

# Emerging Dynamics in the Private Childcare Market

*Population, Labor, Policy, & Capacity Trends Driving Enrollment*

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## About Tuscany

Tuscany Strategy is a U.S. management consulting firm providing strategic and management services to senior executives across the entire spectrum of knowledge and learning industries. [www.tuscanystrategy.com](http://www.tuscanystrategy.com).

## Authors

David Long, Thomas Reilly, Vanessa Vaughn, Rachel Yuh, Trudee Wiltshire, Suleiman Tahir, and Abhin Kurella

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# Introduction

The private childcare landscape is being dramatically reshaped by long-term factors including an increasing cost of entry into the knowledge class, declining birth rates, and widening economic disparities, as well as pandemic related disruptions and the rising costs of service work.

Over the past forty years, the surging knowledge class has dramatically increased its investment in their child's educational and personal development - catalyzing growth in the early childhood education (ECE) industry and marking a transition away from traditional daycare to more formalized early childhood educational services. This is evidenced by the decline of home-based daycares and the rise of corporate and franchise-operated childcare chains with robust educational offerings.

These trends are contributing to a reduction in more affordable childcare options, although this is being partially offset by increased state-provided childcare assistance, including subsidies and the expansion of Universal Pre-K programs. This report sheds light on these trends and implications for private providers across the childcare spectrum.

**-7%** *Change in children under 5 (2017-2022)*

**\$17.05** *Median advertised hourly wage for preschool teachers. Up from \$13.02 in October 2020 (31%).*

**-11%** *Decrease in Tier 1: Home-based daycare programs. Resulted in a 6% decline of private-child care locations nationwide from 2019-2022.*

**8%** *Increase in Tier 5: Premium ECE centers from 2019-2022. These are typically higher capacity, corporate or franchise-owned brands.*

**92%** *Children in paid childcare settings enrolled in center-based care*

**\$67B** *Tier 1-5 childcare market size estimate (2023)*

# Insights In Brief

*Early childhood education emerges from the pandemic facing new market dynamics*

## A Changing Context

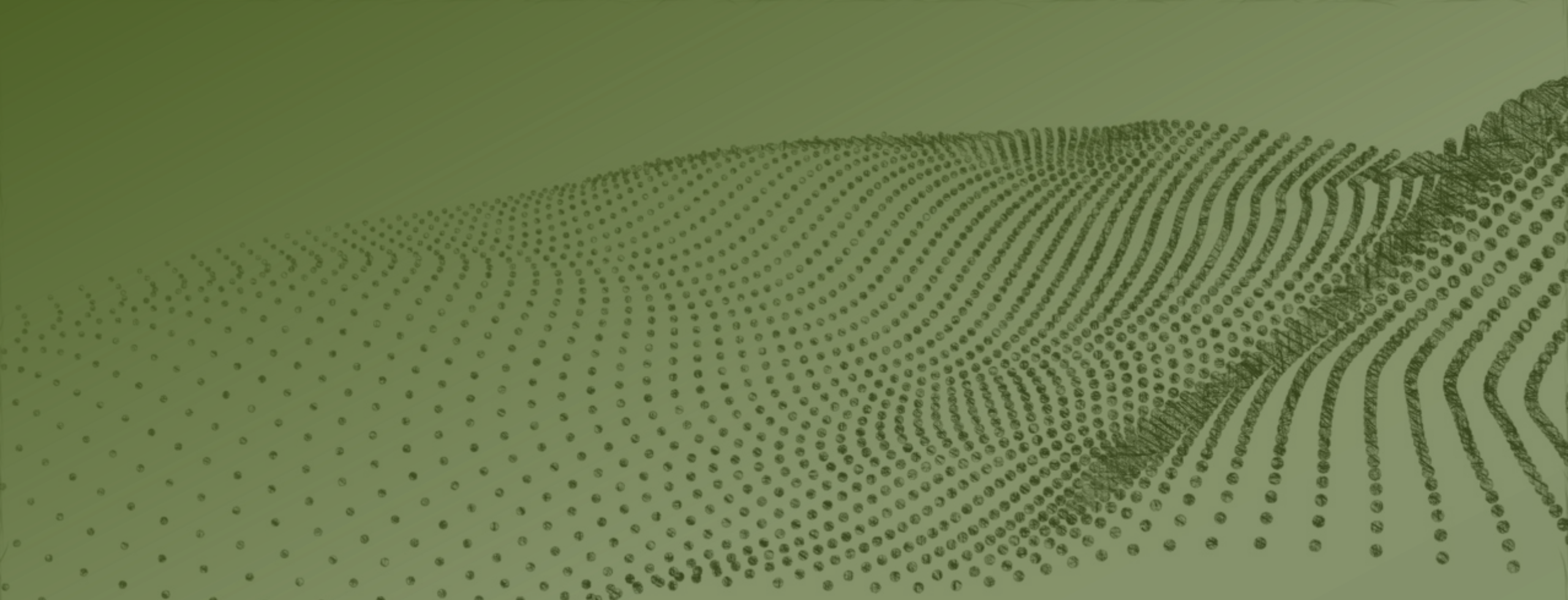
- **The explosion of Knowledge work over the past forty years has given rise to the early childhood education industry.** This is driving a long-term shift from daycare to professionally-operated early childhood education.
- **The market faces a declining child population and tightening labor supply which are driving labor costs.**
- **Private preschool enrollment rates have returned to pre-pandemic levels,** suggesting that recent post-pandemic growth may have slowed or plateaued.
- **The service environment is also shifting,** with widespread closure of home-based daycare coupled with growth of corporate or franchise-owned chains.
- **This is decreasing the availability of lower-cost childcare options across markets.** But states are increasing childcare support in the form of subsidies and Universal Pre-K (UPK) expansions (see [Tuscany's forthcoming UPK Report, Spring 2024](#)).<sup>1</sup>
- **Tuscany's Quality/Price Tier™ analysis of the early child-care market** reveals five quality tiers, each with different consumer demand drivers. Tier 1: Home-based, Tier 2: Daycare Centers, Tier 3: Standard ECE, Tier 4: Upscale ECE, and Tier 5: Premium ECE.

## Operator Implications

- **Stealing share is the new reality.** While there are still individual markets that are underpenetrated by private childcare, most private childcare operators can expect growth to come at the expense of the competition.
- **Strategies to steal share will vary by Quality/Price Tier™.** Successful competitive strategies may not translate across tiers.
- **Driving center occupancy** comes down to smart pricing, operational excellence, effective labor management, and brand differentiation.
- **Private childcare consolidation will continue.** The operational efficiencies created by centralized processes along with rising labor, insurance, and other costs will continue to drive closure of independent childcare programs and home daycare.
- **UPK will present opportunities and risks for private operators which differ by Quality/Price Tier™.** Successful participation strategies may not translate across tiers.
- **Expect fierce competition among ECE product/service providers (center management software, curriculum, quality assurance, assessment, PD) to solidify market share** among Tier 3-5 providers and to expand share by transitioning Tier 2 Daycare centers into lower Tier 3 ECE providers.

Sources: Tuscany Strategy Analysis, <sup>1</sup>Universal Pre-Kindergarten Insights Report (Spring 2024)





# Tuscany Insights

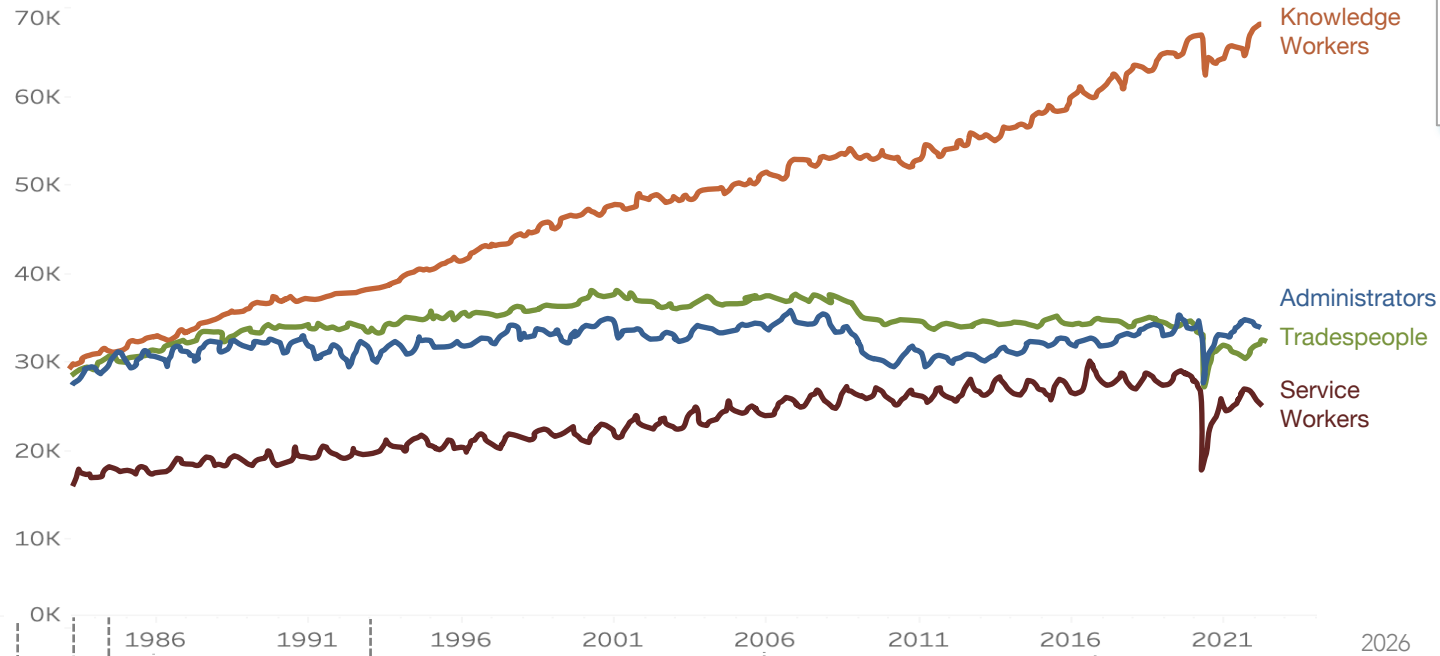
*Market Dynamics Affecting Private Childcare*

# Knowledge work is driving ECE demand while service work is driving labor supply

*The untold story of the U.S. economy is the explosion of non-routine work*

US Employment, by Type of Work 1983-2022

Jobs (Thousands)



The massive wealth created by the explosion of **knowledge work** has driven the rapid expansion of the premium tiers of the Early Childhood Education market as knowledge workers seek to advantage their children. The underlying trends supporting ECE will continue to grow.

**Service workers** are the foundation of ECE services. Starting pre-covid, sustained demand for service workers has outstripped supply, dramatically increasing their market power. This is evidenced by the Great Reallocation as service workers jump from job to job obtaining higher wages and better work conditions. The shortage of qualified ECE workers is hitting the industry hard and will continue to be a key pressure for the foreseeable future.

● Kiddie Academy  
 ● Primrose  
 ● Goddard  
 ● Kids R Kids  
 ● Bright Horizons

● Brooks & Brooks  
 "In Search of Understanding,  
 The Case for Constructivist  
 Classrooms"

● Carol Dweck  
 "Growth Mindset"

● "Grit"  
 A. Duckworth

Notes: Tier 3: La Petite: 1968, Tier 3/4: Kindercare: 1969

Source: Federal Reserve Bank of St Louis, 2017, FRED, The History of Artificial Intelligence Harvard 2017, Tuscany Strategy Analysis

# Median wage rates for preschool teachers increased 49% over the past 10 years

*Increasing labor rate demands will further pressure operators to increase tuition to attract and retain staff*

## Median Hourly Wage Rates for Preschool Teachers in the U.S.

October 2013-2023



**The step change in wage expectations among preschool teachers further pressures operators to increase tuition to attract and retain quality staff through higher compensation and benefits.**

### Findings

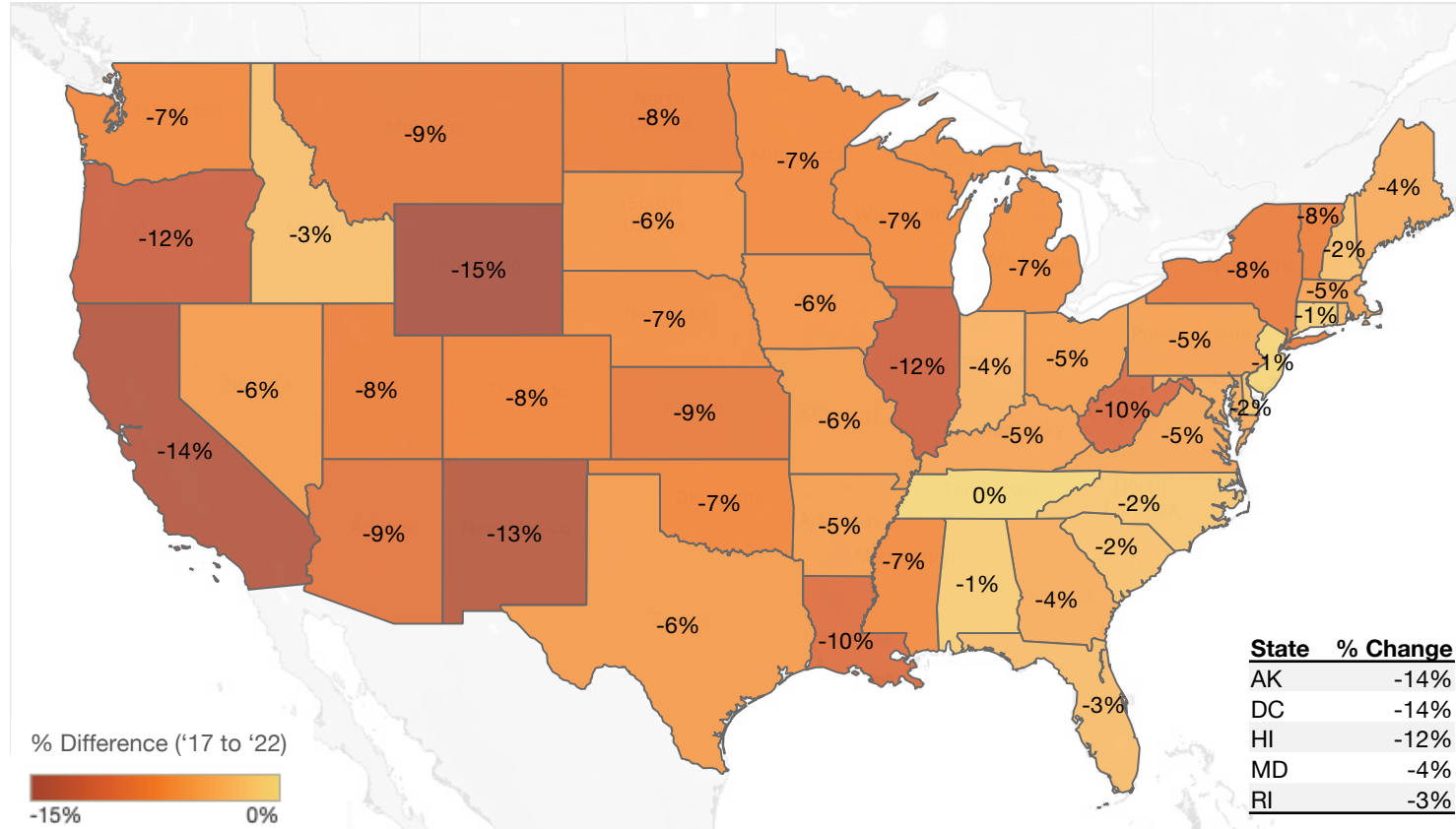
- In-depth interviews with childcare operators across the U.S. reveal that prospective ECE teachers expect higher wages despite being less qualified than candidates in prior years.
- Preschool teacher hourly wage rates have been increasing in a step-change fashion since the pandemic.
- Median advertised wage rates have increased from \$11.48 to \$17.05/hour from October 2013-2023 with an overall median rate of \$14.98/hour over the period.
- Since the pandemic, median advertised wage rates increased 31% (October 2020-2023).
- Hourly wage rates are currently at their highest point in the last 10 years, higher than pre-pandemic levels.

Source: Lightcast BLS Data (2013 to 2023), Tuscany Analysis

# The number of U.S. children under 5 decreased 7% from 2017 to 2022

*The decline is most evident in cities and suburbs and consistent across median household income groups*

## Population change, children aged under 5 (2017-22)



## Findings

- The population of **children aged 0 to 4 in the United States declined by 7% from 2017-22**. All regions experienced some decline, though rates varied among states, locales, and income.
  - Western states, including California, Oregon, New Mexico, and Wyoming, had the highest decreases.
  - Southern states, like Tennessee and Alabama, and Northeast States, like Connecticut and New Jersey, decreased at lower rates than the rest of the country.
  - Urban zip codes decreased more than suburban or rural zip codes.<sup>2</sup>
  - Higher income zip codes (>\$100K/yr) declined at lower rates than lower income zip codes (<\$100K/yr)<sup>3</sup>.
- Population declines are the result of both reduced domestic birth rates and lower migration.
  - These declines are expected to continue<sup>5</sup>, due to long-term factors such as declining fertility rates, increased female workforce participation, increased cost of living, and cultural shifts.<sup>3</sup>

Note: <sup>2</sup>The locale-level and income-level analysis were completed using zip-code level data. Zip code locale is from NCES's ZCTA Locale Assignments. Zip codes without an assigned locale were excluded from the analysis. Any zip codes without a reported median household income were excluded from the analysis. <sup>3</sup>Income analysis was done using median HHI at the zip code level.

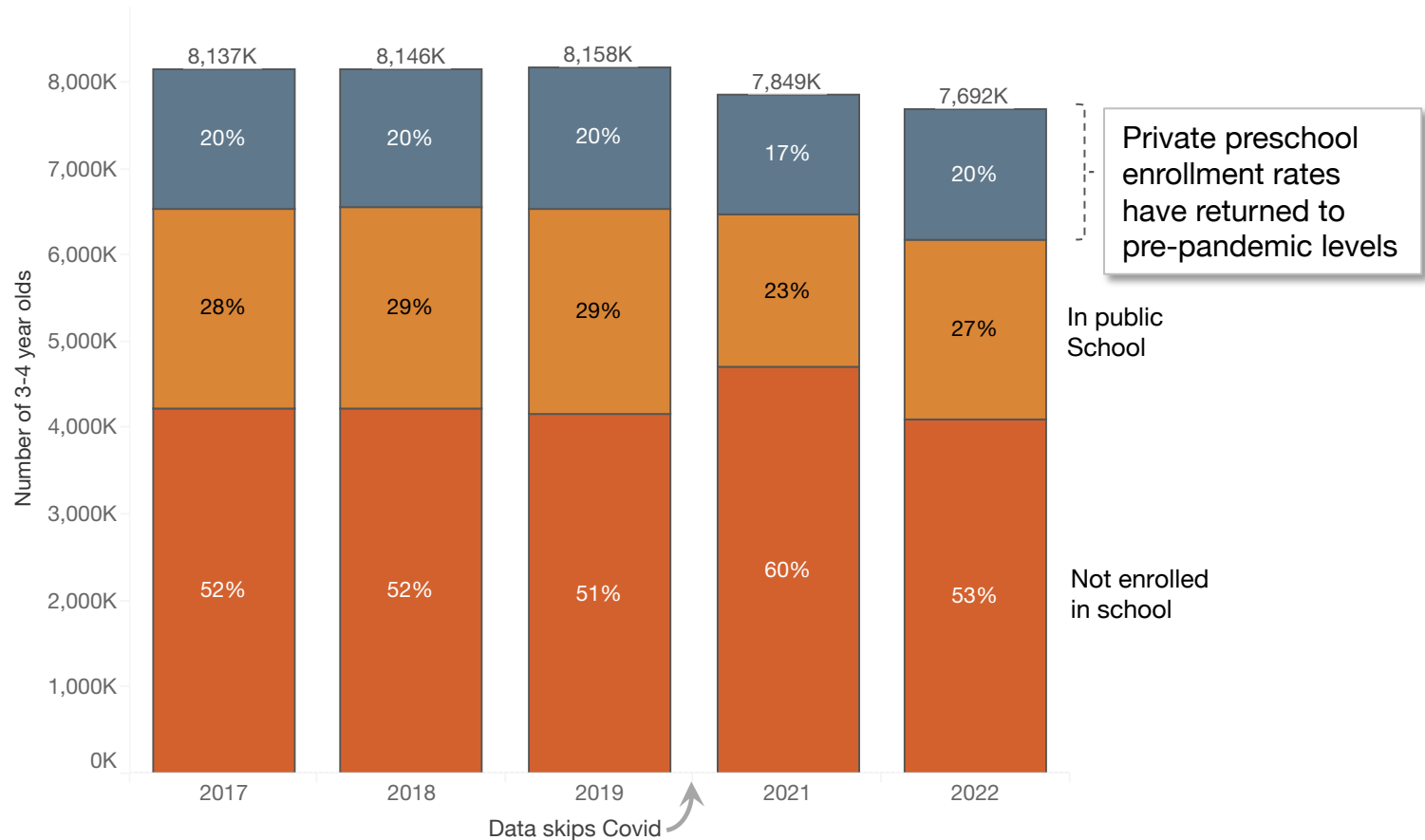
Source: <sup>1</sup>Lightcast 2023.4, <sup>3</sup>National Center for Health Statistics, <sup>4</sup>Center for Retirement Research at Boston College, <sup>5</sup>Brookings



# Private preschool enrollment rates have returned to pre-pandemic levels

*This trend may indicate that growth in enrollment rates experienced in the last few years have plateaued*

3-4-year-old school enrollment by school type, 2017-22



## Findings

- The population of 3-4-year-olds **declined by 5%** between 2017 and 2022.
- There are **variations in private school enrollment rates across states** though no clear regional pattern is evident.
- Tuscany has not identified evidence of lower or higher enrollment rates among high-income families compared to the national trend.
- **The presence of state Universal Pre-K (UPK) programs does not appear to impact private preschool enrollment rates at the state level.\***

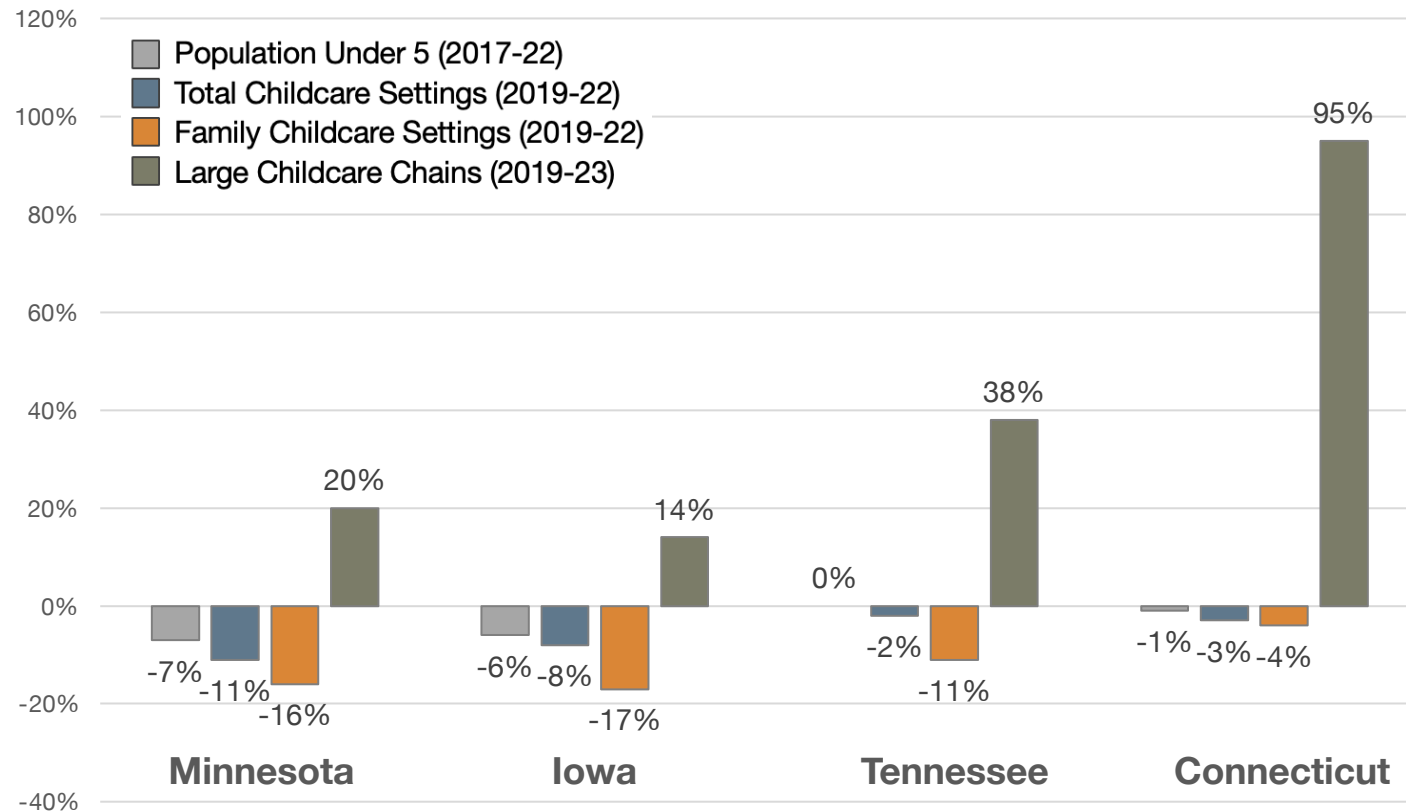
Note: \*If a student were enrolled at a private center that participated in UPK, the student was still counted as enrolled "in private school" in the dataset visualized above. Data is not available for 2020.

Source: [U.S. Census](#)

# The number of centers operated by large chains has grown substantially since 2019, whereas smaller, home-based, and independent center numbers have declined

*Large childcare chains may have more ability to sustain enrollment growth due to economies of scale*

Population and childcare center growth trends, select states



**The growth in large childcare chains compared to other market segments indicates that the higher end of the market may be growing even as the total enrollment is declining.** However, the growth in these segments coupled with plateauing enrollment points to heightened competition between large childcare providers.

### Findings

- Shifts in the structure of the private childcare market are demonstrated through the examples of Minnesota, Iowa, Tennessee, and Connecticut, where **large childcare chain locations increased between 14-95%** and **family childcare (FCC) locations decreased between 4-17%**. It's likely that smaller, independent daycare centers are also declining.
- Most large brands are high-priced compared to independent providers. Large brands also tend to provide a higher quality offering on a number of dimensions and typically enroll more student per location.

Note: "Childcare chains" are early-childcare centers that have 5+ locations. "Independent centers" are family or group home childcare centers. Groupings used in this analysis assign non-tiered centers to this independent centers group, but it is possible that there are some local Tier 3, 4, or 5 schools that would otherwise be part of the "known childcare chains" group if tiering was completed for all schools in all states.  
 Source: Tuscany Analysis, Connecticut Childcare Portal, Tennessee Department of Human Sources, Iowa Child Care Client Portal, Minnesota Department of Human Services, <sup>1</sup>Child Care Aware, 41-state analysis

# The private childcare is made up of five, distinct Quality/Price Tiers™

Broadly, each Quality/Price Tier largely serves a specific consumer segment, with a distinct set of needs, wants, and price sensitivity

## Our Methodology

- Our methodology has been tested through quality and price analysis of hundreds of early childhood and daycare providers and nine years of primary qualitative and quantitative research. We have used this approach to drive quality and price improvements in 24+ brands across the country.
- Within early childhood, we weigh multiple factors captured through mystery shopping. Our weighting is based on factors that parents prioritize in their evaluation & enrollment process.
- This generates 5 Quality/Price Tiers™ (see slide 12 for more detail).

## Client Tailoring

- **Rubric Refinements:** Our evaluation rubric can be tailored to support specific corporate goals and brand strategy.
- **Mystery Shopping:** Tuscany uses a mystery-shopping provider trained on our proprietary methodology. If a client prefers using an existing relationship with a third-party provider, we will train their team to ensure high fidelity ratings.

## Parent Evaluation Categories

Location
Grounds
Playground
Indoor Facilities
Health Protocols
Security Measures
Curriculum
Enrichment
Meals
Nutrition & Table Etiquette
Teachers
Leadership Team
Communication
Billing & Onboarding
School Experience

## Weighted Evaluation Rubric

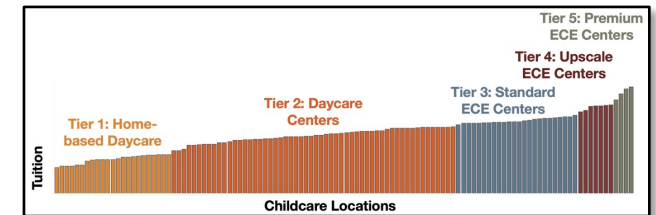
- Each category is rated based on the presence of multiple premium attributes specific to each category.
- Each category is weighted based on the importance parents place on the category. **Attributes and weighting of each category change based on whether the families is new or current.**
  - For example, the Communication category is primarily based on the sales experience for prospective families and reoccurring communication for current families.

Category	Location	Grounds	Playground	Indoor Facilities	Health Protocols	Security Measures	Curriculum	Enrichment	Meals	Nutrition & Table Etiquette	Teachers	Leadership Team	Communication	Billing & Onboarding	School Experience
Existing Families	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1
New Families	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1

Website quality	Tour quality (more than just a real estate tour)	Promotional materials	Responsiveness to inquiries
High-End Professional Grade Website with proprietary media and substantial information.	-Tour covers all aspects of the school while highlighting information that may not be easily understood on the website. -Tour is personalized to each person. -Individual reading the Tour is well spoken, interactive and knowledgeable. -Tour guide integrates student outcomes/learning throughout the tour and provides proof points (e.g., student work in classrooms, posted lesson plans, interviews with students)	High-End Professional Grade -Targeted messaging regarding differentiating features -Includes a call to action	Within 5 minutes
Semi-Professional to Professional looking website with relevant information and stock images.	-Tour only highlights high level information and is not personalized. -Tour guide is not very engaging, but is more interactive than just a real estate tour.	Amateur Professional Grade -Does not add more value	Within 24 hours
DIY website with minimum to no relevant information. Stock photos or no media.	-Real Estate Tour only introduces the family to the physical space. Does not provide additional detail or personalization.	None	After 24 hours

## Quality/Price Tiers™

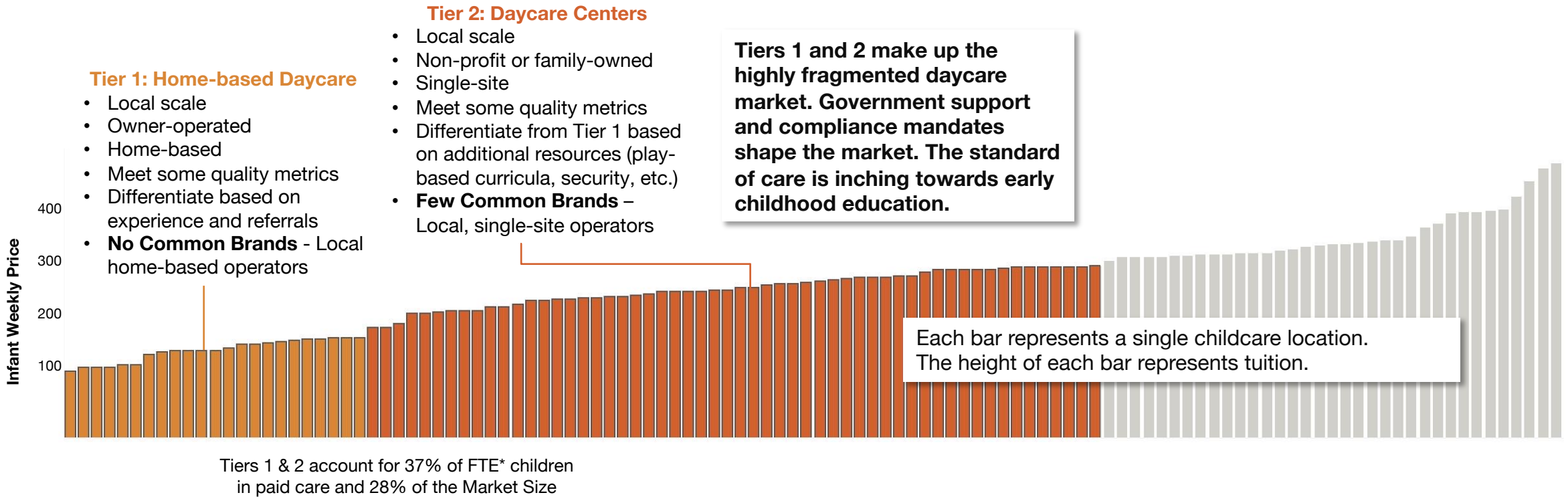
- Childcare providers can be grouped into five Quality/Price Tiers™ with increasing quality, price, and parent expectations at each tier level. This results in significant differences in price sensitivity for each tier as well.
  - Tiers 1-2 include in-home and center-based daycare providers.
  - Tiers 3-5 include center-based early childhood education providers.



Source: Tuscany Strategy Analysis of several hundred brands using our proprietary Quality/Price Tiers™ and Price Corridors™ techniques.

# The majority of offerings in the U.S. are daycare, Tiers 1 & 2

*The childcare market consists of five Quality/Price™ Tiers*



Notes: This visualization is based on the proportion of the number of centers per tier for three representative markets: Nashville, TN, Minneapolis, MN, and Phoenix, AZ. \*FTE = Full-Time Equivalent.  
Sources: State Licensing Data, Provider Websites, Tuscany Analysis. Estimated weekly infant prices are derived from mystery shopping conducted in each market from 2020-2024.



# Tiers 3-5 share table stakes features but at different levels of quality & differentiation

*A provider's ability to respond to a contracting market depends on their Quality/Price Tier™*

**Tiers 3, 4, and 5 make up the early childhood education market.** Market dynamics vary by Quality/Price Tier™ and location; successful competitive strategies may not translate across tiers or brands (e.g., Tier 3 may compete more on price, while Tier 5 competes on education quality)

### Tier 3: Standard ECE Centers

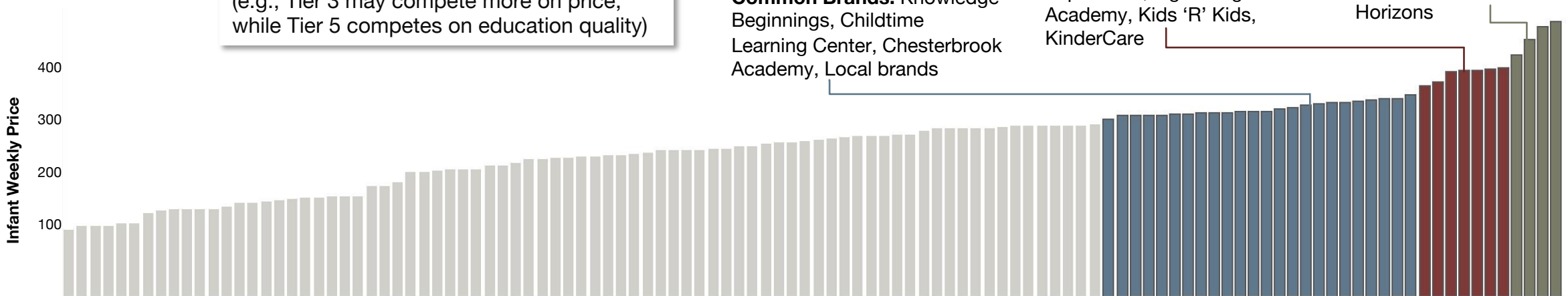
- National – local scale
- Corporate, franchise, or family-owned
- Meet all quality metrics
- Differentiate from Tier 2 based on educational focus
- **Common Brands:** Knowledge Beginnings, Childtime Learning Center, Chesterbrook Academy, Local brands

### Tier 4: Upscale ECE Centers

- National – regional scale
- Corporate or franchise-owned
- Meet all quality metrics
- Differentiate based on premium educational content, facilities, enrichment activities, or others
- **Common Brands:** Kiddie Academy, The Learning Experience, Lightbridge Academy, Kids 'R' Kids, KinderCare

### Tier 5: Premium ECE Centers

- National – regional scale
- Corporate or franchise-owned
- Excel on most quality metrics
- Differentiate based on proprietary educational content, facilities, or convenience
- **Common Brands:** Primrose Schools, Crème de la Crème, Children's Learning Adventure, The Goddard School, Bright Horizons



Tiers 3, 4, & 5 account for 63% of FTE\* children in paid care and 72% of the market size

Notes: This visualization is based on the proportion of the number of centers per tier for three representative markets: Nashville, TN, Minneapolis, MN, and Phoenix, AZ. \*FTE = Full-Time Equivalent.  
Sources: State Licensing Data, Provider Websites, Tuscany Analysis. Estimated weekly infant prices are derived from mystery shopping conducted in each market from 2020-2024.

# Capacity growth among select, large childcare chains ranges from -5% to 119% from 2019/20 to 2023, with many recording high double-digit or greater expansion

*Variation in growth rates exists by brand and is not fully correlated with Quality/Price Tier™*

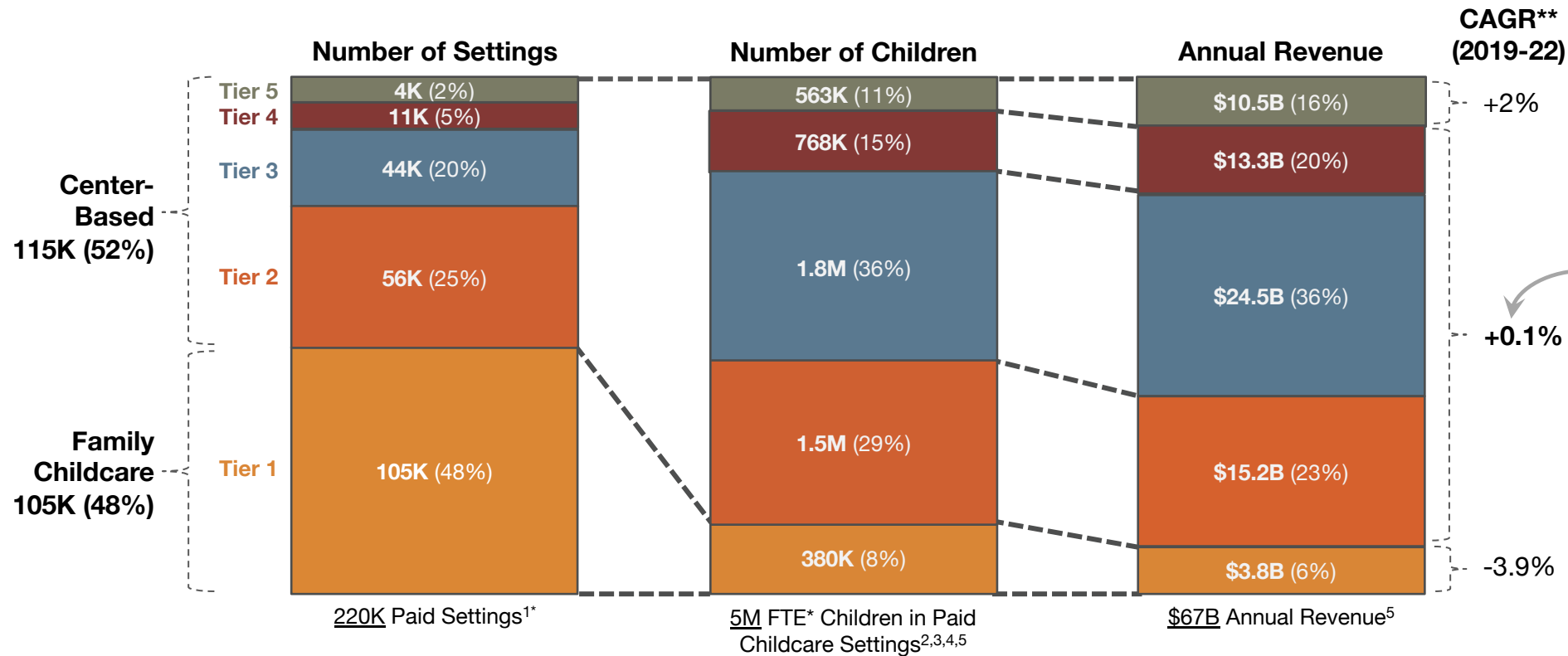
Organization Name	Tuscany Quality/Price Tier™	State Presence	# of Centers in 2023	Change in # of Centers (2019/2020-2023)	# of Seats in 2023	Change in # of Seats (2019/2020-2023)
KinderCare Learning Centers	3	39+DC	1,501	-1%	195,000	-2%
Bright Horizons	5	37+DC	1,081	-1%	120,000	0%
Learning Care Group	Varies by brand	39+DC	1,071	17%	161,000	18%
Goddard Systems, Inc.	5	38+DC	598	14%	88,878	8%
Primrose School	5	34+DC	487	16%	89,563	12%
Kiddie Academy	4	39+DC	311	25%	50,907	26%
Cadence Education	Varies by brand	30	285	27%	47,861	60%
Kids R Kids	5	18	177	2%	40,000	2%
The Sunshine House	3	7	132	-6%	22,000	10%
Endeavor Schools	Varies by brand	14	94	88%	19,500	86%
New Horizon Academy	4	5	93	8%	13,811	10%
Early Learning Academies	Varies by brand	13	74	76%	13,700	119%
Lightbridge Academy	4	10	68	42%	11,130	40%
Big Blue Marble Academy	5	8	60	76%	12,349	102%
LLE Educational Group	Varies by brand	1 (VA)	59	-9%	10,899	-3%
Acelero Learning	2	4	51	6%	5,341	-5%
O2B Kids	4	4	47	135%	9,675	114%
Never Grow Up, Inc.	4	1 (TN)	40	21%	5,850	39%
Little Sprouts	4	1 (MA)	39	-9%	4,669	8%
The Gardner School	5	7+DC	32	52%	6,300	59%

Notes: Tier ratings were calculated using Tuscany's Quality/Price Tier™ Evaluation Rubric through secondary research only which limits ratings to what is observable through secondary sources. Quantitative data is from January 2023, so there will be discrepancies from January 2024 numbers. This list is of the top 20 brands by the number of centers, but excludes brands where data is not reported or is reported for different years. 2019 data was used for organizations where 2020 data was not available, but 2023 data was available.

Sources: [Exchange Press](#), Provider Websites, Online Review Websites (e.g., Google, Yelp, Facebook), Job Posting Sites (e.g., Indeed, Glassdoor), Tuscany Strategy Analysis

# The \$67B Paid Childcare Industry (2023)

Center-based providers (Tiers 2-5) represent 52% of paid childcare settings, but 92% of all enrolled children



The .1% growth rate masks different growth dynamics across and within Tiers, 2, 3, & 4. Decreasing total enrollment, demographic variation among markets, and shifting parent preferences on center features/attributes likely favor centers in larger networks and with higher-quality offerings.

Notes: \*FTE = Full-Time Equivalent, \*\*CAGR = Compound Annual Growth Rate. 2023 IBIS World Report for Day Care in the U.S. estimates revenue at \$65.1B.  
Sources: <sup>1</sup>Child Care Aware, <sup>2</sup>Census, <sup>3</sup>Child Stats, <sup>4</sup>NCES, <sup>5</sup>TSC Analysis & 2023 Mystery Shopping (n=215 shops)

