, increased competition for available funds could also work to the firm's advantage. It might become more difficult for existing or potential competitors to expand in, or enter, the Village.

Another example of an economic force that could impact a new Center Care facility is the trend in corporate mergers in Wisconsin, and across the nation. It is not uncommon, in an effort to lower operating expenses, for businesses to reduce the number of plants or offices that are in use, reduce the number of people employed, or to relocate to regions of the United States where labor expenses and business taxes are lower. To date, this has not been a problem in

Sussex, and it may never be a problem. However, if a trend develops where businesses are relocating out of the area, Center Care's business could suffer.

A third example, one which has an immediate effect on Center Care's business, is inflation. Of concern here are the recent increases in the minimum wage and the gradual increase in the prices of day care business supplies. Also, due to an increased number of claims against day care firms, insurance companies have raised their premiums for liability coverage substantially in excess of the inflation rates. The result is that it is becoming increasingly more expensive to operate a day care business.

It is impossible to anticipate, and plan for, all possible economic trends. However, Center Care has options available that could provide an edge in the event that enrollment were to decline. One option is to keep the level of long-term debt to a minimum. For example, the firm might want to consider leasing space rather than buying or building.

Trends in social considerations constitute the second remote environmental force. In this instance, variables relevant to the firm's proposed expansion plans are the changes that have taken place in parents' beliefs and attitudes toward day care, what they want for their children in a day care setting, and their lifestyles.

To begin with, parents are becoming more aware of certain benefits associated with group day care. For example, it is becoming commonplace to find children who have at least one parent home during the day, to be enrolled part-time in group day care so that they might be exposed to structured learning experiences and increased social interaction. Overall, this could have a positive effect on demand for group day care.

In addition, it is no longer adequate to simply provide a baby-sitting service. Parents want their children to be nurtured as well. Owners of day care firms in the area under consideration have indicated that parents place a high, if not the highest, priority on development of positive relationships and frequent interaction between their children and the day care staff. It is likely that this is true everywhere.

Also, trends in work patterns and lifestyles are elements of social change. There is greater emphasis on work-schedule flexibility and on convenience items, in order to increase time available for leisure/social, and family activities. The result is that, in order to be competitive, day care firms must establish schedules that can accommodate a wide range of needs.

These changes are positive and should provide opportunities for growth. Center Care's previous success in these areas puts the firm in position to capitalize on these trends.

Political considerations comprise the third remote environmental force. Particularly important to the firm's plans for expansion are federal, state, and local legislative issues, as well as governmental support for business.

Of these concerns, federal legislative issues could have the most impact on a new Center Care facility. For example, there are two bills before Congress, referred to as the Act for Better Child Care Services of 1988 and the Child Development and Education Act of 1989, either of which could alter the existing day care industry. Depending on which bill is approved, and the final draft of that bill, any number of provisions could be included that would make it easier to start a day care business, hence, increased competition. The provisions under consideration are: make federal funds available to each state to help day care providers obtain liability insurance; provide grants to eligible businesses and to churches that decide to implement day care programs; provide grants for before/after school care; and, make additional funds available for Head Start programs.

Conversely, the final bill is likely to contain provisions that will work in Center Care's favor. For instance, either bill would require more governmental paperwork and filings. A number of day care industry experts contend that if this happens there will be an increase in the number of marginally-profitable day care firms that opt to go out of business rather than contend with increased regulations (Staff, 1990, pp. 38-59). Also, each bill contains a provision that could provide subsidies to day care firms, based on the enrollment of children from families with an income below a predetermined level. That could provide a new source of business. Regardless of the final provisions, the bill that is passed will impact day care demand and supply in Sussex, the region, and the nation.

Additional examples of how federal legislative issues can impact the day care industry are recent increases in the minimum wage, and ongoing debates on the issue of raising or lowering business taxes. Changes in either area influence the profitability of day care firms, hence, their survival. Aside from maintaining as efficient an organization as possible, there is nothing that Center Care can do to counter these legislative changes.

In addition to federal legislation, the firm must abide by state and local laws and requirements. However, representatives from the Division of Community Services--Southeastern Region, a governmental agency responsible for licensing day care facilities in Southeastern Wisconsin, indicated that on the state and local level, as of June, 1990, there is no legislation pending or anticipated for the rest of the year that would materially affect Center Care's existing business or any plans for expansion in 1990.

The final political concern is governmental support for business. It applies more to the local level in this case, rather than the national level. Sussex Administrators have a well-documented history of doing whatever is feasible, and prudent, to encourage business and residential growth. Examples of this are the previously mentioned changes in zoning and tax-incremental financing.

Even though local support is positive, the researcher can envision a scenario where this might hinder Center Care's business. For example, business and residential growth has been fast enough that the area is likely to be considered by other day care owners. This could result in an oversupply of licensed capacity. With this in mind, the firm should not opt for a facility that is so large that it can not reasonably expect to cover fixed expenses, should the firm's enrollment grow at a slower rate than anticipated.

Technological considerations are the fourth remote environmental force. In the day care industry, this would consist of innovations in the type of service offered, new teaching philosophies and methods, and possibly the equipment used for play and learning development, such as computers. Although an important consideration, it is not as relevant an issue due to the emphasis that Center Care's Founder and Directors place on staying current in these areas.

The Operating Environment

In contrast to Center Care's remote environment, its operating environment is subject to some degree of influence by the firm. In this environment, five factors affecting Center Care are considered.

The first factor to be considered is the existing, and future, competition for day care business in Sussex. For purposes of this overview, it is more useful to focus on the three providers of group day care in the Village. The objective is to briefly identify each one and highlight the major differences in programs offered--as compared to Center Care's, and to evaluate how these competitors might affect Center Care's chances for reaching the previously indicated preliminary-enrollment estimates.

The first group day care organization that Center Care must consider is Wee-Welcome Day Care. Located in a church, in the middle of the Village, the firm has a licensed capacity of 53 children during the day. The physical capacity of the facility is 110 children. On a daily basis, enrollment averages 80% to 85% of the firm's present licensed capacity. Wee-Welcome has been in business for nine years, is for-profit, and has a good image in Sussex and surrounding communities.

Although Wee-Welcome and Center Care have similar staffing ratios, hours of operation, and educational activities, there are a number of differences between the two firms. First, Wee-Welcome does not currently accept infants. The minimum age for enrollment is 2 1/2 years. Also, the firm offers before/after-school care for children up to age 10, as well as "drop-in" care for parents that want to bring

Their children in on a periodic basis only. In addition, Wee-Welcome does not presently offer the option of a hot lunch, so parents must send lunch with their children. Finally, Wee-Welcome's "per-day" enrollment prices are lower than Center Care's (Table 11, p. 69).

At some time before the end of 1990, Wee-Welcome's owners plan to increase the licensed capacity to the facility's physical capacity of 110 children. Included in this are plans to offer day care to 12 infants. Hot lunches will also be offered.

The second group day care firm operating in the Village is Quad-Care. This day care business is owned by Quad-Graphics Printing Company, also located in Sussex, and is operated by certified day care specialists that are on the Quad-Graphics payroll. Quad-Care is located in an elementary school, on the East side of Sussex, and has a licensed capacity of 130 children during the day and 30 children in the evenings. Physical capacity of the facility is 180 children. On a daily basis, average enrollment is 90% to 95% of the present licensed capacity. Its evening enrollment averages 80% to 85% of present licensed capacity and is used almost exclusively by, but not limited to, employees of Quad-Graphics. Both day and evening services are offered to Quad-Graphics' employees and to the rest of the community. Quad-Care has been offering day care for five years, is for-profit, and has an above average reputation in Sussex and the surrounding communities.

As with Wee-Welcome, Quad-Care's business is somewhat different than Center Care's. First, the hours and days of operation are longer. Quad-Care is open from 6:00 AM to 9:00 PM, Monday through Friday, and is open on Saturdays. Also, there is an extra charge for breakfast.

In addition, there is a wider age range of children for which care is offered, and a difference in staffing ratios. Quad-Care offers services for children between the ages of 6 weeks and 12 years, which includes the before/after-school age category, and has one day care provider for every three infants. Also, the firm does not offer a half-day option to parents who are not employees of Quad-Graphics. Finally, the cost of day care services for persons not employed by the firm, on a per-day basis, is less than Center Care's (Table 11, p. 69).

As indicated previously, Quad-Care is going to be moving from its existing location. The firm is in the process of building a new day care facility that will be located close to the industrial park, and is expected to be ready by Spring of 1991. Licensed capacity and physical capacity will be for 165 children. Based on conversations with Quad-Care's director, this excess capacity will be used by employees and non-employees. Also, it is anticipated that the business will carry on as usual, and that prices will remain near current levels for employees and non-employees. This is an important consideration because of the financial backing and available resources that Quad-Graphics can offer to Quad-Care. If Quad-Graphics wanted, the firm could subsidize Quad-Care to the extent that Quad-Care could lower its prices, which would make it difficult for other day care firms to compete in the Village of Sussex.

The third provider of group day care in Sussex is the Tri-County YMCA. Although physically located in Menomonee Falls, Tri-County YMCA offers day care services that are provided on-site at elementary schools in Menomonee Falls and Sussex. Licensed capacity at each school is dependent on the size of the gymnasium or cafeteria, where the children are cared for. Present licensed capacity at the different schools ranges from 20 to 40 children, which is the same as each school's physical capacity. Enrollment levels, which are different for each school, are reported to be somewhere between 40% to 70% of present licensed capacity. Tri-County operates the service as non-profit. Although previously offered in Menomonee Falls, it is new to Sussex.

The organization is unique in that day care services are limited to before/after-school care, for children between 6 and 12 years of age. Hours of operation are 6:30 AM to 9:00 AM and 3:15 PM to 6:00 PM, Monday through Friday. Fees are $2.00 per hour for YMCA-members and $2.20 per hour for non-members, with discounts for more than one child. This includes snacks and activities. In addition to these services, Tri-County YMCA plans to offer kindergarten and pre-school classes in 1991.

The most important information gained from this overview relates to these three day care organizations' plans for expansion. These plans would make the preliminary estimates that were made for potential levels of enrollment in a Center Care facility more difficult to attain. Unfortunately, there is little that Center care can do to counter this threat.

Also, should the decision be made to open a facility in Sussex, Center Care would have to contend with three competitors that are already well established and have good reputations in the community. Additionally, there is the issue of convenience in terms of hours and days of operation, services being offered to school-age children and lower fees on a per-day basis.

The second factor to consider in the operating environment is the customer profile. What is most relevant in this case is the geographic location of potential customers. Also important to the customer profile are demographics, psychographics, and buyer-behavior. However, these last three variables have already been addressed in the context of previous sections, so they will not be detailed here.

With respect to geographic location, the researcher has identified three areas where customers might come from. The first area is the Village of Sussex. This group could include expectant-parents who have yet to find day care, or parents with infants who do not want to continue their current arrangements. It could also include parents with toddlers, pre-schoolers, and/or school-age children who are not happy with their existing arrangements. Through referrals from people in the Village, the researcher is aware of families that fit all of these situations.

The second possible area might consist of residents of the three contiguous municipalities that are faced with similar circumstances. For example, a local day care consultant cited instances of dual income families, living in Menomonee Falls, where the mothers had to postpone going back to work after their maternity-leave because they could not find care for their infants. Because of the close proximity to Sussex, it is reasonable to assume that there are parents living in adjacent communities who would utilize infant care in the Village, if available.

The third geographic area might consist of parents living outside of Sussex, and the three contiguous communities, but who work in the Village and who want to enroll their children in a day care program that is close to work. This is based on conversations with senior level managers, at various companies located in or near the Village industrial park. More specifically, one of the larger businesses located in the area is considering contracting with a day care firm to provide local child care for employees of the company. To date, there are approximately 20 employees who have expressed interest in a corporate day care program.

The third factor to be considered in the operating environment is the strength of Center Care's relationship with its suppliers/creditors. At present, the firm maintains good business relations with all groups, in particular its food vendors, insurance carrier, and bank. These different groups have always tried to accommodate Center Care's needs and have been competitive in price. Should a new day care facility be opened in Sussex, however, it would be necessary to find a food distributor that services Sussex, since the current vendor does not cover that area. It is unlikely that this would create problems for the firm. With respect to insurance, it is not likely that there would be any reason to change companies to get insurance coverage for a Sussex facility. Also, even though a good relationship exists with the bank, and credit terms have generally been favorable, Center Care's Founder should be aware that the funds he is borrowing to build the new facility in Madison could make it more difficult to get additional funds to be used for another facility. This is under the assumption that Center Care's bank is like most other banks, in that one of their key requirements for a business borrower is to have a debt-to-equity ratio that is within a certain range of the norm for the business's industry (Dun & Bradstreet Business Credit Services, 1990, p. 194). Because Center Care's new debt-to-equity ratio is already near the norm for the Day Care industry, as was indicated previously, it is possible that the firm's bank might hesitate to provide the additional funds that would push the ratio over the industry average.

The fourth factor in the operating environment is the firm's personnel needs. This is an important consideration because Center Care would need a minimum number of staff members present on a daily basis, based on enrollment levels in different age groups, to comply with the Wisconsin's day care licensing requirements for staffing (Table 3, p. 62). Before a decision is reached as to whether to open the facility, Center Care's Founder should consider the current and future availability of qualified labor in the area.

Current availability of labor in the Sussex area does not appear to be a significant issue. For example, one of the owners of Wee-Welcome Day Care indicated that requests for employment at the firm are frequent and recruiting costs have been "minimal." In addition, those that are hired tend to stay with the firm. Turnover at Wee-Welcome has averaged approximately 20% to 25% during the last three to four years.

Future availability of labor, however, is questionable. A study by Professor David Riley (cited in Scommegna, 1989, p. 8) indicates that entry level wages for non-management day care providers, as well as yearly wage increases, generally lag entry level wages and yearly increases in other non-technical jobs. As an example, many of the day care providers in the Sussex area, often start at just over minimum wage, and with experience, make $5.00 to $6.50 per hour. On the other hand, it is not uncommon for businesses in the Village, and in Milwaukee, to advertise openings for entry level jobs--which require no previous training or experience, that start at $6.50 to $7.50 per hour, with raises of $1.00 in 6 months, and a good benefits package. As the competition for available labor increases, it will become increasingly difficult for those people who like caring for children to justify accepting a job as a day care provider. Center Care would have little choice but to increase its hourly wage and salary levels in order to maintain an adequate number of staff members. The problem is that, because the day-to-day operation of a day care business is labor intensive, increased labor expenses could make it difficult for the firm to operate on a profitable basis. As the reader will discover in Chapter 6, labor expenses would be a major component of Center Care's total operating expenses in Sussex.

The reader should note that even though a decrease in the future availability of labor in Sussex could make it more difficult for Center Care to meet the minimum staffing requirements, a labor shortage could also work in its favor. For example, a labor shortage might prevent existing competitors in Sussex from expanding. It might also deter competitors outside the Village who were considering the Sussex area.

The fifth factor in the firm's operating environment pertains to the availability of a suitable building in which to operate. The key issue here is that finding a building that could be structurally altered to meet the building/safety code requirements for a day care facility, without spending an inordinate amount of money to make the alterations, could be difficult. As was indicated in the Site Availability section, there are few buildings available in Sussex from which to choose. The Founder should incorporate the expenses associated with each lease/buy/build option into the overall decision making process.

Industry Analysis

In the day care industry, there are a number of forces that influence the level of competition for business. Before a decision is made as to whether to open a new day care facility in Sussex, the forces that will affect Center Care must be considered.

Even though staffing requirements and building/safety codes can create potential "roadblocks"--as previously indicated, it is relatively easy to open a day care business. To begin with, day care owners usually have a great deal of latitude as to the size and type of business that they open. As an example, it is possible to start out on a small scale so as to reduce overall capital requirements. Also, even though there are some potential economies of scale and cost advantages for day care organizations with multiple facilities, they are not the sole determinant of success. In addition, because the industry is highly fragmented, brand identification is not the problem that it is in other industries. Finally, as indicated in the Site Availability section, day care owners are not limited to using a certain type of distribution channel. In fact, pending legislation may make it easier to offer day care services through churches, schools, and businesses. Even with the previously mentioned "roadblocks," or barriers to entry, the odds of additional day care firms opening new facilities in Sussex are high. Accompanying an increase in the number of day care firm's would be an increase in competition, which could have a negative impact on Center Care's enrollment levels. This is particularly important to Center Care because, should the decision be made to open a new day care facility, ease of access creates a high risk of failure for the firm. Along with existing competitors in the Village, ease of access by other day care organizations is one of the most important elements of this decision making process.

As the number of day care facilities increases, different marketing strategies will be used to compete for business. For example, there are nonprofit day care organizations in Menomonee Falls that have begun to stress the fact, in their marketing efforts, that their cash surpluses are used for items that will increase the quality of child care. The implication, intended or not, is that for-profit firms are in business for the money and that they have a tendency to spend money only when necessary. This is a powerful marketing strategy because it plays on parents' emotions. To counter this strategy, for-profit day care firms such as Center Care must begin to focus on product differentiation.

Using the strict definition of the word "substitute-product," there are few if any for child care. However, when considering the type of program offered or the method of delivery, it could be said that there are a number of substitute products available. Because this relates more to competition and product differentiation, addressed previously, it is not necessary to address this issue with regard to this topic.

With respect to suppliers, insurance providers are possibly the most important. Because there are a relatively small number of insurance firms that have chosen to offer liability insurance for day care businesses, the few that do offer insurance coverage are in a powerful position. They are able to raise premiums to whatever levels they want and day care firms have little bargaining power. For instance, the researcher is aware of insurance firms in Wisconsin that, since 1986, have increased the annual premium from $30 to $40 for $100,000 coverage per-child to $50 to $60 for $100,000 coverage per-child.

The power of customers is another force to be reckoned with. As the competition increases and the industry matures, parents will be able to directly or indirectly influence the type of programs offered because they will have more choice.

In summary, it appears that there are almost as many negative as there are positive industry forces. Taking it one step farther, some of the positive forces that might help Center Care in the beginning could work against the firm in the future. Along with the rest of the material presented in Chapter 2, this information will have a bearing on the selection of the appropriate solution in Chapter 6. The following chapters are devoted to defining the opportunity statement, the potential solutions, and the analysis and impact of alternatives.

Table 1

Day Care Services Comparison

Services Offered	Center Care	Local Competitors
Infant Care	Yes	9
Minimum Age For Enrollment At Centers Offering Infant Care:		
6 Weeks	Yes	6
8 Weeks		2
12 Weeks		1
Enrollment Options For Infants, Toddlers, and Preschool Age:		
1/2-Day	Yes	10
Full-Day	Yes	10
Daily Or Weekly Enrollment	Yes	10
Before/After School Enrollment For School Age Children	No	6
Drop-In Care	No	3
Week-End Care	No	1
Accommodations For Children With Mild Or Moderate Handicaps	Yes	10
Educational And Social Activities	Yes	10
Hot Breakfast	Yes	6
Hot Lunch	Yes	10
Nutritional Snacks	Yes	10
Discounts For More Than One Child	Yes	10
Open At, Or Before, 6:45 AM	Yes	8
Close At, Or After, 6:00 PM	Yes	9

Source: Information on Local Competitors was obtained through a telephone survey the week of March 5, 1990. Sample size was 10. Selection was based on proximity to one of Center Care's facilities.

Table 2

Enrollment Price Ranges: Center Care And Local Competititors

Age Group	Days Per Week	Center Care	Local Competitors
Infants.......	1 Full-Day	$28	$26 To $ 30
	5 Full-Days	$97	$95 To $105
	1 1/2-Day	$17	$15 To $ 19
	5 1/2-Days	$68	$65 To $ 72
Toddlers......	1 Full-Day	$28	$26 To $ 30
	5 Full-Days	$97	$95 To $105
	1 1/2-Day	$17	$15 To $ 19
	5 1/2-Days	$68	$65 To $ 72
Pre-School....			
2 To 3 Years	1 Full-Day	$23	$20 To $ 25
	5 Full-Days	$85	$80 To $ 90
	1 1/2-Day	$17	$13 To $ 18
	5 1/2-Days	$57	$51 To $ 60
3 To 6 Years	1 Full-Day	$20	$16 To $ 22
	5 Full-Days	$73	$68 To $ 79
	1 1/2-Day	$14	$11 To $ 17
	5 1/2-Days	$51	$47 To $ 53

Source: Center Care and the 10 group day care organizations surveyed for Table 1.

Note. Center Care's prices and the price ranges for the Local Competitors were valid as of the week of March 5, 1990. Two of the day care organizations did not wish to participate in the price survey. Also, age groupings varied slightly at each day care organization.

Table 3

Staff-To-Children Ratio Comparisons

Age Group	State Requirements	Center Care	Local Competitors
Infants And Toddlers....	1:4	1:3	1:3 To 1:4
Pre-School:			
2 To 2 1/2 Years	1:6	1:5	1:5 To 1:6
2 1/2 To 3 Years	1:8	1:8	1:7 To 1:8
3 To 4 Years....	1:10	1:10	1:9 To 1:10
4 To 5 Years....	1:13	1:13	1:12 To 1:13
5 To 6 Years....	1:17	1:17	1:15 To 1:17

Source: Division of Community Services, Department of Health and Social Services, Wisconsin Administrative Code. (1984). Telephone survey used for Tables 1 and 2.

Table 4

Center Care Enrollment By Age Group

Age Group	Percent Of Total Enrollment 1987	1988	1989
Infants And Toddlers........	15.0	17.0	16.0
Pre-School:			
2 To 2 1/2 Years....	17.0	16.0	17.0
2 1/2 To 3 Years....	19.0	18.0	18.0
3 To 4 Years........	18.0	19.0	18.0
4 To 5 Years........	18.0	18.0	19.0
5 To 6 Years........	13.0	12.0	12.0
	100.0	100.0	100.0

Note. Enrollment percentages have been rounded.

Table 5

Operating Expense Comparisons

Organization	Operating Expenses As A Percent Of Operating Revenue 1987	1988	1989
Center Care	89.4	91.1	92.0
Kinder Care	88.6	87.8	90.6
La Petite Academy	86.3	92.5	92.4

Source: Kinder-Care Learning Centers, Inc. (1990). La Petite Academy, Inc. (1990).

Table 6

Industries Represented In Sussex, First Quarter of 1990

Manufacturing	Non-Manufacturing
Concrete and quarry products..	Accounting services..........
Fabricated metal products.....	Banking services.............
Food and kindred products.....	Legal services...............
Precision electrical machinery	Management consulting services
Printing and publishing.......	Retail outlets, consumer goods
Rubber and plastic products...	Restaurants..................
Tool and Die..................	....

Source: WMC Service Corp., Wisconsin Manufacturers & Commerce. (1990). Classified directory of Wisconsin manufacturers. WMC Service Corp., Wisconsin Manufacturers & Commerce. (1990). Wisconsin services directory, Wisconsin manufacturers & commerce.

Table 7

Population Increase Comparisons

Area	Population		1980-1989 Change	
	1980 Census	1989 Estimate	Number	Percent
Sussex, village.........	3,482	4,745	1,263	36.3
Delafield, city.........	4,083	5,231	1,148	28.1
Pewaukee, town..........	8,922	9,722	800	9.0
Waukesha, county........	280,203	300,372	20,169	7.2
Lisbon, town............	8,352	8,704	352	4.2
Merton, town............	6,025	6,154	129	2.1
Lannon, village.........	987	959	-28	-2.8
Menomonee Falls, village	27,845	27,574	-271	-1.0

Source: Southeastern Wisconsin Regional Planning Commission. (1990, January).

Table 8

Housing Units: Sussex

Type of Housing	Number of Housing Units 1980	through	1989	1980-1989 Change Number	Percent
Single-Family..	785		1,157	372	47.3
Two-Family.....	30		90	60	200.0
Multi-Family...	152		459	307	201.9
Total..........	967		1,706	739	76.4

Source: Village of Sussex Land Use Task Force. (1990, April).

Table 9

Adjusted Gross Income Comparisons

Area	Adjusted Gross Income Per Capita, Estimated as of September 1, 1989
Pewaukee, town..........	$19,110
Sussex, village.........	$17,824
Menomonee Falls, village	$15,596
Merton, town............	$15,352
Lannon, village.........	$11,939
Lisbon, town............	$11,447

Source: Wisconsin Department of Revenue, Bureau of Systems and Data Processing. (1989, September 1).

Table 10

Day Care Supply and Demand: County Comparisons

County	Percent of Available Day Care Supply to Day Care Demand (Est., 1989)	Percent of Available Day Care Supply to Potential Demand (Est., 1990)
Milwaukee.	28%	33%
Ozaukee...	22%	28%
Racine....	23%	24%
Washington	16%	17%
Waukesha..	30%	32%

Source: Wisconsin Child Care Improvement Project. (1990).

Note. Day care supply refers to total licensed capacity available for children between the ages of 0 months and twelve years.

Table 11

Enrollment Price Ranges: Center Care, Quad-Care, and Wee-Welcome

Age Group	Days Per Week	Center Care	Quad-Care	Wee-Welcome
Infants......	1 Full-Day	$28	$ 23	$ 20
	5 Full-Days	$97	$115	$100
	1 1/2-Day	$17	----	$ 15
	5 1/2-Days	$68	----	$ 75
Toddlers.....	1 Full-Day	$28	$ 23	$ 20
	5 Full-Days	$97	$115	$100
	1 1/2-Day	$17	----	$ 15
	5 1/2-Days	$68	----	$ 75
2 To 3 Years	1 Full-Day	$23	$ 19	$ 15
	5 Full-Days	$85	$ 95	$ 75
	1 1/2-Day	$17	----	$ 10
	5 1/2-Days	$57	----	$ 50
3 To 5 Years	1 Full-Day	$20	$ 16	$ 15
	5 Full-Days	$73	$ 80	$ 75
	1 1/2-Day	$14	----	$ 10
	5 1/2-Days	$51	----	$ 50

Note. Quad-Care does not offer 1/2 day care for non-employees. Also, if a child stays more than the alloted 10 hours per day, the fee's vary from those listed above. It is $22 for the day for infants and toddlers, $19 for ages 2 to 3, and $16 for 3 years and up. Before/after school care is $2.20.

At Wee-Welcome, drop-in care ranges between $2.25 to $5.00 per hour. Before/after school care is $2.25 per hour. Prices quoted for infant care at Wee-Welcome are what will be charged when the firm becomes licensed to accept infants, later in 1990. Prices listed for these two firms were in effect the week of April 30, 1990.

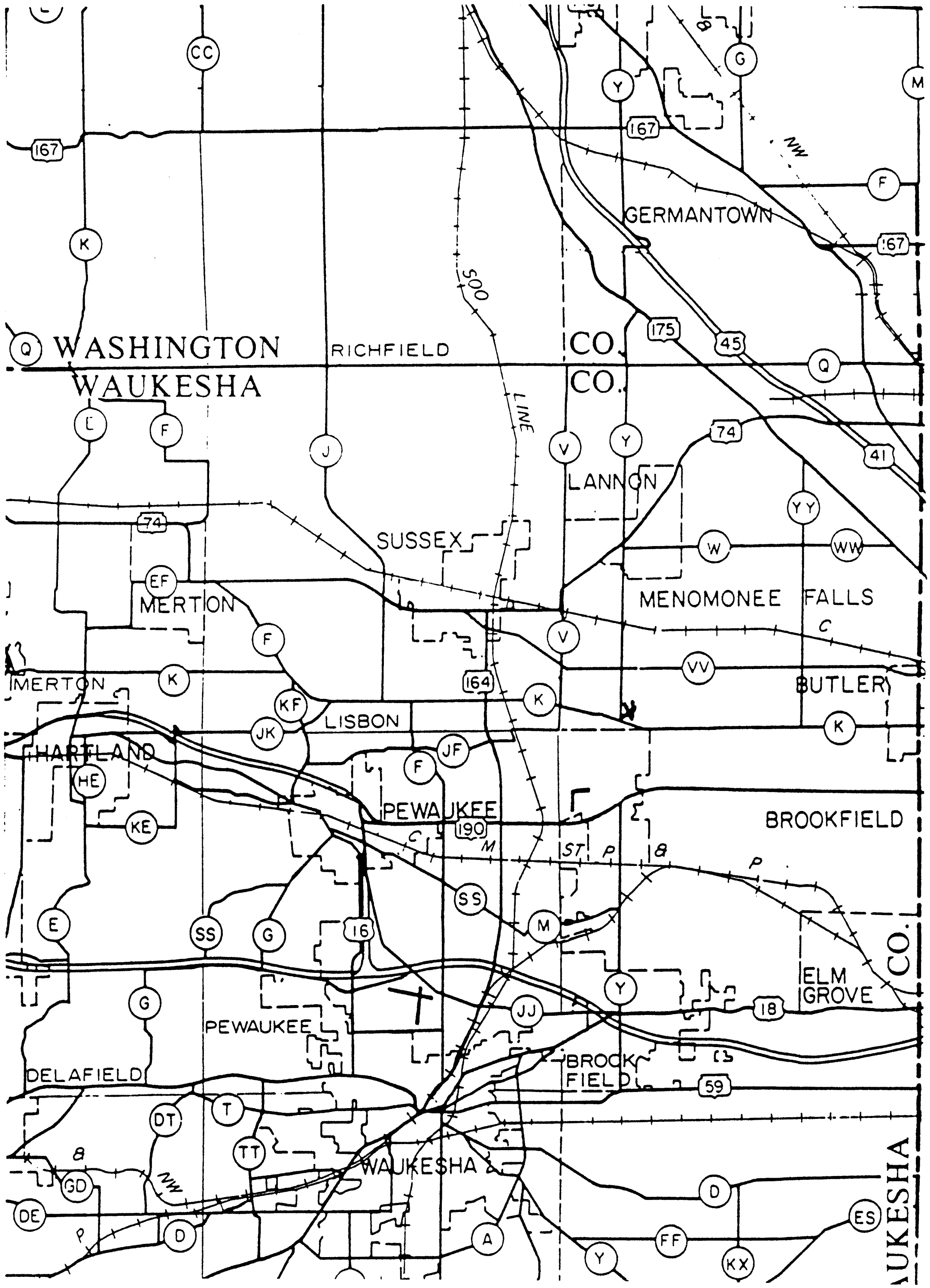

Figure 1

Location of Sussex

CHAPTER 3

OPPORTUNITY STATEMENT

In general, it appears that Center Care has the management resources needed to successfully operate a new day care facility in Sussex. However, Center Care is faced with a number of financial, competitive, and environmental threats that could jeopardize its success in the Village. With all of the problems that the firm might encounter, should Center Care's Founder consider opening a new day care facility in the Village of Sussex in 1990?

CHAPTER 4

POTENTIAL SOLUTIONS

There are two possible alternatives from which Center Care's Founder could choose. Those alternatives are:

1) Select one of the three available sites and proceed with plans for a new day care facility in Sussex in 1990.

2) Do nothing in Sussex in 1990. Focus the firm's available resources on the structure that is being built in Madison, Wisconsin.

CHAPTER 5

GUIDELINES FOR SELECTING APPROPRIATE SOLUTION

The method that is most useful for evaluating and choosing the solution that is most appropriate for Center Care is the "SWOT Analysis." SWOT is an acronym that stands for Strengths and Weakness of a firm and environmental Opportunities and Threats facing that particular business. Using this method, key external opportunities and threats are systematically compared to Center Care's strengths and weaknesses (Pearce & Robinson, 1988, chap. 10). The results of these comparisons are then matched to the grid in Figure 2 on page 83, to determine the appropriate strategy.

CHAPTER 6

ANALYSIS AND IMPACT OF ALTERNATIVES

Alternative 1

The first alternative is to select a feasible location and proceed with plans to open a new Center Care facility in the Village of Sussex. In evaluating this alternative, "opportunities and threats" will be considered first, and "strengths and weaknesses" will follow.

In Sussex, there are both current and future opportunities. As indicated in Chapter 2, much of this opportunity has been created because Sussex is an attractive area in which to operate a business. An increase in the number of business's that have chosen to locate in the Village has resulted in an increase in the number of available jobs. In turn, the increased number of job opportunities has contributed to the overall growth of the Village's population.

If one were to base their decision solely on the information presented in the overview section on Sussex in Chapter 2, a logical conclusion would be that Center Care should consider opening a new day care facility in the Village. It appears that the expected continued growth of the community warrants additional group day care facilities, especially with one of the local businesses having expressed interest in contracting with a day care firm to provide services for its employees, and an existing need for infant care in the community.

With regard to threats, the most important determining factor in selecting Sussex as a location for a new day care facility has to do with the existing competition and the ease of access for other day care firms that wish to open facilities in Sussex. As far as existing competition is concerned, there are plans being made at the different firms in Sussex that should give Center Care reason to question the suitability of expansion into that area.

Chief among these are the plans that each firm has for expansion. Within the next 6 to 10 months, it is reasonable to expect that there will be at least a 50% increase in the total licensed capacity for group day care firms in the Village. Wee-Welcome will be expanding from 53 to 110 children and Quad-Care will increase it's daily capacity from 130 to 165. With additional licensed space being created for more than 92 children at these 2 firms, and the Tri-County YMCA planning to offer programs for pre-school children, one must question whether it is possible that the near term increase in supply of licensed capacity will exceed the near term increase in demand for group day care services. The estimates in Chapter 2 for potential enrollment among different age groups in a new Center Care facility, may be overly optimistic in light of expansion plans of the local competitors.

In addition to competitors' plans in Sussex, Center Care's Founder should also take into account the plans that competitors in the three contiguous communities might have. Because these communities are a likely source of business, expansion of licensed capacity in these areas could seriously threaten Center Care's chances for success.

Also, there is the initial competitive advantage that existing group day care firms in Sussex have with regard to reputation. Center Care would be up against well established day care firms that have good reputations in the community. Though this advantage might prove to be temporary, it must be considered nonetheless.

As indicated in previous sections of this text, reputation is an important component with regard to operating a successful day care business. It can mean the difference between marginal versus profitable survival. Providing high quality day care services, establishing a good rapport with parents and children, and time are usually the ingredients to developing a good reputation. Unfortunately, because reputations are based on the opinions and perceptions of others--and generally passed on by word of mouth, there are no real short-cuts when it comes to time. Because Center Care has already demonstrated it ability to supply the first two ingredients, the real threat with regard to establishing a good reputation in Sussex is time. With the pressure that the firm would be under to break-even financially, time is a luxury that the firm would not have.

In addition to existing competition, there are other real and potential threats with which Center Care must contend. For example, there are the economic threats such as inflation and corporate relocations. Ultimately, the net effect on a day care business is that it becomes more difficult to maintain existing profit margins and demand for services can decrease. Also, as indicated previously, day care businesses must contend with changes in federal and state legislation, as well as population trends. The threat of new entrants, the availability of labor and the availability of affordable sites on which to locate are issues to be considered as well.

With regard to weighing the opportunities and the threats associated with this alternative, and determining where this falls on the Y-axis of the SWOT Analysis Diagram (Figure 2, p. 83), it is the researcher's opinion that the existing threats take precedence and, as a result, a point that lies on the negative (-) side of the Y-axis should be selected.

The rationale for arriving at this conclusion is as follows: First, the opportunities that should carry the most weight are the existing demand for infant care and the local business that is considering contracting with a day care firm. The reason these should carry the most weight is that they are more specific, are current, measurable, and could have an immediate and direct impact on enrollment in a new Center Care facility in the Village. The other reasons listed are either more nebulous or have less direct impact, all things equal, on enrollment.

Second, the threat that should carry the most weight is the plans for expansion by local competitors. This is because expansion is going to occur in the very near future, is measurable, and could have a direct and lasting impact on enrollment in a Center Care facility.

At the risk of appearing "short-sighted," it is the researcher's contention that in the near term, the competitors' plans for expansion more than offset the potential business that is "waiting-to-be-had." This is due in large part to the greatest apparent demand being in the infant age group, which is not very profitable. Because of the time element involved in establishing a new day care facility, the odds are high that one of the competitors will get the business account before Center Care can get to it. In addition, a portion of the excess demand for infant care will be absorbed by one or two of the group day care firms in Sussex, and there will still probably be an excess of licensed capacity after that. Even though these issues are not 100% certain, and there is sure to be more business potential than what is readily apparent, their likelihood of occurrence is high and, as a result, could have a negative impact on Center Care's entry into that geographical area. This could put the firm at a serious disadvantage.

Center Care's strengths and weaknesses are the next area to consider. This is intended to summarize whether, on an overall basis, the firm is in a position to provide the necessary support to a new facility.

If the decision were to be made to open a new day care facility in Sussex, Center Care would have a number of things going for it. To begin with, the Founder has demonstrated that he has the ability to start a small business and eventually build it into a thriving concern. This is best evidenced in what he did with each of the three facilities that he has opened. Also, there appears to be a solid understanding of what it takes to promote a business which, in a new environment, is important. In addition, the firm's existing employees function well as a group, are effective when it comes to daily operations of the business, and interact well with children and parents, which is important to establishing a good reputation in the community. There is no reason to believe that the Founder would have different expectations for the new employees in Sussex. Finally, the firm's mission statement and long-term objectives suggest that the Founder has established some solid fundamental values and goals that would ultimately be reflected in a new day care facility.

Conversely, the firm has some weaknesses that could not only prevent it from carrying out any additional expansion plans in the near term but, perhaps more importantly, could put the firm in a difficult financial position should the new business not perform as expected.

For example, with the level of debt that Center Care has currently, the debt-to-equity ratio of 48% has approached a level that is close to the norm (55%) for the day care industry. Even though this number by itself is not the sole determinant as to whether the firm would have access to more funds, when coupled with other circumstances, it might serve as a "handicap."

For instance, the firm will be making payments on a new facility in Madison which, realistically, could take six to twelve months or more to become profitabile. This implies a negative cash flow which would act as a drain on the firm's savings. Also, given the current trend toward the tightening of commercial credit and the fact that the Founder would be requesting a loan to open a business in a geographical area where he has had no previous experience, it might be difficult to get the money needed to set up a new facility in Sussex. In addition, if the firm's savings is equivalent to only 5 months' worth of operating expenses for one facility, it is doubtful that Center Care would have enough money to put the standard 25% down for the loan on the new structure in Madison and support it, come up with the funds necessary to fully equip a new facility in Sussex and support it until it became profitable, and still maintain an adequate reserve in savings.

Even if the Founder did have access to the additional funds needed to equip and support a new facility in Sussex, which for the purpose of the following scenarios has generously been set at 1 full year from the date of opening, it is doubtful whether enrollment levels at either of the three different site options would reach the levels needed to break-even before the firm ran out of money. As an example, although there are an infinite number of possible enrollment combinations that could occur among the different age groups, Exhibits A-B-C on pages 89 through 103 provide realistic scenarios of what it would take to make money at the different locations that are available in the Village. Even the least expensive option, which is to buy property and build a small facility (Exhibit C, p. 100), would require an enrollment of approximately 62 children or more in order to begin making money. The enrollment estimate for this scenario is conservative based on the fact that enrollment was equally divided among age groups. In reality, based on the Day Care Needs and Demand Assessment detailed in Chapter 2, it would more likely be skewed toward the infant group. On an incremental basis, an enrollment that was skewed toward infants would tend to push expenses up faster than the increase in revenues received for this age group. This would raise the overall number of children needed to break-even, thereby making it more difficult for the firm to succeed.

With Center Care's marketing expertise, it is conceivable that the firm could reach a level of 62 children before it ran out of money. However, as indicated in the Day Care Needs and Demand Assessment, a realistic level for total enrollment the first year is 40 to 45 children. Also important is the fact that the preliminary estimate of 40 to 45 children did not take into account the expansion plans of local competitors, which makes it even more doubtful that Center Care would reach that enrollment level in the 1 year time frame. This could make it difficult to meet financial obligations which, as a result, could put the firm in financial jeopardy.

With regard to weighing the strengths and the weaknesses associated with this alternative, and determining where this falls on the X-axis of the SWOT Analysis Diagram (Figure 2, p. 83), it is the researcher's opinion that the firm's existing weaknesses outweigh its strengths and a point that lies on the negative (-) side of the X-axis should be selected.

The rationale for arriving at this conclusion is as follows: Of all the strengths that the firm has, the one that matters most in the near term is its marketing abilities. Center Care would need to create interest in the new facility, and get enrollment to an acceptable level relatively quickly. Its other organizational strengths take on importance after there are children enrolled at the facility.

As good as the organization has been at marketing, it is the researcher's opinion that this strength would probably be neutralized in the near term by the competitors in the Village. It is a logical assumption that Wee-Welcome and Quad-Care will take a more aggressive approach to marketing their services when they expand in the latter part of 1990 and in early 1991.

This leaves the issue of finances and the firm's "staying-power" in terms of its ability to support a new facility in Sussex. The high costs associated with the three different site options, as compared to less expensive options such as a home, school, or church, could put the firm at a disadvantage in terms of working capital. Even the least expensive option in terms of enrollment needed to break-even, which is to buy property and build, would require a large capital commitment and possibly cause liquidity problems. The only practical approach, which is not possible at this time, would be for the organization to rent space in a home, school, or church until a satisfactory customer base was established. Given the existing circumstances, the firm's financial weaknesses should take precedence over its marketing strengths. If the firm does not have the funds to support its new venture, nothing else is going to matter.

Because the results of this SWOT analysis indicates that negative points on the X and Y axis are the most appropriate, which encompasses Cell 4 on the SWOT diagram, one can conclude that this alternative is not consistent with the direction that the firm should take and it should not be given further consideration at this time.

Alternative 2

The second alternative is to do nothing in Sussex in 1990. The firm should concentrate its resources on the new facility in Madison.

This alternative is the closest to matching the suggested strategy of cell 4 in the SWOT diagram, which is to take a defensive posture, so it should be selected as the most appropriate strategy at this time. This is not to imply that Center Care should eliminate the possibility of opening a facility in Sussex. It simply means that given the increasing level of competition for business in the Village, lack of inexpensive space in which to locate, and existing debts, the Founder should not consider Sussex at this time. There is nothing to prevent him from monitoring the real-estate offerings in the Village, as well as monitoring Quad-Care, Wee-Welcome, and Tri-County YMCA's progress, and re-evaluating the opportunities in the area at some time in the future.

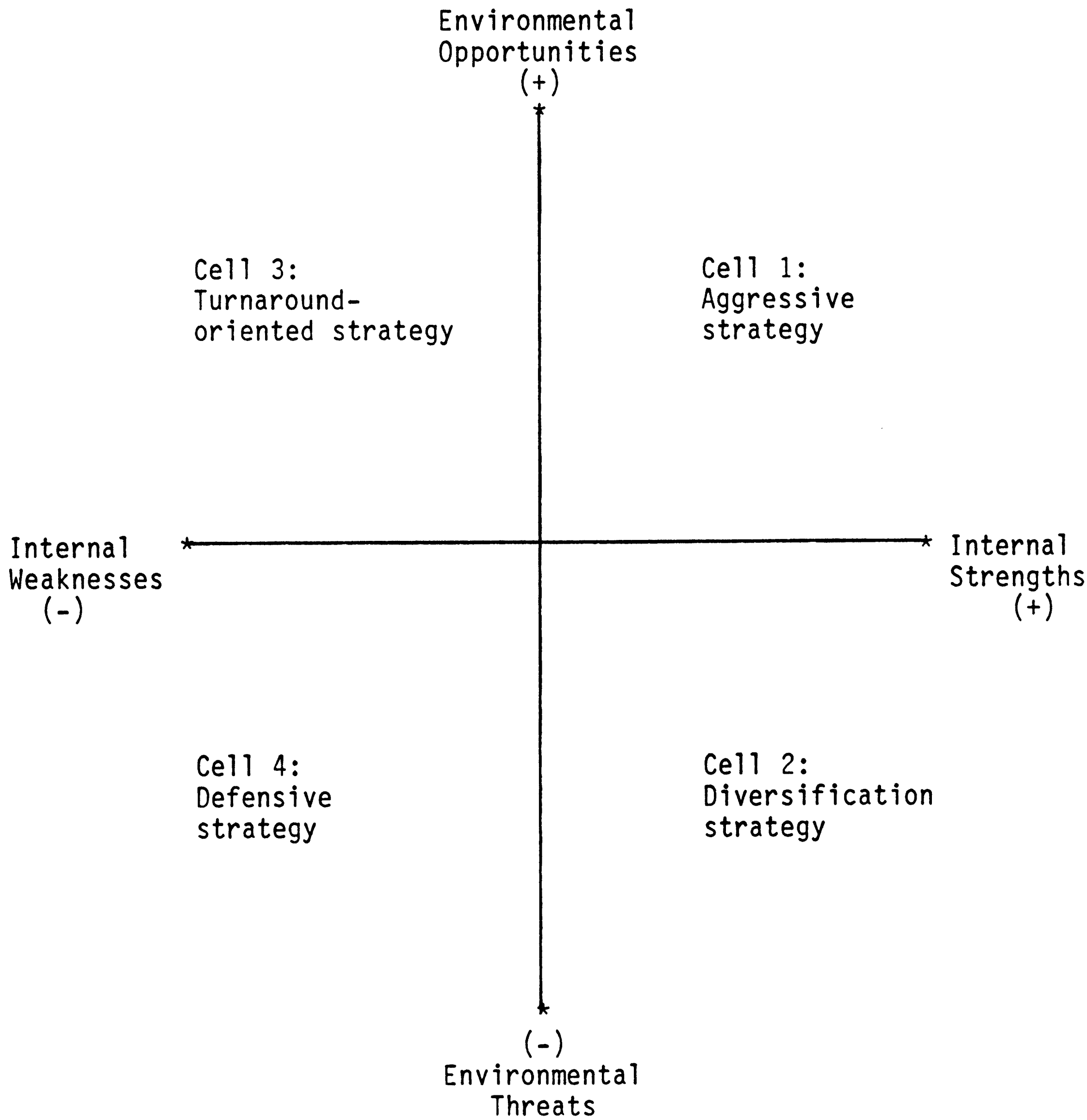

Figure 2

SWOT Analysis Diagram

Source: Pearce and Robinson, 1988, p. 294.

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APPENDIX A

Definitions

- Daily Capacity..... Determined by State Department of Health and Social Services. The maximum number of children allowed to be cared for in a facility is a function of facility type and interior square footage, interior amenities, number of rooms and number of toilets, kitchen facilities, equipment on hand for staff and for children, and proposed staffing levels.

- Day Care Provider.. A person that provides for the safety and the developmental needs of a child in a group day care center, family day care center, or a day camp. In addition, that person may also plan and implement daily activities for a designated group of children.

- Director........... A person responsible for administration and program supervision in a group day care facility. Also responsible for directing the orientation and in-service training of staff.

- Family day care facility.......... A center (usually a home) that provides care and supervision for four to eight children.

- Group day care facility.......... A center (not in a home) that provides care and supervision for nine or more children.

- Infant............. A child between 0 months to 1 year of age.

- Pre-school......... A child between 2 to 6 years of age.

- School-age .... A child over 6 years of age.

- Toddler............ A child between 1 to 2 years of age.

APPENDIX B

Demand Assessment: Scope and Research Methodology

The primary objective of the demand assessment is to determine whether there are gaps between the demand and supply of day care services for different age groups, and the reasons--if any, for those gaps. Because the final selection of a day care facility is often a function of convenience, the researcher limited the geographic area to Sussex and the three contiguous municipalities of Lannon, Lisbon, and Menomonee Falls.

In conducting the demand assessment, the researcher used a variety of sources. Sources included owners and managers of day care firms in Sussex, owners and managers of day care firms in the three contiguous municipalities, day care referral-and-placement agencies in Waukesha County, regional day care licensing agencies, local school district administrators, owners and managers of local businesses, and parents.

Data was gathered during the months of March, April, and May of 1990. Of the methods available for obtaining information, the researcher relied on the use of interviews, either in-person or telephone, with representatives of the different source groups. Census data was not used because it was more than 10 years old. Mailed-surveys were not needed because the quality and quantity of information from other sources was sufficient for evaluation purposes.

Even though a demand assessment provides necessary information, the researcher acknowledges that it has limitations. For example, it does not reveal whether the people who say they want additional day care services in the area will actually use them, what kind of day care program is "best," or whether a new day care facility will be financially successful.

EXHIBIT A

CENTER CARE COMPANY
SUSSEX FACILITY - LEASE OPTION
BUDGETED INCOME STATEMENT
FOR ONE FULL YEAR OF OPERATION

OPERATING REVENUES:		
Enrollment Fees		$ 515,424
Total Operating Revenues		$ 515,424
OPERATING EXPENSES:		
Salaries, Wages, Benefits	$ 305,367	
Occupancy	89,950	
Liability Insurance	7,200	
Training	3,969	
Supplies	10,900	
Depreciation	6,000	
Food	65,520	
Travel	2,480	
Fees	3,350	
Other	5,369	
Total Operating Expenses		$ 500,105
INCOME BEFORE INCOME TAXES		$ 15,319
INCOME TAXES (@ 34%)		$ 5,209
NET INCOME		$ 10,110

Notes To Budgeted Income Statement:

In preparing this income statement, as with the other two statements, the researcher's objective was not to attempt to show the one and only enrollment level or dollar level at which the firm would break-even or become profitable. The objective was to provide an example of one hypothetical enrollment scenario in which Center Care might reach or exceed a dollar break-even level in the facility that is available for lease in Sussex.

When reviewing Exhibit A's income statement, the reader is advised to keep certain items in mind. First, strictly for the purpose of this scenario and the next two scenarios in Exhibits B and C, the researcher has taken the perspective that Center Care has access to the bank loans needed to open a day care facility in Sussex. This assumption has been made even though, as indicated in Chapter 6, it is unlikely that the Founder would be given a loan for the Sussex facility. Also, even though unlikely in reality, the assumption is that the firm has enough money allocated to support this new day care program for one year. The numbers in this income statement, and the following 2 statements, are illustrative of a day care program that is open Monday through Friday from 6:00 AM to 6:00 PM--offering competitive services, with a competitive compensation package for employees, and a sound marketing program. Second, although every effort was made to ensure an accurate projection of expenses--based on the structure being occupied and the cost to provide services to the hypothetical number of children enrolled, it is possible that these expense projections may be optimistic.

For example, it is possible that salaries and benefits may actually be higher than projected. This could happen if enrollment turned out to be skewed toward the infant and toddler age groups--as is more likely to be the case, with fewer children in the older age groups. The result would be a need for a higher overall ratio of day care providers to children. It could also happen if it became necessary to increase the levels of compensation or to enhance the benefits package in order to be more competitive with regard to hiring and/or retaining employees. Also, the costs associated with occupancy may be somewhat higher than the researcher's information sources had estimated. In addition, supplies and food estimates may be overly conservative. Finally, it is possible that Center Care might have to pay higher interest rates on loans. An upward variance in any one of these, or other, expense categories could erode the operating margin. This would make it necessary to either increase the level of enrollment or to raise prices in order to compensate for higher fixed and/or variable expenses.

Exhibit A's operating revenues are based on a hypothetical enrollment of 120 children, and an assumption that all of the children would participate in full-day programs. Based on the previously indicated estimate of 6,500 square feet of space that is available for children, 120 is 65% of what would likely be the building's maximum physical capacity of 185. The enrollment breakdown and weekly rates charged are as follows: (8) infants @ $105; (8) toddlers @ $105; (12) 2 to 2 1/2 years @ $85; (16) 2 1/2 to 3 years @ $ 85; (20) 3 to 4 years @ $77; (24) 4 to 5 years @ $77; (32) 5 to 6 years @ $77. In keeping with the Founder's objective to be in the middle of the competitive price range, these prices are within the range of prices charged in the Village (Table 11, p. 69). Because the information as to what might be expected in terms of revenues from families that receive Aid To Families With Dependent Children in the Sussex area varies so much, an estimate is difficult to make. As a result, the reader will note that an estimate is not included here or in Exhibits B or C.

Operating expense projections are the cumulative result of input from the Director of a Center Care facility, local real estate agents, utility companies, food distributors, insurance companies, banks, contractors and data obtained from the Directors of the three group day care firms in the Village of Sussex. Following is a breakdown of those expense categories:

- The allocation for Salaries, Wages, and Benefits includes the Director's salary of $18,000, total wages of $229,320 paid to the full and part-time day care providers and $12,000 for a full-time cook. Even though the hourly wages of the day care providers would vary based on experience, the projection for the total annual wages that Center Care would pay to its day care providers in Sussex is based on a competitive average hourly rate of $5.25/hour--multiplied by the total number of day care providers required to be in each room--multiplied by 60 hours of operation per week--multiplied by 52 weeks. Given the hypothetical number of children in the different age groups, a total of 14 day care providers would be required to be stationed in all of the rooms at any given time in order to conform to state licensing requirements. For instance, with an enrollment of eight infants, two day care providers would be needed in the infant room at all times. Likewise, two day care providers would be needed in each of the other 6 age groups' rooms as well. Based on the number of providers needed in each room and the hours of operation, the Founder's objective would be to hire 21 full-time day care providers and one or two part-time day care providers. Full-time and part-time schedules would be staggered somewhat in order to provide proper coverage during each 12 hour day.

This category also includes an allocation for substitutes for full-time staff members, FICA, unemployment insurance, and the annual premiums for a modest group health insurance program. The allocation for substitutes is $8,484. This covers the cost to pay temporaries an <u>average</u> of $4.50/hour to fill in for the full-time day care providers and the cook. According to day care owners in Sussex, for the foreseeable future, $4.50/hour is competitive hourly rate for substitutes. It also includes extra compensation for the employee assigned to perform the duties of the Director when the Director is absent. The total allocation for substitutes is based on covering 5 paid sick days and 5 days of paid vacation for each full-time staff member during the first year of operation. After the first year, it is anticipated that the vacation time allotments would go from 5 days to 10 days for full-time staff members. Because part-time staff members would not be paid for sick days or vacation time, they were not included in the allocation for substitutes. The money paid to temporaries to fill in for the part-time staff would be offset by the money saved by not paying part-time employees for their time off. However, should it become necessary to offer part-time employees the same number of paid sick days and vacation days in order to attract and keep part-time help, it would increase expenses associated with paying substitutes by approximately $1,000 to $1,500 per year. This might be worth considering because day care owners in the Village have indicated that the turnover of part-time day care providers is higher than the turnover of full-time providers in the Sussex area. The total for both the FICA and the unemployment insurance categories is estimated to be a total of $29,458. The annual premium for the group health insurance plan is $8,105.

- Occupancy includes $5,300/month--$63,600/year for the lease, an estimate of $12,000 for property taxes and $5,000 for utilities. Also included are an annual premium of $4,400 for property and casualty insurance, and a budget of $4,950 for building maintenance, garbage removal, and a security monitoring service for fire/theft protection.

- Liability insurance is to protect the company and the employees, should something happen to a child. The annual premium for $100,000 insurance coverage is approximately $60 per child. Even though this is considered to be an adequate amount of coverage, the Founder might want to increase the amount of insurance to $500,000 or more per child.

- Training covers the expenses associated with the state requirement of 24 hours of in-service training per year for each day care giver. During this training, the day care providers would be paid time-and-a-half.

- Supplies includes cleaning materials, equipment purchases, postage, telephone, custom printed items, classroom supplies and toys, utensils, sanitary items, and office supplies.

- Unless otherwise indicated, depreciation is based on 5 years and covers items such as major kitchen appliances, furniture, and so on. Toys and small ticket items are not depreciated, they are expensed.

- Food expenses cover the cost of buying food to feed 112 children per day for 1 year. From discussions with Center Care's management, the eight infants are not to be included in the food budget. The infants' parents would have to supply their food. According to day care owners in the Village, $2.25 would be sufficient to provide each of the other 112 children with one meal and two snacks or two meals and one snack on a daily basis. Not covering the cost for infant food may or may not have a bearing on Center Care's competitive posture because excluding infants from the food budget is currently the norm at the group day care firms in Sussex. One issue that the Founder might consider is that it is possible that Center Care might gain a competitive advantage in the infant age group if the firm covered the cost to feed infants out of the proposed fee schedule for that group.

- Travel expenses includes the anticipated mileage to be paid to staff members, and four field trips per year--for children between 4 and 6 years of age.

- Fees include those for accounting and auditing, legal advice, Yellow Pages advertising, and recruiting in the "Classified's" section of the newspaper.

- "Other" includes items such as the cost to hold Open-Houses, parent-teacher meetings, and miscellaneous categories.

EXHIBIT B

CENTER CARE COMPANY
SUSSEX FACILITY - BUY OPTION
BUDGETED INCOME STATEMENT
FOR ONE FULL YEAR OF OPERATION

OPERATING REVENUES:		
Enrollment Fees		$ 550,160
Total Operating Revenues		$ 550,160
OPERATING EXPENSES:		
Salaries, Wages, Benefits	$ 305,367	
Occupancy	62,986	
Liability Insurance	7,200	
Training	3,969	
Supplies	10,900	
Depreciation	28,667	
Food	65,520	
Travel	2,480	
Fees	3,350	
Other	5,369	
Total Operating Expenses		$ 495,818
OPERATING INCOME:		$ 54,342
OTHER REVENUES AND EXPENSES:		
Less Interest Expense	$ 28,976	
Excess of Other Expenses over Other Revenues		$ 28,976
INCOME BEFORE INCOME TAXES		$ 25,366
INCOME TAXES (@ 34%)		$ 8,625
NET INCOME		$ 16,741

Notes To Budgeted Income Statement:

The same objectives and considerations mentioned in the notes to the budgeted income statement in Exhibit A apply here as well.

Exhibit B's operating revenues are based on a hypothetical enrollment of 120 children, and an assumption that the all of the children would participate in full-day programs. Based on the amount of space available for children after alterations, 120 is 65% of what would likely be the maximum physical capacity of 185. The enrollment breakdown and weekly rates charged are as follows: (8) infants @ $115; (8) toddlers @ $115; (12) 2 to 2 1/2 years @ $95; (16) 2 1/2 to 3 years @ $95; (20) 3 to 4 years @ $80; (24) 4 to 5 years @ $80; (32) 5 to 6 years @ $80.

In contrast to the prices established in Exhibit A, prices were set at the high end of the competitive price range. Through trial-and-error, the researcher has concluded that only by charging these prices, given the enrollment level mentioned above, would the firm cover its fixed and variable expenses, and start to make money. This is due in part to the interest expense in this scenario that is not present in the scenario in Exhibit A. The researcher acknowledges the fact that these prices are contrary to the Founder's pricing objectives and that they would put Center Care at a significant competitive disadvantage--thereby making it questionable as to how realistic an enrollment of 120 children would be. It is possible, of course, to set lower prices in order to be more competitive. With lower prices, however, the enrollment levels needed to reach a dollar break-even level would have to be higher than 120 children.

Operating expense projections are the cumulative result of input from previously mentioned sources. To assist the reader in understanding how the five highest expense categories in Exhibit B were derived, the following summaries are provided. For an explanation of the other expense categories in Exhibit B that are not included here, the reader should reference the notes to the income statement in Exhibit A.

- Salaries, Wages, and Benefits category includes the Director's salary of $18,000, total wages of $229,320 to full and part-time day care providers, and a salary of $12,000 for a full-time cook. Also included is an allocation of $8,484 for substitutes for full-time staff members, $29,458 for FICA and unemployment insurance, and $8,105 for the first year premium for a group health insurance plan.

The reader will note that these subtotals are the same as those in the Salaries, Wages, and Benefits expense category in Exhibit A. This is because the hypothetical enrollment levels among the different age groups in Exhibit B are the same as those in Exhibit A, and proposed staffing levels and compensation/benefit schedules are similar. For a more detailed breakdown, refer back to the notes to Exhibit A.

- Occupancy includes $2,978/month--$35,736/year for a 15 year mortgage of $255,000 at an annual interest rate of 11 1/2%. The amount of the mortgage is 75% of the total required to buy the building for $300,000 and to make $40,000 worth of improvements. Also included in this category is an estimate of $8,775 for property taxes and $6,500 for utilities, an annual premium of $6,000 for property and casualty insurance, and a budget of $5,975 for building maintenance, garbage removal, and a security monitoring service for fire/theft protection.

- Depreciation includes $6,000 for equipment, as in Exhibit A, and $22,665 for the building. This is based on a value of $340,000 for the building--after improvements, a 15 year period and the straight-line method.

- Food expense projections were determined the same way, and for the same number of children, as food expense projections in Exhibit A.

- Interest expense includes the interest paid on the loan needed to buy the building for $300,000 and make $40,000 worth of structural changes and improvements. With 25% down, Center Care could get a 15 year loan for $255,000 at an annual interest rate of 11 1/2%.

EXHIBIT C

CENTER CARE COMPANY
SUSSEX FACILITY - BUILD OPTION
BUDGETED INCOME STATEMENT
FOR ONE FULL YEAR OF OPERATION

OPERATING REVENUES:		
Enrollment Fees		$ 283,400
Total Operating Revenues		$ 283,400
OPERATING EXPENSES:		
Salaries, Wages, Benefits	$ 162,515	
Occupancy	33,157	
Liability Insurance	3,720	
Training	1,890	
Supplies	8,900	
Depreciation	12,000	
Food	33,930	
Travel	1,440	
Fees	3,350	
Other	3,290	
Total Operating Expenses		$ 264,192
OPERATING INCOME:		$ 19,208
OTHER REVENUES AND EXPENSES:		
Less Interest Expense	$ 16,190	
Excess of Other Expenses over Other Revenues		$ 16,190
INCOME BEFORE INCOME TAXES		$ 3,018
INCOME TAXES (@ 34%)		$ 1,026
NET INCOME		$ 1,992

Notes To Budgeted Income Statement:

The same objectives and considerations mentioned in the notes to the budgeted income statements in Exhibit A and Exhibit B apply here as well.

Exhibit C's operating revenues are based on a hypothetical enrollment of 62 children, and an assumption that all of the children would participate in the full-day programs. Based on the amount of space available for children in a 3,000 square foot building on a 2 acre lot, this is 100% of what would likely be the maximum physical capacity. This assumes that approximately 2,200 square feet would be utilized by the children, and the rest would be used for an office, a kitchen, and the bathrooms. A one story facility of 3,000 square feet would leave adequate room on the two acre lot for the space required for a playground and a parking lot.

It should be noted that, compared to the majority of day care facilities built in the last several years, this would be considered a relatively small structure. At present, most day care facilities are designed and built to be in the range of 5,000 to 8,000 square feet. Previously listed information sources indicate that building a facility smaller than 3,000 square feet would make it more difficult to break-even. This is because, on an incremental basis, potential revenues begin to decrease faster than the decrease in building expenses and yearly payments on any loans secured for that purpose.

The enrollment breakdown and weekly rates charged are as follows: (4) infants @ $115; (4) toddlers @ $115; (6) 2 to 2 1/2 years @ $95; (8) 2 1/2 to 3 years @ $ 95; (10) 3 to 4 years @ $80; (13) 4 to 5 years @ $80; (17) 5 to 6 years @ $80. Similar to Exhibit B, prices were set at the high end of the range. The same set of considerations outlined in Exhibits A and B apply here as well.

Operating expense projections are the cumulative result of input from previously indicated sources. To assist the reader in understanding how the five highest expense categories in Exhibit C were derived, the following summaries are provided. For an explanation of what the other categories in Exhibit C consist of--that are not summarized here, the reader should reference the notes to the income statement in Exhibit A.

- Salaries, Wages, and Benefits category includes the Director's salary of $18,000, total wages of $114,660 to full and part-time day care providers, and a salary of $6,000 for a part-time cook. Also included is an allocation of $4,164 for substitutes for full-time staff members, $15,819 for FICA and unemployment insurance, and $3,872 for the first year premium for a group health insurance plan.

With the exception of the Director's salary, the figures listed above are different from the subtotals in Exhibits A and B. This is because the number of day care providers needed for each room is different and the cook would work half-days as opposed to full-time. Whenever the facility was open, based on the hypothetical total enrollment of 62 children, Center Care would need a total of seven day care providers to be stationed among the different age groups' rooms. Each age group would have one day care provider assigned to it at all times in order to conform to state licensing requirements for staffing. The Founder's objective would be to hire 10 full-time day care providers and one part-time provider to provide adequate coverage during the hours of operation. The hourly wage schedule and benefits plan used to determine the above subtotals are the same as those used to determine subtotals in similar categories in Exhibits A and B. For a more detailed explanation, the reader should refer to the notes to Exhibit A. The same concerns and considerations listed in these categories in Exhibit A apply here as well.

- Occupancy includes $1,667/month--$20,004/year for a 15 year mortgage of $142,500 at an annual interest rate of 11 1/2%. This is 75% of the total estimated cost of $190,000 to build the day care facility on a 2 acre lot in the Sussex industrial park. The 3,000 square foot structure is estimated to cost $90,000, or $30 per square foot, and the lot would cost $40,000 per acre. The parking area, playground, and landscaping would cost approximately $20,000.

Occupancy costs would also include approximately $4,903 for property taxes and $3,000 for utilities, an annual premium of $2,500 for property and casualty insurance, and a budget of $2,750 for building maintenance, garbage removal, and a security monitoring service for fire/theft protection.

- Depreciation includes $6,000 for equipment, as described in Exhibit A, and $6,000 for the building. Depreciation on the building is based on a value of $90,000, over a 15 year period, using the straight-line method.

- Food expenses were determined the same way as the food expense projection in Exhibit A. In this scenario, the number of children included in the estimate is 58.

- Interest expense consists of the interest paid on the 15 year mortgage of $142,500 at an annual interest rate of 11 1/2%.