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Falling blocks: The industry suffered from big-name exits, but demand will rebound

IBISWorld Industry Report 08710
Child Care Services in Australia

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About this Industry

Industry Definition

Companies in this industry provide child care. Child care services are principally provided for children under 12 and include long day care centres, family day care, occasional care, after-school hours care, and vacation care. Increasingly, child care is incorporated with education and vacation care as parents work greater hours and develop more reliance on care providers.

Main Activities

The primary activities of this industry are

- Child care service
- Childminding centre operation (except home or school)
- Children's nursery operation (except preschool)

The major products and services in this industry are

- Community based long day care centres
- Family day care
- Outside school hour care
- Private long day centres
- Vacation care

Similar Industries

N Education in Australia
Schools – primary and secondary – often provide care services before and after classes, which are often outsourced to child care providers.

N8410 Preschool Education in Australia
Kindergarten is an equivalent to between one and four hours of care per week.

Q8722 Crisis and Care Accommodation in Australia
This industry includes orphanages, which by definition provide round the clock care for children without parents.

Additional Resources

For additional information on this industry

www.abs.gov.au
Australian Bureau of Statistics

www.aihw.gov.au
Australian Institute of Health and Welfare

www.facsia.gov.au
Department of Families, Housing, Community Services and Indigenous Affairs

Industry at a Glance

Child Care Services in 2010

Key Statistics Snapshot

Revenue	Annual Growth 05-10	Annual Growth 10-15
$7.0bn	3.6%	5.0%
Profit	**Wages**	**Businesses**
$35.0m	$4.4bn	15,406

Market Share

A B C Learning Centres Limited 25.6%

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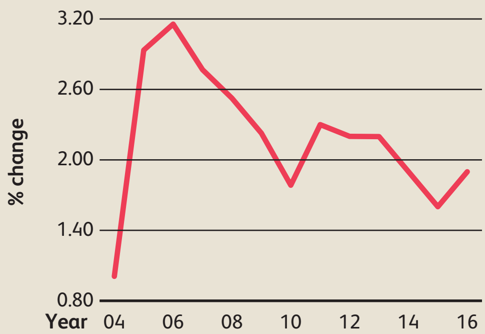
Revenue vs. employment growth

Labour force – females



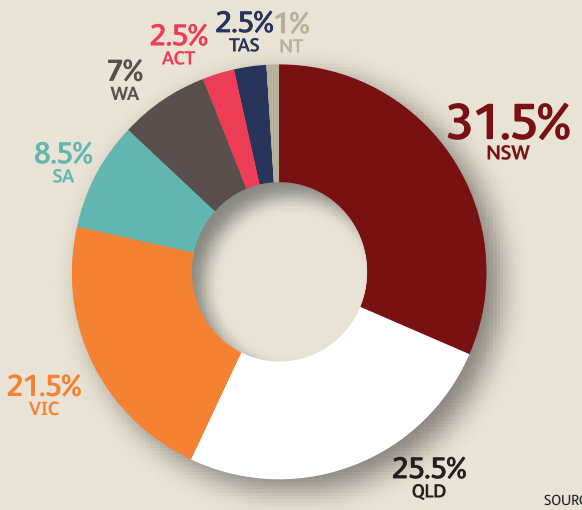
SOURCE: WWW.IBISWORLD.COM.AU

Key External Drivers

- Females in the labour force
- Age group (0-14)
- Real household disposable income
- Total labour force

p. 5

Business locations (attendance of children)



SOURCE: WWW.IBISWORLD.COM.AU

Industry Structure

Life Cycle Stage	Mature	Regulation Level	Heavy
Revenue Volatility	Low	Technology Change	Low
Investment Requirements	Low	Barriers to Entry	Medium
Industry Assistance	High	Industry Globalisation	Low
Concentration Level	Low	Competition Level	Low

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 33

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

As the Australian economy has evolved over the past decade, one of its defining features has been the shift towards families holding down two or more jobs. The traditional nuclear family with the male breadwinner and female housekeeper has become redundant. As a result, with the female participation rate soaring since the late 1960s, demand for child care providers has grown commensurately. Indeed, since 1968, the proportion of families with both parents working has grown from 37% to 58%.

This has been aided, and encouraged, by increasing Federal Government assistance for parents looking to put their children into day care. Under the Howard Government, an effort to increase the nation's birth rate resulted in actions such as the baby bonus. Meanwhile, several family payments to assist in affording child care, predominantly the Child Care Benefit, were paid out to encourage parents back into the workforce. Commonwealth Government budget papers suggest that appropriations for child care support were $1.8 billion in 2008-09, or about $2,250 per child enrolled in care. Over 800,000 children are expected to use government subsidised child care this year.

The collapse of ABC Learning is a short-term blow, but demand is sufficient to rebound

As such, the industry has gone from strength to strength. In 2009-10, the industry is set to be worth around $6.99 billion, having grown by 3.6% each year, in real terms, since 2004-05. The industry has exhibited very strong growth over the past decade, but the recent shake-up of consumer confidence due to the global financial crisis has temporarily hampered the surge.

As a result, in 2008-09 itself, the industry shrank by 0.4% as consumers reduced the amount of time their children were in care, relying more on family and babysitters instead. In 2009-10, the industry is set to grow by a comparatively small 1.0%. As unemployment rose in 2009, families had less income to spend on care, and also more time to provide care themselves. Moreover, an increase in part-time work gives parents greater freedom to care for their children, limiting growth in child care.

The biggest beneficiary of governmental largesse has been ABC Learning. Founded by the now-deposed Eddy Groves, ABC grew from nothing to dominate nearly one-third of the Australian child care market in the space of five years. However, a heavily indebted move into the US market coincided with the financial crisis. As of early December, the company had been entered into administration, as debts mounted up and reports of dishonest financial practices arose.

While there were fears that some of ABC's 1,200 centres would close without continued government intervention, such intervention was extended indefinitely. Meanwhile, confidence has grown that many centres will be bought and operated by smaller companies. Most centres remain under the control of the company's voluntarily introduced administrators, McGrath Nichol, while some troubled centres were appointed to PPB by the Federal Government. The potential closure or downsizing of many centres is likely to contribute to slow growth in the current year.

Also, during late 2008, another major provider, CFK Childcare, entered into voluntary administration. While this collapse has less to do with being heavily indebted than ABC Learning, it demonstrates a lack of economies of scale in the child care sector. Despite the current turmoil, the future for child care providers remains bright. Demand is strong, and the vacant centres left by ABC's collapse will be filled to suit. Also, continued governmental support, increases in the female participation rate, and a mini baby boom currently underway will all contribute to 5.0% average real growth in revenue over the next five years.

Industry Performance

Key External Drivers

Females in the labour force
The workforce participation rate of women with dependent children affects demand for child care services.

Age group (0-14)
Changes in the population of dependent children under the age of 12 years, and particularly under the age of 5 years, within the catchment area of the child care centre affects demand, occupancy rates and profitability.

Real household disposable income
Households with higher disposable incomes are more likely to afford and utilise child care services.

Total labour force
Economy-wide employment levels reflect the availability of paid work, and hence affect the demand for work-related child care.

Current Performance

While the Australian economy appears to have dodged an economic bullet in 2009, child care centres are unlikely to benefit immediately. Due to international economic fears, a drop in sentiment led to a sharp increase in part-time employment as companies avoided shedding staff. This led to a number of parents gaining time to care for their children themselves. Adding to this is the fact that those who lose their jobs lose the capacity to pay for child care even if they still require it. Instead, they will look to relatives and friends if need be, as will working parents concerned about their finances.

While there were early concerns that unemployment would rise throughout 2010, it now appears that Australia's economy has remained resilient, and unemployment should remain stable. Also, the collapse of ABC Learning created a sharp drop in faith in child care centres' viability, which limited new business. The reduction in total centres in 2009 due to ABC's eventual dismantling and sale means that revenue per establishment will be more resilient than revenue.

Industry Performance

ABC Learning and the centre closures

At the beginning of 2008, ABC Learning controlled around 1,200 centres (of over 15,000 nationally), and some of these are unlikely to find buyers as the company folds. Indeed, by early 2009, around 40 had been closed by administrators.

This comes despite the Federal Government spending considerable amounts of money to ensure they remain open. Also, slowing demand will result in many small operators being forced to close, even in the face of demand shifting from closing ABC centres. The vast majority of these small centres often have only one proprietor or staff member, and are essentially babysitting services.

As a result, while the number of centres is set to grow by an annualised rate of 4.0% over the five years to 2009-10, this will include a contraction of 1.2% over 2008-09 and 2.1% in 2009-10. The large number of children finding themselves without care will lead to a sharp decrease in vacancy rates, ensuring that many ABC staff will find work at other centres experiencing renewed demand. However, it is unlikely that these workers will earn any more, as child care providers are reticent to pay higher wages at a time when the industry's largest player folded through high costs and debt.

Towards the end of 2009, it became more apparent that only a small number of ABC centres would close, as some would receive ongoing government support, and others would find buyers. Earlier expectations, based on a collapsing international economy, assumed that few would be willing to invest in new business.

Tough conditions

In the second half of 2008, ABC Learning's collapse came as something of a surprise, despite the failure of the American business. The eventual sale of 60% of the company's US business was assumed to be the result of being too heavily indebted, while local centres were thought to be profitable. However, it eventuated that ABC was operating unsustainably in the domestic market, and the loss of centres and the subsequent lower fees for care in crowded centres, will ensure that revenue over 2009-10 grows by only 1.0%.

Despite this, industry revenue is set to grow at an average annual rate of 3.6% over the five years to 2009-10, reaching $6.99 billion, up from $5.87 billion in 2004-05. Between 2003-04 and 2006-07 inclusive, growth was above 6.0%, as many Australians took advantage of the newly affordable services, while providers simultaneously increased care standards and fees, further pushing up revenue. In 2007-08, growth fell below 6.0% for the first time since funding was increased, before the most recent two years of stagnant growth. Industry revenue will be boosted by a greater reliance among families on child care services and, importantly, a real increase in child care fees.

Labour force participation rates

Year	Total (%)	Female (%)
2004-05	64.6	55.3
2005-06	64.5	55.8
2006-07	64.9	55.5
2007-08	65.2	55.9
2008-09	65.3	55.4

SOURCE: IBISWORLD

Indeed, the proportion of children in formal care fell across the three years to 2008, from 23% to 22%, reversing a decades-long trend of increasing adoption of formal care over informal (friends and family). This drop came before the global economic troubles were an issue to consumers, suggesting that the problems facing ABC Learning caused serious concerns among parents. This trend will only have been exacerbated by poorly performing economic indicators such as employment and disposable income.

Industry Performance

Government funding

Real expenditure by the Commonwealth Government on child care will increase at an average annualised real rate of 2.1% in the five years to 2009-10. This will mean that families will assume a greater responsibility for the cost of formal child care. In particular, as a great deal of government funding is directed to care providers as opposed to parents, it has had a mildly inflationary effect on private child care.

However, the increasing cost of child care comes with rising personal incomes (excluding drops in 2008-09 and 2009-10), and the increased cost to families will be negligible. Demand for services is only marginally affected by price, as many parents consider it a necessity in order to continue working. During the present downturn, families that have two jobs will be more focused on retaining employment, increasing their desire to pay for child care.

The total number of children in child care grew at an average annualised rate of 5.4% between 1999 and 2004. It appears that the pace of growth in the number of children in child care picked up subsequent to levels of government funding, a trend that has been maintained across the past five years.

The Commonwealth Government's budget papers indicate relatively strong growth in approved child care places in 2005-06 (up 8.6%) and 2006-07 (4.4%). This growth in places for child care is a symptom of strong growth, as well as a trigger to encourage further industry expansion as many spots are rapidly filled, particularly in community-based care centres.

The increase in the number of child care places between 2002-03 and 2008-09 occurred despite there being virtually no growth in the population of Australian children aged 0-4 years and a decline in the population of children aged 5-9 years (averaging 0.5% per year).

The increase in child care places over the current period will be influenced by a relatively high female workforce participation rate and by Commonwealth Government policy, which seeks to provide parents with the option to work by providing funding assistance for a wider range of care options (with growth stronger in lower-cost types of care, such as occasional care).

Growth in government spending on the Child Care Benefit scheme has been relatively slow since 2002-03, due mainly to low growth in the supply and utilisation of long day care and low growth in the supply of family day care (the more expensive types of child care). As child care became more accepted by families, the desire to spend on care has grown, alleviating the pressure on government to encourage growth.

Industry revenue has been bolstered in the past five years by a significant real increase in child care fees. However, higher fees and a fall in affordability may have acted to slow growth in demand for child care services, which would offset some revenue growth. In the five years to 2009-10, the rate of growth in child care prices will be over three times as fast as the rate of growth in overall consumer prices.

Estimated expenditure on formal child care

Year	Places ('000)	(% growth)	Expenditure ($ million)	(% growth)
2004-05	562	8.5	1,774	2.4
2005-06	587	4.4	1,774	0.0
2006-07	605	3.1	1,831	3.2
2007-08	616	1.8	1,901	3.8
2008-09	601	-3.5	1,933	2.2

SOURCE: ABS

Industry Performance

Fighting to stay in the black

ABC's troubles raise questions regarding the long-term ability of child care providers to remain profitable. High occupancy rates are required, and ABC's failure indicates that running multiple centres is no solution, as costs are not limited by this business model. Smaller players are often community run or operate at very low profit margins.

The industry as a whole is only moderately profitable – primarily due to the presence of a large number of not-for-profit, community-based centres, and a lack of economies of scale. The collapse of ABC Learning served as an indication that opening multiple centres does not provide sufficient cost savings to justify the expense. As such, the industry's profit margin fell from around 4.0% to 0.5% in 2008-09, and is set to remain at that level in 2009-10 as many centres struggle to remain profitable.

Listed child care operators (and ABC Learning Centres Ltd in particular) have acquired significant numbers of child care centres, and these operators tend to have a high number of places per centre. It appears that economies can also be achieved in operating a number of child care centres within relatively close proximity as it may allow for more flexible staff practices.

In addition, a larger number of owned centres can produce cost efficiencies in the areas of management, marketing and systems, and provide opportunities to build brand names. Larger players are better able to introduce child care worker education colleges and recruitment agencies (providing enhanced access to workers).

Profitability of private child care centres varies by state and territory and is sensitive to state and territory government regulations. These regulations can relate to qualified staff, child to staff ratios, the required level of staff qualification and requirements relating to age mix of children. Where regulations demand higher ratios of staff to children or greater qualifications, costs can be significantly higher than other areas, driving profits down. Volunteer labour is commonly found in the occasional care sector (as opposed to full day care), where they constitute 25% of staff. Profitability can also be affected by the availability of state and territory government funding.

Profitability can be sensitive to the child capacity of the child care centre and occupancy levels. Large centres can provide a wider range of services (defraying the cost of these services over more students), and promote the benefit of these services to bolster occupancy levels. Generally, long day care centres require occupancy rates of at least 70% to be profitable.

However, there have been recent large increases in wages for child care workers in most states and this could have an impact on profitability. In May 2006, the Australian Industrial Relations Commission awarded wage increases for child care workers in Victoria and the ACT; increases that were phased in over the ensuing 18 months. In March 2006, it was announced that the Industrial Relations Commission in New South Wales had awarded a 16% increase in wages for child care workers. However,

Estimated growth in long day care (LDC) and community day care places

Year	Private (units)	(% growth)	Community (units)	(% growth)
2004-05	173,555	5.6	66,100	1.3
2005-06	183,000	5.4	67,500	2.1
2006-07	188,511	3.0	68,300	1.2
2007-08	185,000	-1.9	68,100	-0.3
2008-09	182,650	-1.3	68,350	0.4

SOURCE: IBISWORLD

Industry Performance

Fighting to stay in the black continued

other regulatory changes have lowered the number of qualified staff required per centre in many states, and major firms such as ABC capitalised on this by lowering staff costs. As such, average wages have remained relatively static.

Industry Outlook

Despite the short-term trauma that ABC's collapse is causing and the brief threat of economic collapse, this industry is robust and is set for prolonged growth. The folding of an industry leader with 30% market share notwithstanding, all indicators of the industry's performance remain positive. Government funding remains a priority, the unemployment rate is set to remain low by historical standards, the share of women in the workforce will grow and incomes will rise.

Prospering after recent troubles

IBISWorld forecasts that industry revenue will increase at an average annualised real rate of 5.0% in the five years to 2014-15, despite sluggish growth of 1.0% in 2009-10. However, profitability may be hurt in the event that increases in labour costs cannot be fully passed on in the form of higher child care fees. Also, the collapse of ABC is likely to lead to a more fragmented industry, dominated by smaller, less profitable companies.

IBISWorld forecasts that over the outlook period there will be an increase in the population of children aged less than 10 years. This will have a positive impact on demand for child care services. Long day care and family day care (the most expensive types of care) are principally provided to the 0-4 year age group. This is a turnaround from the past five years, when young population growth was stagnant. The country has recently undergone a mini baby boom, which will help drive future demand particularly as the job market picks up in 2011.

Changes in the population of children in the 0-4 year age group will vary significantly by region, which will provide varying growth profiles by region. Low first home affordability and rising housing rents will affect family decisions on the location of their home.

Higher unemployment and more part-time work in 2009-10 will increase the likelihood that households with

children will have at least one parent or relative staying at home to care for their children. In addition, the Commonwealth Government's Family Tax Benefit initiatives can provide an incentive for many families to have one parent staying at home to care for young children. In areas where there is negative or very low employment growth, child care services will experience lower demand.

Nevertheless, relatively high rates of female workforce participation and growth in the number of single parent families have combined to result in large levels of unaccounted demand for Outside School Hours Care. Also, during 2008-09 and 2009-10, increased reliance on informal care from friends and family will create a climate whereby those informal carers are less willing to continue to provide help in the longer-

Industry Performance

Prospering after recent troubles continued

term, which will add to demand for formal care.

Beyond 2010, employment is set to improve, which will drive incomes up and force more working parents to seek care for their children. This will be a significant driver of growth for the latter years of the outlook period to 2014-15.

Over the four years to 2015, the Government will make available 84,300 Outside School Hours Care places, 2,500 Family Day Care places and a further 1,000 In-Home Care places. This equates to a 5.0% increase in publicly-funded places, while it is likely that more private places will be available.

Frequently across the past decade, the Federal Government has offered significant tax rebates to parents in order to aid child care affordability. Funding child care services is seen as popular politics and as encouraging greater participation in the workforce. Government impact on the industry will most likely relate to allowing service providers to gradually increase fees, which will simultaneously keep wages increasing along with profits.

Sustainable practice

The collapse of ABC has indicated the difficulty in maintaining profitable centres. IBISWorld estimates that an occupancy rate of between 70% and 80% is required for a centre to be profitable. Despite the fall of ABC, the industry is likely to continue to witness increasing numbers of private enterprises. However, they will be routinely small, and often run for philanthropic or community purposes, hence will not be profit generating. This will ensure that the industry is unlikely to reach the profit levels pre-ABC's collapse; IBISWorld expects industry profit levels to reach about 3.0% by 2014-15.

The failure of ABC Learning to remain profitable has created some doubt about the possibility of running sustainable, profitable child care operations in Australia. In many industries, the possession of major economies of scale are a cost-saving asset. However, running numerous operations does little to limit cost growth, as wages (which do not vary depending on the number of centres) are the major cost. Indeed, ABC was reputed to have some of the industry's lowest wage costs.

Moreover, regulations are expected to become more stringent in the industry and this will tend to increase costs. There are shortages of qualified staff in this industry and it has been reported that, as a result of shortages, some providers are not complying with legislative requirements. This is a demonstration of the wage pressures faced by child care providers, who are currently reliant on government largesse in order to remain profitable. While this public funding is almost certain to remain or even grow, in coming years the fate of ABC Learning is likely to act as a lesson against major corporate involvement.

Industry Performance

Future wages and employment

Employees in this industry tend to be low paid and there are pressures to increase wages. Moreover, staff shortages could cause wage-cost pressures, and the ability to recoup cost increases will depend on government funding and the sensitivity of parents to price increases.

After the collapse of ABC Learning in 2008, many concerns were raised regarding the highly concentrated nature of Australia's child care industry. Particularly when compared with similar industries internationally, one player dominating 30% of the market was highly irregular, and a more fragmented nature was the norm.

One possible outcome of recent industry volatility is that child care providers will become smaller concerns, with larger companies being unwilling to invest in what is apparently a near non-profit sector. Certainly, it is likely that the industry will become more fragmented as ABC is split up and sold in coming years to an array of small companies.

Industry Performance

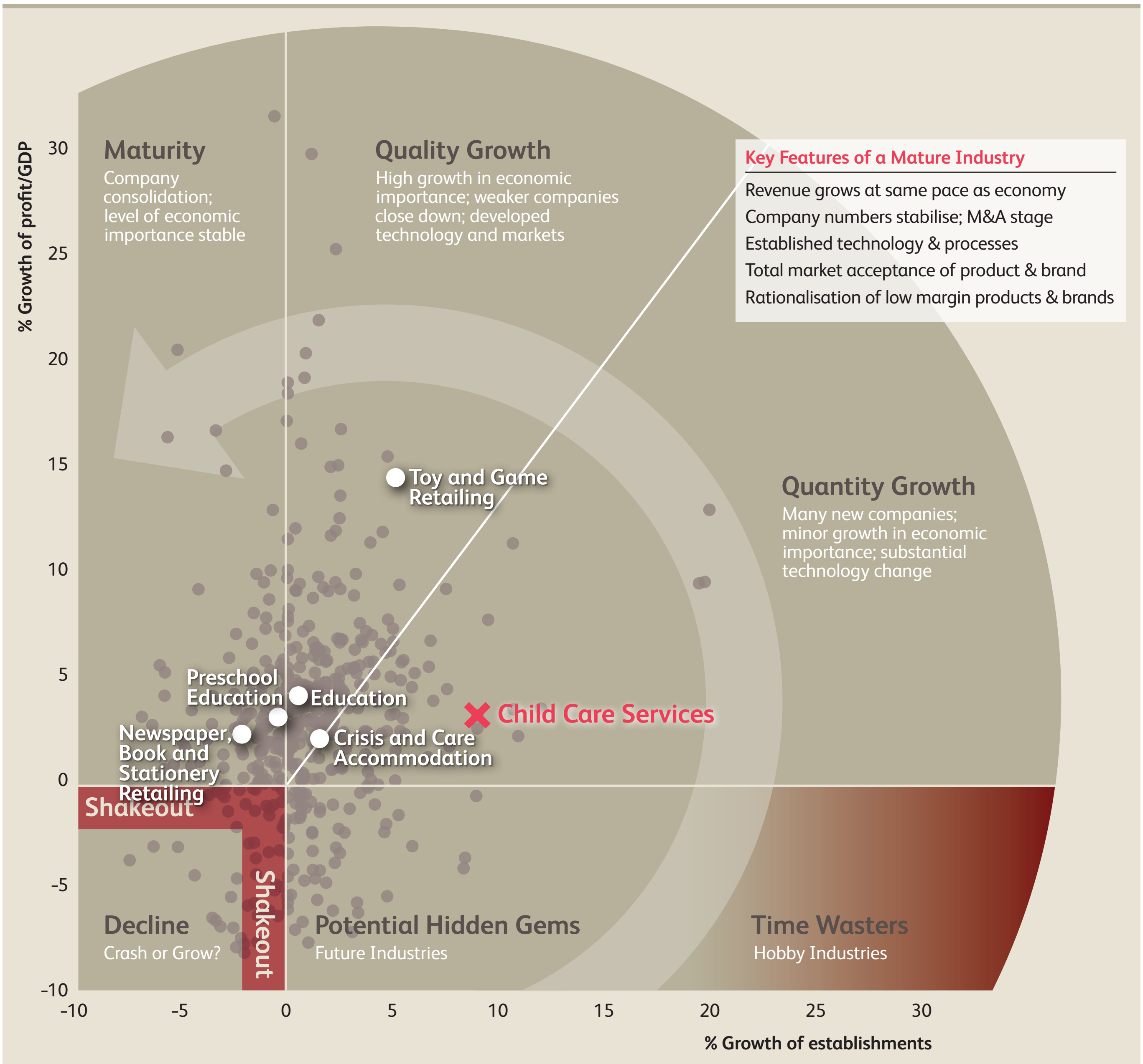
Life Cycle Stage

While the industry has grown over the past decade, there has been considerable reliance on government funding

Governments have promoted the use of work-related child care services, which translate into greater fees and greater revenue

Now that the industry is well established, and government funding growth is set to slow, the industry's share of GDP will stabilise

There is no consolidation, and the industry is currently fragmenting in the wake of ABC's collapse



SOURCE: WWW.IBISWORLD.COM.AU

Industry Performance

Industry Life Cycle

This industry is **Mature**

Placing the Child Care industry on a life cycle timeline is a difficult proposition, as the number of children in care continues to grow, yet the industry's largest player, with nearly a third of the market, is on the verge of total collapse.

The reason behind this unusual juxtaposition is that much of the industry's growth has been predicated on steadily increasing funding in the form of public money. Successive governments have, in their desire to increase the national participation rate – particularly among women – have offered cash incentives to encourage women back to work by placing children in care.

Over the past decade, attendance at child care providers, particularly private providers, have been steadily increasing, until a drop in 2008, as poor economic conditions began to set in. This is likely to be indicative of an ongoing trend – that, after several years of encouragement by government, the level of use of child care providers has reached a level of saturation, and will moderate.

This comes as ABC Learning folds, meaning that the consolidation that often takes place in a mature industry is absent. The apparent lack of profitability in the industry means that large companies maybe unwilling to enter the industry via acquisitions, and no existing players will look to expand, as ABC demonstrated the inability of economies of scale to increase profits.

Jargon Buster

Life cycle changes affect all industries as they go through periods of expansion, stability and decline, usually driven by new technologies

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

Z9901	**Consumers in Australia** Australian parents who work often require Child Care services to ensure their children are supervised during work hours.

KEY SELLING INDUSTRIES

G5242	**Toy and Game Retailing in Australia** Children being cared for require some autonomous tools for fun and learning as well as personalised care – toys in particular are an excellent source of this.
G5243	**Newspaper, Book and Stationery Retailing in Australia** Along with toys, children's books are an ideal means of entertaining an occupying children.
M8111	**Central Government Administration in Australia** The government is becoming an increasingly important source of funding, as it encourages families to place children in care as they return to work post-maternity.
M8112	**State Government Administration in Australia** State Governments, while not placing money directly in the hands of childcare users, actively fund community centres, along with local councils.
N8410	**Preschool Education in Australia** Preschool education is provided in long day care centres, and as such, many teachers are seconded from the education system.

Products & Services

Long-day care centres represent the largest slice of the child care pie. These providers offer care primarily to below-school aged children for working parents. IBISWorld expects there to be 410,500 children in long day care in 2009-10, representing 50.9% of all children in all types of child care services.

Increasing all-day care

These services are provided by a network of individuals (care givers) who provide care in their own homes for other people's children. Based on the Australian Government Census of Child Care Services (AGCCCS), IBISWorld believes that in 2009-10 there are 108,000 children in family day care.

Outside school hours careers mainly provide services to primary school children before and after school. These services, which are provided by non-profit and for-profit organisations and State and Local governments, cater for the needs of families who require short-term care for their children. In 2009-10 there are likely to be about 205,600 children in outside school-hours care. Vacation care, which provides child care services during school holidays, is increasing in popularity, picking up on a trend that has been prominent in the US for some time.

Private versus public

As distinct from the industry of 20 years earlier, where the vast bulk of child care was provided by community centres funded by Local or State Governments, today, private centres generate nearly three times the revenue of their public cousins. This comes along with a shift in funding towards centralised, Federal Government funding, directed equally at providers and parents.

This is a trend that is likely to continue, despite the reluctance of major companies to enter the market after ABC's troubles. Small organisations, often with a similar business model to community centres (low-profit or no-profit) will still operate as private concerns, as funding is now easier to access via that avenue.

School care versus holiday care

Also, the popularity of school holiday-based camps as a means of child care is on the rise, following a trend set in the US. Parents who are granted the luxury

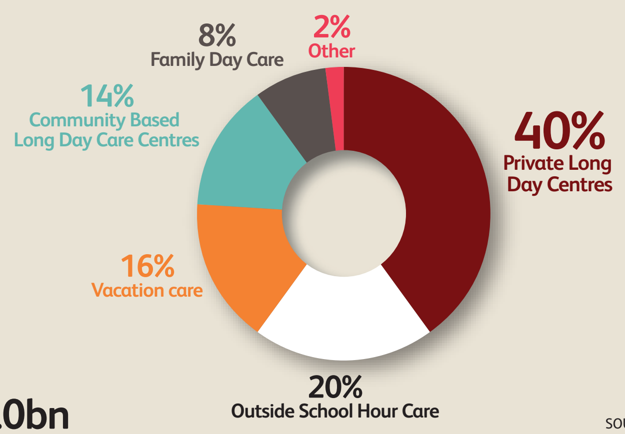
Products & Markets

Products & Services continued

of flexible hours during the school year often lack the available holidays to be at home with their children, so camps become a feasible option.

The Federal Government's funding has been directed towards private operators, reducing the number of community-based care centres per child, as private operators have capitalised on the increased income. However, much of the government funding has also been in the form of rebates for parents, which has caused private centres to increase fees to match, increasing their share of revenue further.

Products and services segmentation (2010)



SOURCE: WWW.IBISWORLD.COM.AU

Demand Determinants

While there have been numerous causes for growth in demand for child care in the past decade, as parents enter the workforce, or re-enter the education sector, or increased incomes allowed the decision to be made, there is a common thread between them all: government funding.

Federal Governments have made a point over the past decade to encourage parents to return to the workforce, and as such, has markedly increased the level of public money devoted to child care, as well as other parenting initiatives, such as the $4,000 'baby bonus', valued at $1.3 billion, which has increased by an average of around 10% each year since, prompting strong industry growth.

Government spending has also come in the form of direct funding to child-care providers, and rebates to families with children in child care. While these rebates have not acted as a panacea for struggling parents – instead merely increasing fees, the industry itself has been the beneficiary of this governmental munificence.

> The availability of flexible session times can boost demand, particularly from families who work shifts

Supply-induced demand

An increase in the supply of child care places can satisfy unmet demand and, according to some experts, can increase underlying demand. The availability of flexible session times can bolster demand, particularly from families who work shifts or overtime. The presence of a new child care centre in a region previously lacking one is likely to stimulate demand in that particular geographic region. However, increasing competition by adding new centres to an area with several is unlikely to boost

Products & Markets

Demand Determinants continued

demand for services.

Also, any increase in household disposable income is likely to boost demand for child care. However, an increase in such income is most likely the result of a second householder returning to work, which suggests that the couples' children have already been placed in care for some time each week. Also, increases in disposable income tend to increase discretionary spending on luxury items, while child care is increasingly viewed as being compulsory. As a result, growth in household income is becoming less likely to prompt demand as it has been in the past.

Alternative care

The availability (or supply), and cost, of alternative informal child caring arrangements (e.g. parents, grandparents or nannies) has a pronounced impact on industry demand. The presence of a high number of students or adolescents in a geographic area often indicates a higher than normal percentage of non-professional babysitters operating in a cash market. These are not included in the industry, and as such a high portion of these tend to decrease demand for official child care services.

The rate of workforce participation by parents (particularly women aged 25-34 years) impacts on the need for child care, as greater numbers of working mothers will most likely increase demand for industry services. The participation rate among these people is influenced by many factors including community and social values and expectations relating to child care, the rate of growth in full- and part-time employment, after-tax wages levels and child care costs.

The population of children aged under-12 years, although children under-5 years of age account for around 77% of the total number of children under-12 in formal care. It should be noted that changes in mothers' labour force participation rate are likely to have a more important impact on demand than underlying demographic changes.

Percentage of child care that is work-related

Type of care	Hours of care (%)
Family day care	88
Long day care	90
Outside school hours care	97
Occasional care	49
Vacation care	93

SOURCE: DEPARTMENT OF HEALTH AND FAMILY SERVICES

Average household weekly expenditure on child care services in 2007-08

Quintile	Lowest ($)	Third ($)	Fourth ($)	Highest ($)
Preschool	0.17	1.16	1.79	2.57
Formal	0.36	2.34	5.19	7.37
Informal	N/A	0.24	0.48	0.75

SOURCE: ABS

Major Markets

Revenue for this industry comes from two sources: government funding direct to operators, and from clients. Even then, clients are often aided by the Child Care Rebate (previously known as the Child Care Benefit), which gives money to parents needing childcare services, to encourage them into the work force.

Government money

As a result, even though much of this government money enters the industry via clients, the $3.1 billion spent on child care subsidies in 2008-09 represent

Products & Markets

Major Markets continued

around 44% of industry revenue. Beyond that, the bulk of parents looking for care from the industry are in the top two income quartiles of the population.

This stands to reason, as wealthier households are more likely to hold down multiple jobs and have the disposable income required to pay for care, particularly the premium prices of private care centres. Also, in geographic areas of higher net wealth, child care costs tend to be commensurately higher. Lower income families often still require child care services, but are more reliant on community care centres and informal care (friends and family).

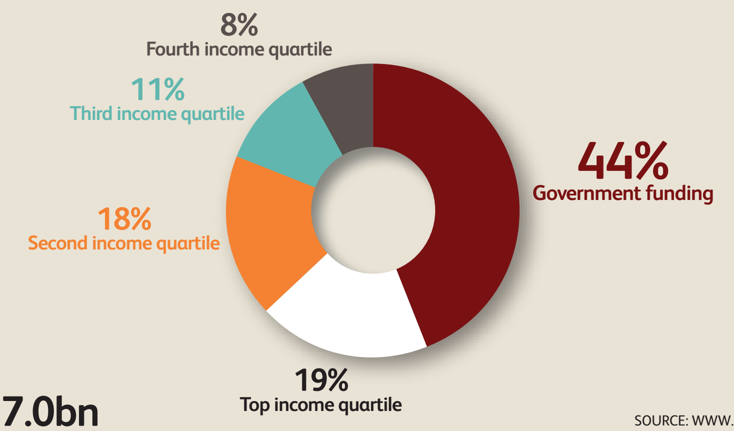
Child care services are provided for children aged 0-12 years. According to the Australian Bureau of Statistics, in a given week, 21% of Australian children ages 0-12 received some type of formal care exclusively or in conjunction with informal care for at least part of the week.

IBISWorld believes that about 6.9% of children under 1 year of age use formal child care, as well as 31% of children aged 1 year, 46.3% of children aged 2 years, 53.4% of children aged 3 years and 37.8% of children aged 4 years. Between 1996 and 2008, there was a regular, consistent upward trend in the proportion of children who use formal care.

In 2008-09, children aged 0-4 years account for 96.7% of children attending community-based long day centres, 89.5% of children attending private long day centres and 75.2% of children in family day care schemes. In Outside School Hour services, 95.4% of children attending are between the age of 5 years and 11 years. The market for child care services can be segmented by family type (e.g. families with two working parents or a sole parent) and family income.

The vast majority of care is provided for children of parents as they work. About 54% of all revenue is derived for work-related care. This proportion may slide during 2008-09 and 2009-10, as unemployment rises and incomes fall, but as the economy begins to recover in 2011, it is likely that this will resume its growth as the predominant cause for parents demanding care.

Major market segmentation (2010)



Total $7.0bn

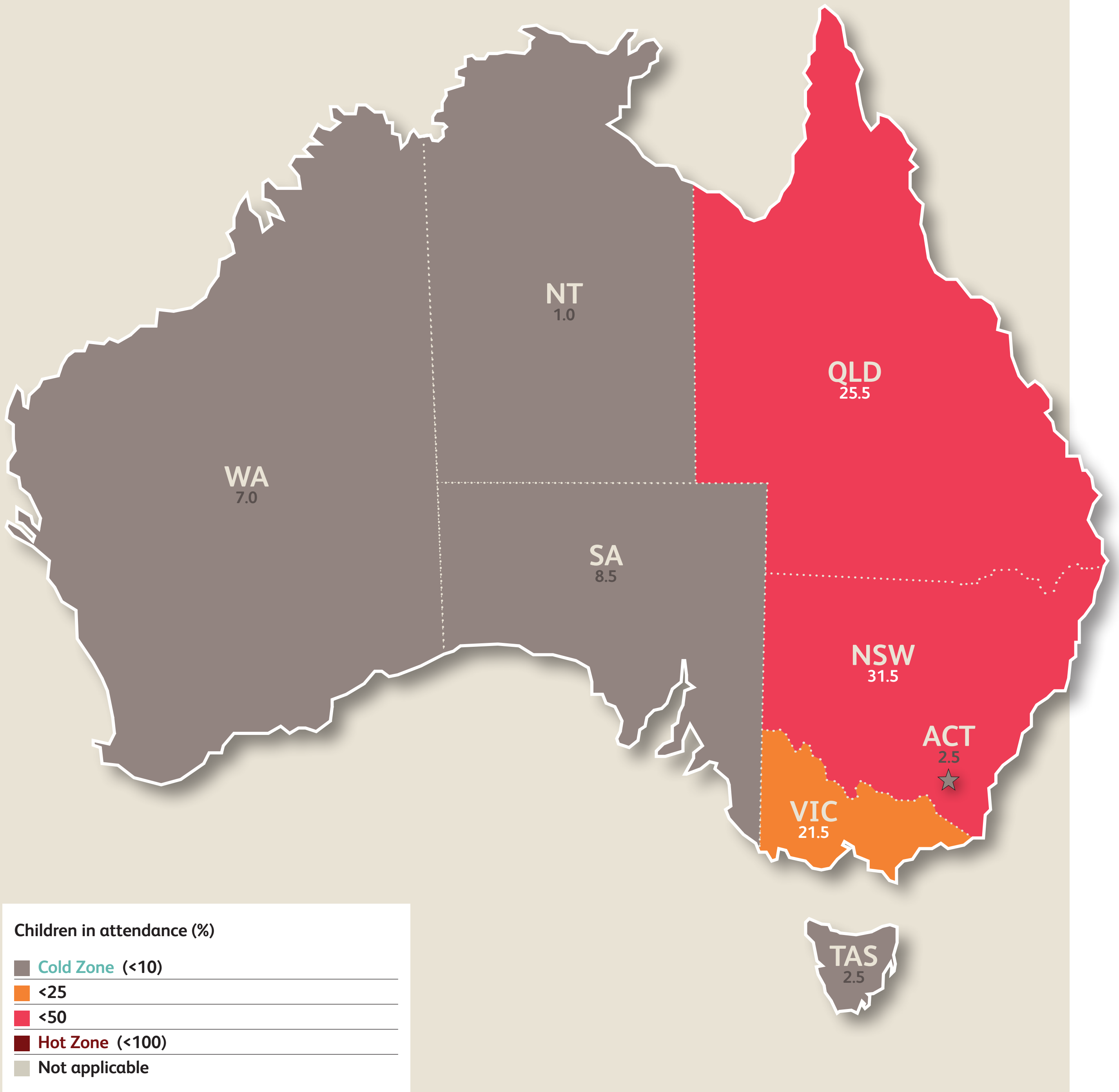
SOURCE: WWW.IBISWORLD.COM.AU

International Trade

There is practically no international trade in this industry. Children are not sent overseas to receive care or supervision.

Products & Markets

Business Locations 2010



SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

Business Locations

The geographic distribution of industry activity largely reflects variations in the population of children, while it is also influenced by: the cost and supply of child care; labour, income and housing affordability patterns; and child care subsidy policies. The population of children aged 0 to 4 years is a significant determinant of demand for long day care and family day care.

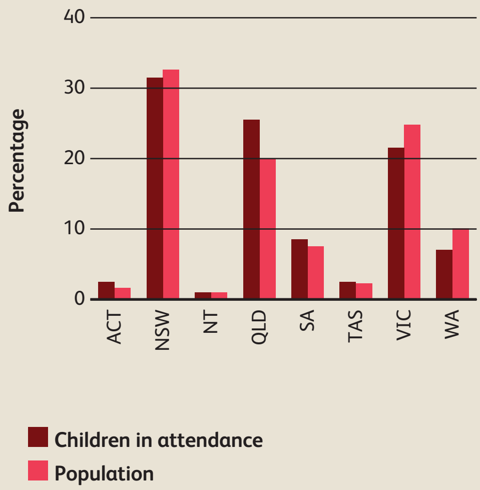
Victoria and South Australia account for a disproportionate share of the number of children in Outside School Hours Care (27.5% and 11.7%, respectively), when taking into consideration the population of children in these States.

IBISWorld estimates that revenue generated per establishment in NSW and Victoria is greater than the national average, as these states have a higher average wage and more families with two working parents. This also indicates that these states have a greater share of private centres, rather than community-based providers, which are increasingly regional and rural.

Economic growth in WA is less likely to increase the level of childcare, primarily due to the growth being overwhelmingly centred on mining operations, which themselves overwhelmingly employ men. Also, this is a moderately smaller share of single parents in that state. However, increasing wages, population and government support suggest that WA will experience a modest increase in national revenue share over the outlook period.

The collapse of ABC Learning had the potential to significantly alter this geographic balance, but consumer demand and government assistance has ensured that there have been fewer closures than expected. As a result, the industry – in terms of centres and revenue – is still spread nationally along roughly similar lines to the population of young children.

Distribution of children in attendance vs. population



SOURCE: WWW.IBISWORLD.COM.AU

Population of children aged 0-4 years in 2009

State/territory	Population ('000)	Share (%)
NSW	431.6	33.9
VIC	307.9	24.2
QLD	255.8	20.1
SA	85.9	6.7
WA	125.6	9.9
TAS	29.5	2.3
NT	17.9	1.4
ACT	20.6	1.6

SOURCE: ABS AND IBISWORLD

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalisation

Market Share Concentration

Level
Concentration in this industry is **Low**

When the industry's once-dominant major player, ABC Learning, is in the midst of insolvency proceedings, it is difficult to accurately convey the level of concentration faced by players offering child care. Once, compared to child care industries in other developed nations, Australia exhibited a uniquely high level of concentration. ABC Learning, with a 30% share in 2007-08, dominated the market. It is important to note that until the liquidation or otherwise of ABC Learning is complete, the company remains the industry's largest player.

Also, the collapse of ABC Learning in 2008-09 is set to lead to a drastic alteration in how the industry operates, with some sectors of the community advocating regulatory changes to prevent future concentration of market share in the hands of one proprietor.

The eventual removal of ABC from its current limbo in administration will result in a far more highly fragmented child care industry, with no statistically significant leading company. In fact, the industry is likely to revert to a more traditional model – a substantial proportion of small, publicly funded or supported community care centres. The reasoning behind this is that it is increasingly apparent that ABC Learning was not as profitable as its annual statements suggested. This realisation is likely to discourage new players to enter into the industry for profit-making purposes.

Moreover, the failure of ABC also suggests that the centre-based cost structure of the industry makes cost savings from large operations almost non-existent. Wages are required at all child care centres, and there are few products required that can be purchase in bulk to generate savings. As a result, a smaller, less profitable paradigm is likely to emerge.

Prior to the rise of ABC as the industry's dominant player, childcare services had no providers controlling more than 1% of total industry revenue. The collapse of ABC has led to suggestions that their ambiguous reporting covered a lower level of profitability than assumed by the industry. The common suggestion today is that the industry lacks the economies of scale for any company to experience any benefit from controlling market share.

After ABC's eventual dismantling, the industry is likely to be far less concentrated than it has been during recent years. There are no other large players to step in and buy ABC's centres; indeed, many ABC centres may remain vacant for some time until buyers are found. Those that do buy ABC centres are likely to be small providers, often owning only one centre. Some chains exist, but these companies tend to only have 3-4 centres, and they are localised. IBISWorld expects that this radical shift in the industry is set to lead to far lower concentration within two years.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Economies of scale

A child care centre should have a minimum of 35 places to be economically viable, but preferably should have between 40 and 45 places. It appears that economies can be achieved in operating a number of child care centres within relatively close proximity.

Ability to alter mix of inputs in line with cost

An optimum number of places and age mix of children to ensure profitability.

Ability to take advantage of government subsidies and other grants

Ensure eligibility of customers for government assistance; as well as demonstrate to customers an attainment quality.

Must comply with government regulations

For LDCCs, registration with the National Childcare Accreditation Council and completion of the accreditation program within 18 months, with ongoing compliance with accreditation rules and

Competitive Landscape

Key Success Factors continued

guidelines.

Easy access for clients
Location is an important factor affecting the profitability of a child care services. Supply-demand factors affect occupancy rates and the fees that can be charged.

Optimum capacity utilisation
The maintenance of high occupancy rates is crucial to success. In order to be profitable, an occupancy rate of at least 70% is required.

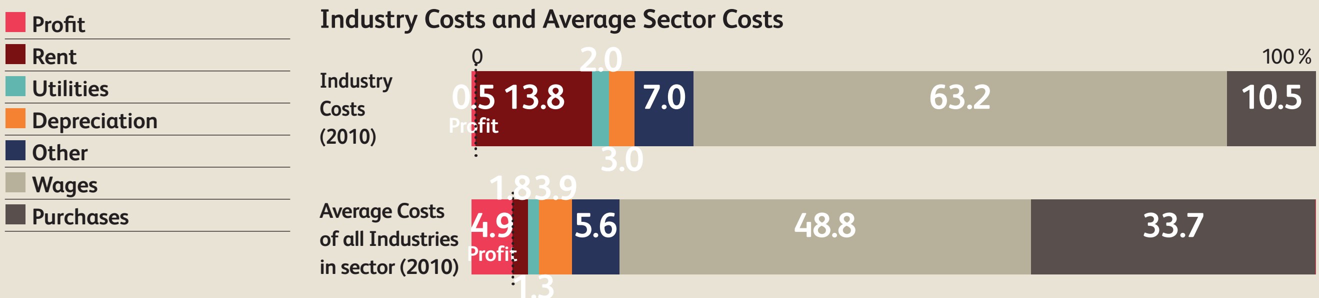
Ability to attract local support/patronage
Marketing skills are important in filling places.

Cost Structure Benchmarks

Wages are by a substantial margin the largest cost for players in the Child Care Services industry. IBISWorld estimates that staff-related costs account for 63.2% of industry revenue. It should be noted that staff-related costs, relative to revenue, are lower for long day care centres, compared with other types of child care (these other types of care – such as holiday care – tend to have lower property and depreciation expenses).

Community-based long day care centres tend to have high costs relative to revenue when compared with private centres. This is partly due to community centres: caring for more young children; and having more qualified and experienced staff. In addition, many private centre "owner-operators" do work, which in community centres is done by salaried staff.

Industry Costs and Average Sector Costs



SOURCE: WWW.IBISWORLD.COM.AU

INDUSTRY CODE AND TITLE		2005-2010	2011-2015
G5242	Toy and Game Retailing	●	●
G5243	Newspaper, Book and Stationery Retailing	■	▬
M8111	Central Government Administration	●	▬
M8112	State Government Administration	●	▬
N8410	Preschool Education	■	n/a

Costs for operators in the Child Care Services industry are affected by the price of goods and services from supplier industries. IBISWorld has estimated the trends of key input prices over the previous five years and for the coming five years. ■ is good news for this industry as IBISWorld expects the price of key inputs to fall; ● shows where this industry is negatively affected as IBISWorld expects the price of key inputs to rise; ▬ means price changes will not be a key issue for the industry.

SOURCE: WWW.IBISWORLD.COM.AU

Competitive Landscape

Cost Structure Benchmarks continued

Rent

The other major expenses in for child care centres include property-related expenses, that is rent and/or holding costs of owned property. IBISWorld estimates that rent constitutes around 13.8% of total revenue, as location can be of great importance to the success of a child care centre. The ideal location is near workplaces of those most likely to utilise the industry's services (i.e. high wage earners), and it is probably that rents in those areas will be high.

Another prime location is near the schools of children of those same potential clients. Land and property prices in regions near private schools are increasing across Australia, driving up rental costs for industry players.

Profit

The level of profitability in the industry is currently disputed. ABC Learning is currently under investigation for mis-reporting profit figures for many years. As ABC represented around 30% of the industry, any falsity in their figures suggests that industry-wide profit figures may be skewed. Also, the impending closure of at least some ABC centres suggests that the falling supply of centres will increase occupancy rates across the country. That said, the low wages earned by the industry's carers suggests that costs are significant, and profits are quite low. IBISWorld estimates that profits are about 0.5% of revenue. This figure is down on 4% the previous year, an indication of the troubles facing the industry in the wake of recession and the collapse of the largest player.

In the longer term, it appears that, without further substantial increases in government funding, profit levels in excess of 2% may be difficult to achieve, as the industry is highly competitive, and consumers have been conditioned to expect care at relatively low prices; firms charging a premium in order to boost profits would likely find themselves losing clients.

Basis of Competition

Level & Trend
Competition in this industry is **Low** and the trend is **Increasing**

Parents can be attracted by superior qualifications of staff, staff-child ratios, the level of centre facilities and aesthetic surroundings. Some Long Day Care Centres provide preschool education services. This is a trend that is expected to continue, as centres attempt to add value to their service. Many players today refer to themselves as 'learning centres' rather than 'daycare' or 'childcare' centres, in order to promote this notion.

Reputation

While Australian customers of the industry are conditioned to expect low-cost care, they are, according to ABS surveys, most driven by a centre's reputation for quality care. This dichotomy is quite likely a significant reason behind the industry's difficulties in making meaningful profits.

While the same survey suggested cost is a negligible motivating factor for parents, there is an argument that social constraints would discourage parents from suggesting that they look to save money when it comes to providing care for their children.

Location

After the likelihood of quality care, the location of a child care centre is of pivotal importance to potential clients. The bulk of parents place their children in care while they are engaged in an activity that the children cannot attend – such as work. It stands to reason that the most convenient location for a centre would lie on a commonly travelled route between a populated area (with young families) and a concentrated commercial centre, such as the CBD of a city.

The Australian Competition and Consumer Commission has stated that its market inquiries "confirmed that generally parents prefer long day care services which are located either close to home, close to work or somewhere

Competitive Landscape

Basis of Competition continued

convenient in-between". As child care is in essence a service offering convenience, there is a level of travel time to and from dropping off and picking up a child which would negate the benefits of paying for the service. As such, locating a facility in a region with a large proportion of young families is crucial to remaining competitive.

Locating a facility in a region with a large proportion of young families is crucial

Fee levels

In 1991, private LDCs were granted Child Care Assistance Rebate subsidies, which had the effect of reducing the net amount of fees payable by some parents at private centres. This resulted in large increases in the demand for, and supply of, places available in these centres. LDCs generally charge higher fees compared to Family Day Care.

The method of government's subsidising of child care has varied across the ensuing two decades. However, the bulk of child care funding is paid direct to consumers, while community centres receive direct funding and other child care providers are given tax concessions. Access to tax concessions and funding are a key means of competing with other local providers.

Employers are able to provide child care as part of a salary package, and hence reduce the after-tax cost of child care to some employees (mainly employees with high incomes). Refer to 'Taxation' for further details.

Type of care

This ties in with the location of a centre. A centre that is located near a high density of young working families with two incomes and children will most likely need to offer long-day care services. However, if the average age of the children nearby is between five and 12, then before and after school services will most likely be more important.

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **Medium** and **Decreasing**

Entering this industry has grown easier over time on some fronts; harder on others. With the expected folding of ABC, and the likelihood that it will be bought out by numerous smaller centre operators, the threat of a large major player has been removed, making entering the industry easier than ever. Government money is still plentiful, demand remains strong, and there are cheap centres available for purchase or rent. However, the challenge of making a sustained profit may discourage new entrants.

Regulatory environment

Family Day Care is currently provided in the home of the carer, with registration required from coordinating units, in turn registered with the Commonwealth Government (to obtain funding). Regulation of home carers is increasing, as parental concerns dictate the government regulatory environment.

Among day care centres, new industry entrants also have a substantial regulatory environment to contend with, and copious registration guidelines controlling the size, location, and operations of new establishments.

The cost and time required to obtain local council approval and a State government license for the centre, along with receiving accreditation from the Commonwealth Government, in order that customers continue to be eligible for Commonwealth Child Care Benefits, can be a significant strain on new businesses, ensuring that many small and individual carers remain cash-based and unregistered.

Setup costs

The cost of purchasing or building centre accommodation, together with the cost of

Competitive Landscape

Barriers to Entry continued

facilities and equipment can be prohibitive to a new entrant. In order to provide services to parents' satisfaction, substantial costs may be incurred, as modern facilities are considered essential, while play and learning equipment must also be sourced, which must be considered in line with current notions of what is best for children of a certain age group. Also, numerous age groups of children often have differing needs, all of which must be catered for before the children's' parents enrol them in a new centre.

Location

Obtaining a suitable location can also be costly, as prime locations can be expensive, while gaining relevant local council permits to establish a child care centre can be expensive and time-consuming. Also, choosing an appropriate location may only be successful in the medium term.

For example, a suburb of a major city may be replete with young families in need of care, but in five to ten years, those children would be in far less need of supervision, and the benefit of that location would be mitigated. This is an ongoing concern for any new starter, and an appropriate location must take this into account.

Barriers to Entry checklist	Level
Competition	Low
Concentration	Low
Life Cycle Stage	Mature
Investment Requirements	Low
Technology Change	Low
Regulation & Policy	Heavy
Industry Assistance	High

SOURCE: WWW.IBISWORLD.COM.AU

Economies of scale

Building up child numbers to economical and profitable levels. Larger operators and large centres are in a stronger position to attract qualified staff, to adjust the staff mix, and to defray the costs of specialist staff (e.g. dieticians, psychologists) and facilities (e.g. swimming pools) over a larger fee base. Larger players should benefit from stricter regulation and an evolution in the concept of child care from child minding to child development, care and education (which is a concept recommended by the Commonwealth Childcare Advisory Council).

Industry Globalisation

Level & Trend
Globalisation in this industry is **Low** and the trend is **Steady**

This industry recently moved from exhibiting a low level of globalisation to a moderate level. While Australian industry operators are almost entirely Australian-controlled and provide services to Australian residents, ABC Learning Centres Ltd became a global company. However, the collapse of ABC, and its sale of its US operations, means that the industry is reverting to its prior, domestic nature.

ABC Learning Centres Ltd expanded to New Zealand and made acquisitions in the United States and the United Kingdom. Following the consummation of proposed acquisitions announced in December 2006, ABC expected to have at least half of its childcare centres located outside Australia. After the transactions, ABC was set to become the world's largest publicly traded provider of child care services and the second-largest private childcare provider in the United States.

However, in early 2008, ABC Learning Centres announced that its share price dropped by more than 60%, as rapidly tightening international credit markets caused the company's highly leveraged international expansion to face serious difficulty, as the ability to finance existing debt was called into question. Since then, the company's founder and majority shareholder, Eddy Groves, has sold his share of the company, and there are considerable doubts regarding the company's US operations in the medium to long term, as much of the US expansion was predicated on acquisition

Competitive Landscape

Industry Globalisation continued

rather than organic growth.

In 2009, the company is now being dismantled by two administrators, while many centres are being maintained purely through direct Federal Government funding. The collapse of ABC Learning is likely to act as a warning to other major providers to show caution in international expansion. As a result, the industry's level of globalisation is set to remain unchanged for some time.

Major Companies

A B C Learning Centres Limited | Other

Major players

(Market share)

SOURCE: WWW.IBISWORLD.COM.AU

Player Performance

A B C Learning Centres Limited
Market share: 25.6 %

The furious storm at the centre of a calm oasis, the calamity that has been ABC Learning has been very nearly the antithesis of the Australian child care industry at large. Going from small child care provider to international baby behemoth to failed corporate raider in the space of only eight years, its story has been central to, and somewhat removed from, the steadier, more organic growth of child care the nation over.

As of June 30, 2007, ABC operated 1,184 child care centres in Australia and New Zealand and operated child care centres at 1,015 locations in the United States. ABC growth was fast, largely due to aggressive takeovers of smaller centres.

In 2006-07, ABC generated $1,696 million in revenue and $143.1 million in operating profit, increases of 115% and 76% respectively. Much of this growth was driven by acquisitions again, particularly in the US market, where the number of operating establishments grew from 324 to 1,015. Meanwhile, Australia/New Zealand operations grew from 933 establishments to 1,188, through further acquisitions, causing greater concentration in the Australian market, which was once highly diversified.

Initially, after this sale of much of the US business, it was believed that the Australian business was protected from similar failure. However, on November 6th, the company was placed in receivership, as it became clear that the Australian business was as unsustainable as the US arm. As a result of this, and impending investigation by ASIC, ABC have, at the time of publishing, yet to release financial data or any annual report for the 2007-08 year.

ABC's extraordinary growth was based on the acquisition of numerous existing small centres, primarily by taking on debt to finance it. Concerns were raised that the company had insufficient assets to safely take on such heavy indebtedness.

As such, in early 2008, as the global tightening in credit terms begun to bite, ABC Learning announced that it was unable to finance billions of dollars in debt incurred to assist in the expansion into the US market. As such, the share price fell over 66%, as it became clear that ABC were too highly leveraged to continue its effective growth in the US market. In June 2008, ABC sold a 60% stake in its US business to Morgan Stanley

The receivers found that the company had around $1.66 billion in liabilities, and did not indicate that there were any assets. ABC leased the vast majority of its centres, while its previously reported $657 million in 'property plant and equipment' was viewed by the public as spurious. The business is unlikely to be sold, as the only way it can be sold is as an entire entity, and there are no companies willing to take on the management of 1,200 child care centres.

In 2009, the company had its liquidation proceedings split between to firms. 720 ABC centres remained under McGrath Nichol, the original administrator. Meanwhile, the NSW Supreme Court appointed a second group of administrators, PPB, to oversee 249 centres that were being propped up by the Federal Government, under the new company name of ABC2, a fully owned subsidiary of ABC Learning. There was also a move by the government to acquire the remaining 13 ABC Learning centres,

Major Companies

Player Performance continued

owned by a franchisee.

In early 2009, it was decided that 210 of PPBs 249 centres would face closure, while the remaining centres had been sold, or had received significant expressions of interest. Some unprofitable centres were sold to not-for-profit foundations such as Mission Australia for $1 each. By April 2009, it was decided that 19 ABC centres were unviable, and would be closed.

It appears likely that many, but not all, of ABC's centres will be sold to smaller proprietors, as the Child Care industry remains extremely viable. This means that there is set to be a drop in overall industry revenue, and the total number of centres, in 2008-09 and 2009-10, before demand for extra centres creates an entity (or entities) to fill the vacuum.

ABC Learning Centres Ltd – financial performance

Year	Revenue ($ million)	(% growth)	NPAT ($ million)	(% growth)
2003-04	96.4	135.7	21.4	76.9
2004-05	252.7	162.1	43.5	103.3
2005-06	790.8	212.9	81.5	87.4
2006-07	1,696.4	114.5	143.1	75.6

SOURCE: ANNUAL REPORT

Other Companies

KU Children's Services

KU Children's Services (KU), established in 1895 as the Kindergarten Union of New South Wales, is the largest non-government, not-for-profit employer of staff for children's services in NSW (and employs more than 1,000 permanent staff). KU manages 145 children's services across NSW and Victoria meeting the needs of 8,000 children. KU offers a diverse range of services from occasional care to preschool and long day care.

KU has been growing consistently and robustly for some years, with growth almost uniformly in the double digits for the past five years. Even in 2008, as the industry struggled, KU grew by 9.6%, as they continued to expand, and took some business from ABC, as nervous parents took their children from centres under threat of closure.

However, these expansions have come at a cost. While the company has not been recording large profit, in 2008, despite greater attendance and solid growth, it registered a loss of nearly $3 million, further reinforcing the difficulties in establishing a sustainable, profitable enterprise beyond a certain size.

CFK Childcare

CFK Childcare Centres Ltd (renamed from Child's Family Kindergartens) was a public listed company and was established in 2003. The company undertook an initial public offering in April 2006 and used the proceeds to acquire child care centres. During November 2008, though, the company entered voluntary administration, as it could not maintain a profitable industry, despite the presence of generous government incentives. The presence of community based, not-for-profit providers offering lower fees is considered a major cause of these problems.

In November 2008, CFK – which at the time had 43 centres and oversaw more than 4,000 children, entered into voluntary receivership, and was still operating under the receivers' control in July 2009. However, these liquidation proceedings were unsurprising, considering the challenges CFK had

Major Companies

Other Companies continued

experienced in attempting to expand its operations in previous years. The company's difficulties serve as an added example of the lack of economies of scale evident in the child care industry.

In 2007, CFK conducted a share issue to Macquarie Leisure Services Ltd, following Macquarie's announcement that it would build a 30% strategic stake in CFK. The funds raised were used for expansion. The company's annual report indicates that centre occupancy levels had reached 77% by September 2008 (from a low of 62%), producing a positive cash flow.

In December 2006, CFK indicated that it would not be able to meet its projected revenue and profit for 2006-07 on its 37 original centres. Revenue had been impacted by both pricing and occupancy issues, while costs were impacted by staff recruitment, cleaning and foods costs. New initiatives to bolster revenues and profits included capital improvements (to make facilities more attractive), establishing a recruitment agency subsidiary and a cleaning company subsidiary, and purchasing food from wholesale suppliers.

Family day care

Organisations that can be approved to provide family day care include incorporated non-profit community organisations, State or local governments, religious and charitable organisations, and trustees of a trust for charitable or benevolent purposes. Other operators, including private for-profit organisations and operators of community-based centres, are also able to apply to the Department of Family and Community Services, through the planning system, for new family day care places in identified areas of need.

Outside school hours care

Until recently most Commonwealth funded stand-alone outside school hours care services were provided by community-based, non-profit organisations. From July 1, 1999 private for profit operators were eligible to take-over existing community-based outside school hours care services. From January 1, 2002, both community-based and other operators including private for-profit operators became eligible to apply for new Commonwealth funded outside school hours care places, in identified areas of need.

Camp Australia Pty Ltd, headquartered in Victoria, has been in operation for a couple of years. The company is the largest independent provider of outside- school-hours care programs in Australia. The company also offers camps and holiday programs. Schools, which also provide outside-school-hours and vacation care programs, are outsourcing outside-school-hours programs due at least in part to new quality assurance requirements.

Many primary schools offer outside school-hour care before and after classes, to assist working parents. These are sometimes provided by the school, which charges parents and sources qualified carers, but the care work is more often outsourced to another child-care firm.

Other providers of outside-school-hours and vacation care include child care centres, local councils, and not-for-profit organisations.

KU Children's Services – financial performance

Year	Revenue ($ million)	(% growth)	NPAT ($ million)	(% growth)
2003-04	37.1	N/C	0.36	N/C
2004-05	49.8	34.2	0.79	119.4
2005-06	57.5	15.5	2.76	249.4
2006-07	63.8	11.0	3.81	38.0

SOURCE: ANNUAL REPORT

Operating Conditions

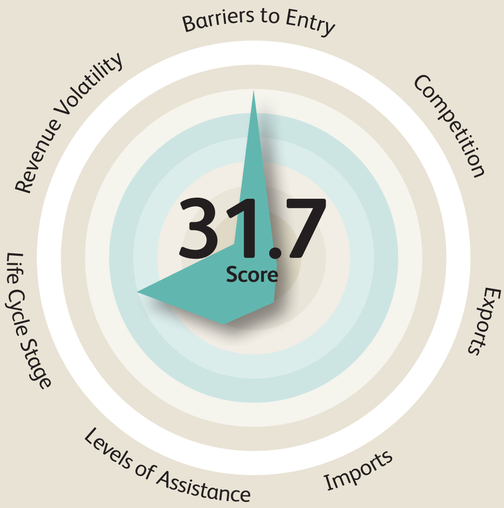
Structural Risk Index | Investment Requirements | Technology & Systems
Industry Volatility | Regulation & Policy | Industry Assistance | Taxation Issues

Structural Risk Index

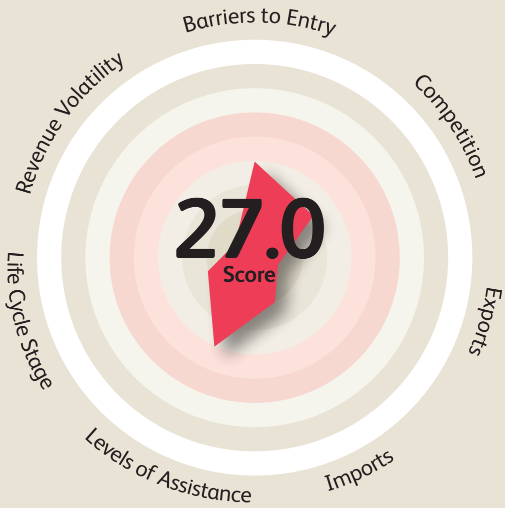
Industry Relax Points
Competition
Exports
Imports
Levels of Assistance
Revenue Volatility

Industry Pressure Points
Barriers to Entry

Child Care Services



Health and Community Services



IBISWorld has scored key elements of industry structure on a scale of 1 to 9 – the higher the figure, the greater the risks to businesses operating in the industry.

Operating conditions in the Child Care Services industry are more risky than in other industries in the Health and Community Services division. The industry structural risk index totals 31.7 points compared to 27.0 points for the Health and Community Services division as a whole (100 points equates to extremely poor operating conditions).

SOURCE: WWW.IBISWORLD.COM.AU

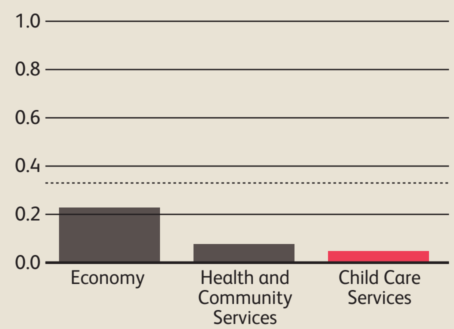
Investment Requirements

Level
The level of investment required is **Low**

The Child Care Services industry has very low capital intensity. Unlike a manufacturing industry, a service industry such as this one does not require machinery. The only depreciable assets include equipment used by the children, or staff, such as kitchen equipment to prepare food.

The level of capital intensity for the industry is unlikely to alter significantly over the forecast period. Wages, meanwhile, account for an average 63.2% of revenue and expenditure on wages accounts for a larger proportion of revenue than does depreciation, with a typical organization in the industry using approximately 32.9 units of labour for each unit of capital. Accommodation represents the only capital requirement to facility-based child care services. However, managed funds are providing a vehicle to sell and lease back freehold property. Beyond that, the vast bulk of property in the industry – be it centres themselves, or that for use of children, such as play equipment – is rented, which limits capital spending and depreciation levels.

Capital intensity
Capital units per labour unit



Dotted line shows a high level of capital intensity

SOURCE: WWW.IBISWORLD.COM.AU

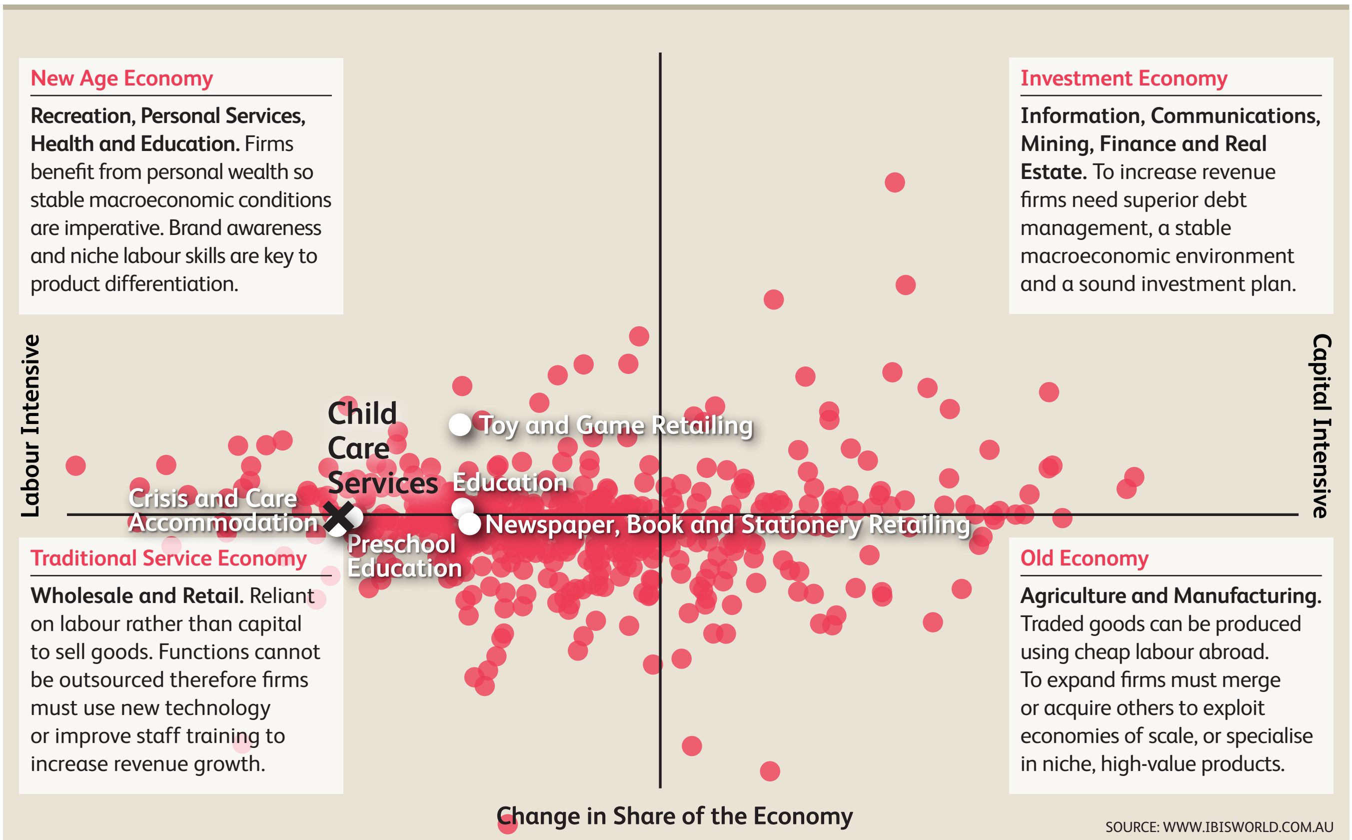
Operating Conditions

Investment Requirements continued

This is highly unlikely to impact on the industry's labour intensity, however, as capital use is essentially negligible, and for every dollar spent on capital, IBISWorld estimates that around $33 is spent on labour and associated costs. Also, there will always be regulatory pressure (generated by public concerns) to maximise the child-staff ratio, which will inevitably maintain high wage costs.

Child care centre staff employment expenses are affected by child-to-staff ratios (affecting staff costs per child); the average age of children (with older children requiring less labour resources); the average length of stay of children (costs increase as the average length of stay declines); and the mix and flexibility of staff. Private centres may have more flexible staff arrangements (e.g. performing administrative and core activities). Staff members in private centres tend to work longer hours per week than staff in community centres.

Tools of the Trade: Growth Strategies for Success



SOURCE: WWW.IBISWORLD.COM.AU

Technology & Systems

Level
The level of Technology Change is **Low**

There is a relatively low use of technology in this industry. Some long day centres are introducing computer-based education to children. Other, large day care operators have instituted virtual private networks and company-wide management information systems (including customer relationship management).

Operating Conditions

Revenue Volatility

Level
The level of Volatility is **Low**

The population of young children is not volatile and government funding, which is high and increasing, helps to reduce volatility. However, the female labour participation has been historically more volatile than that of men, as more women have been inclined to exit the workforce when becoming a parent than men have. This creates a slightly more volatile factor facing industry providers. Despite this, though, the rate at which young women are entering the workforce is more than counteracting this, and acts as a substantial stabilising factor.

Importantly, the recent collapse of ABC Learning was not necessarily the result of poor revenue performance, but by being heavily indebted – in order to expand US operations – at a point when credit markets seized up. Also, mounting evidence of improper account keeping, auditing and reporting are indicating that revenue growth and profit for the company were not as high as originally thought. As such, the failure of such a major competitor was not caused by a catastrophic fall in revenue as befitting a volatile industry. Indeed, the continued patronage of former ABC centres speaks to the resilient demand the Australian public has for child care.

Regulation & Policy

Level & Trend
The level of Regulation is **Heavy** and the trend is **Increasing**

Federal and State Government regulation tends to focus on administering an appropriate duty of care for children placed in care centres. This revolves primarily around providing qualified, experienced and properly trained staff. However, this applies more closely for community care centres, which are reliant on governmental funding. Private companies, which are often only partially assisted via tax concessions, are freer to employ any staff they see fit. As such, this lower level of regulation tends to lead to lower wage costs for private operations.

Local Governments regulate the planning and the development aspects of child care centres. State and Territory governments have enacted legislation to regulate child care centres. The major areas of regulation include the number of children that can be cared for by a centre at any one time; staff qualifications; the number of children that must be separately cared for by at least one qualified member of staff; indoor space per child; and staff to child ratios.

To be eligible for the Commonwealth's Child Care Benefit Scheme, long day care centres must, among other requirements, operate for at least 8 hours per working day for at least 48 hours per week; be licensed by the relevant State or Territory licensing authority; and register with the National Child Care Accreditation Council and participate in the Quality Improvement and Accreditation System. The Child Care Fraud and Investigations Unit is able to enter childcare premises unannounced, and examine centre documents such as parent sign-in books.

The Commonwealth and State government Ministers have agreed on nationally consistent staffing standards for community-based Long Day Care (LDC), Family Day Care (FDC) and Out of School Hours Care (OSHC). Home-based carers for whom the Child Care Benefit is claimed must be registered with the Health Insurance Commission, be aged 18 years and over, and have a tax file number.

Operating Conditions

Industry Assistance

Level & Trend
The level of Industry Assistance is **High** and the trend is **Steady**

Since the late 1990s, government funding for child care has become increasingly prevalent in the industry's growth. As part of the response to the Australian recession of 1989-1992, child care funding became a fundamental part of a larger scheme to encourage workforce participation, which would serve to increase employment and incomes. The result, though, was more parents working, and commensurate encouragement to have children in care was required.

As part of the Commonwealth Government's proposal for 'A New Tax System', from July 1, 2000 a Child Care Benefit (CCB) replaced the Childcare Rebate and Childcare Assistance, which was the earlier form of funding. The CCB has lower withdrawal rates and higher income thresholds compared to the Childcare Rebate and Childcare Assistance.

As of 2005, the maximum assistance for a formal child care service was $144 per week per child (for 50 hours of care). During the 2004 election campaign the Howard Government introduced a 30% Child Care Tax Rebate (CCTR) for out-of-pocket child care costs up to a maximum of $4,000 per child.

In addition to the CCB and the child care tax rebate, the Commonwealth Department of Family and Community Services also provides financially support to child care operators, through access to set-up grants, training grants, establishment funding for new services in rural and remote areas, equipment grants and fee assistance paid as a block grant. These fall under the auspices of the National Child Care Management System, which is intended to encourage new players to enter the market. The expected eventual departure of ABC Learning from the industry is likely to increase the importance of programmes such as this.

Government funding for child care has become increasingly prevalent in the industry's growth

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Taxation Issues

Level
The level of Tax Burden is **Medium**

Private child care centres have access to tax exemptions. Child care facilities provided on an employer's 'business premises' are exempt from fringe benefits tax. Hence, employees who have young children, and who work for an employer that has "control" over a child care centre (usually a large employer), can salary sacrifice for child care provided by the employer. This may be effective for high income earners who can reduce their taxable income and who are not eligible for Child Care Rebate. Beyond the assistance provided to potential users of the industry's services, there are no specific taxes borne by firms.

Key Statistics

Industry Data

	Revenue ($m)	Industry Value Added ($m)	Establishments	Enterprises	Employment	Exports	Imports	Wages ($m)	Domestic Demand
2000-01	4,437.8	2,298.1	8,427	7,975	79,611	--	--	2,982.2	n/a
2001-02	4,762.8	2,414	9,142	8,661	81,734	--	--	3,191.1	n/a
2002-03	5,134	2,632.2	10,368	9,848	86,837	--	--	3,429.5	n/a
2003-04	5,450	2,805.1	11,403	10,848	92,699	--	--	3,618.8	n/a
2004-05	5,870.9	3,077.4	12,651	12,055	97,844	--	--	3,892.4	n/a
2005-06	6,303.3	3,346.8	13,782	13,151	101,675	--	--	4,179.1	n/a
2006-07	6,721.6	3,514.2	14,922	14,253	107,556	--	--	4,443	n/a
2007-08	6,944.5	3,559.4	15,919	15,211	114,337	--	--	4,571.8	n/a
2008-09	6,919.1	3,230.8	15,735	15,070	115,412	--	--	4,432.2	n/a
2009-10	**6,990.6**	**3,163.6**	**15,406**	**14,761**	**115,594**	**--**	**--**	**4,420.6**	**n/a**
2010-11	7,326.2	3,320	16,068	15,265	120,565	--	--	4,522.3	n/a
2011-12	7,802.4	3,530.2	16,902	15,212	127,919	--	--	4,698.6	n/a
2012-13	8,286.1	3,719.5	17,883	16,339	134,443	--	--	4,979.6	n/a
2013-14	8,783.3	3,948.2	18,670	16,959	142,644	--	--	5,198.7	n/a
2014-15	8,923.8	4,026.9	19,062	17,662	145,468	--	--	5,411.9	n/a
Sector Rank	**6/19**	**6/19**	**3/18**	**2/14**	**4/19**	**n/a**	**n/a**	**3/18**	**n/a**
Economy Rank	**139/553**	**105/553**	**51/504**	**43/494**	**37/518**	**n/a**	**n/a**	**45/501**	**n/a**

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)
2001-02	7.3	5.0	8.5	8.6	2.7	n/a	n/a	7.0	n/a
2002-03	7.8	9.0	13.4	13.7	6.2	n/a	n/a	7.5	n/a
2003-04	6.2	6.6	10.0	10.2	6.8	n/a	n/a	5.5	n/a
2004-05	7.7	9.7	10.9	11.1	5.6	n/a	n/a	7.6	n/a
2005-06	7.4	8.8	8.9	9.1	3.9	n/a	n/a	7.4	n/a
2006-07	6.6	5.0	8.3	8.4	5.8	n/a	n/a	6.3	n/a
2007-08	3.3	1.3	6.7	6.7	6.3	n/a	n/a	2.9	n/a
2008-09	-0.4	-9.2	-1.2	-0.9	0.9	n/a	n/a	-3.1	n/a
2009-10	**1.0**	**-2.1**	**-2.1**	**-2.1**	**0.2**	**n/a**	**n/a**	**-0.3**	**n/a**
2010-11	4.8	4.9	4.3	3.4	4.3	n/a	n/a	2.3	n/a
2011-12	6.5	6.3	5.2	-0.3	6.1	n/a	n/a	3.9	n/a
2012-13	6.2	5.4	5.8	7.4	5.1	n/a	n/a	6.0	n/a
2013-14	6.0	6.1	4.4	3.8	6.1	n/a	n/a	4.4	n/a
2014-15	1.6	2.0	2.1	4.1	2.0	n/a	n/a	4.1	n/a
Sector Rank	**18/19**	**19/19**	**18/18**	**14/14**	**17/19**	**n/a**	**n/a**	**18/18**	**n/a**
Economy Rank	**251/552**	**362/553**	**411/504**	**382/494**	**201/518**	**n/a**	**n/a**	**267/501**	**n/a**

Key Ratios

	IVA/Revenue ($)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per Est.	Average Wage ($)	Share of the Economy (%)
2000-01	0.52	n/a	n/a	55.74	67.20	9.45	37,459.65	0.27
2001-02	0.51	n/a	n/a	58.27	67.00	8.94	39,042.50	0.27
2002-03	0.51	n/a	n/a	59.12	66.80	8.38	39,493.53	0.29
2003-04	0.51	n/a	n/a	58.79	66.40	8.13	39,038.18	0.29
2004-05	0.52	n/a	n/a	60.00	66.30	7.73	39,781.69	0.31
2005-06	0.53	n/a	n/a	61.99	66.30	7.38	41,102.53	0.33
2006-07	0.52	n/a	n/a	62.49	66.10	7.21	41,308.71	0.34
2007-08	0.51	n/a	n/a	60.74	65.83	7.18	39,985.31	0.33
2008-09	0.47	n/a	n/a	59.95	64.06	7.33	38,403.29	0.29
2009-10	**0.45**	**n/a**	**n/a**	**60.48**	**63.24**	**7.50**	**38,242.47**	**0.28**
2010-11	0.45	n/a	n/a	60.77	61.73	7.50	37,509.23	0.29
2011-12	0.45	n/a	n/a	60.99	60.22	7.57	36,731.06	0.29
2012-13	0.45	n/a	n/a	61.63	60.10	7.52	37,038.75	0.30
2013-14	0.45	n/a	n/a	61.57	59.19	7.64	36,445.28	0.31
2014-15	0.45	n/a	n/a	61.35	60.65	7.63	37,203.37	0.30
Sector Rank	**19/19**	**n/a**	**n/a**	**16/19**	**5/18**	**11/18**	**12/18**	**6/19**
Economy Rank	**156/553**	**n/a**	**n/a**	**500/518**	**9/501**	**272/504**	**354/501**	**105/553**

Figures are inflation-adjusted 2010 dollars. Rank refers to 2010 data.

SOURCE: WWW.IBISWORLD.COM.AU

Key Statistics

Historical Performance

There are three periods in Australia's history that created conditions that now nourish Australia's burgeoning Child Care sector. Post WWII, as men returned from the front, there was a generation of women who had grown accustomed to working went back to their homes, determined to regain their newfound independence.

Then, during the late 1960s, women began to enter the workforce. Finally, during the period of deregulation in the 1980s and early 1990s, the gender balance of the Australian workforce began to skew female. At that point, demand for child care became an issue of critical importance to governments determined to maintain growth in the broader economy by providing a flexible workforce. Thus, funding for child care providers begun in earnest.

Prior to 1998, private-for-profit long day care centres were not subject to strict requirements

The Commonwealth Government became involved in child care in the early 1970s. In 1972, the Child Care Act provided the legislative basis for Commonwealth grants to fund non-profit and local government provision of centre based care. In 1983, the National Children's Services Program was introduced, leading to an increase in the supply of child care places and an extension and planning of children's services based on determined needs. In 1984, fee relief for both occasional care and long day care in Commonwealth funded services was introduced. The Commonwealth Government also introduced packages for expansion in child care in each State (with the exception of Tasmania).

Throughout the mid- to late-1980s, the Commonwealth Government sought to increase the number child care centres and places. Fee relief was revised to provide greater assistance to lower income families, and to employers that sponsor child care for employees. The Commonwealth Government's salary subsidy was converted to an operational subsidy calculated on the number of places provided.

In 1987-88, Commonwealth Government funding rose 30% in real terms. This followed a commitment by the Government, as part of the National Child Care Strategy, to expand the number of child care places by 20,000 in 1987 (up 42.7%).

In 1990-91, Commonwealth Government expenditures grew by 12% in real terms, following a decline in female labour force participation rates. Despite this periodic decline, female labour force participation rates had increased from around 45% to over 50% between 1985 and 1990.

In January 1991, the Childcare Assistance (fee relief) program was extended to include private and employer-based centres, in order to redirect unmet demand in community-based centres to under-utilised private centres. This moved previously unfunded places into the funding system creating a large one-off increase in Commonwealth funded places, followed by significant annual growth in private and employer-based Long Day Care child care places.

During 1991-92, unemployment was on the rise, peaking at 11.1% in June 1992. This adversely affected female labour force participation rates, causing a slowdown in demand growth for child care places. In areas particularly hard hit by the recession, parents withdrew children from child care when they lost their jobs. This drop out rate affected the viability of some centres, which then saw them boost their numbers with children of non-working parents.

The Government extended Childcare Assistance to employer-subsidised centres from January 1993. The Government introduced the Childcare Rebate in July 1994.

The Commonwealth's expenditure on Childcare Assistance increased significantly in the 1994-95 year, due principally to an increase in the proportion of families receiving financial

Key Statistics

Historical Performance continued

assistance. Economy-wide employment growth was strong in 1994-95, and this enticed some parents into the workforce.

In July 2000, the Commonwealth Government replaced Childcare Assistance and the Childcare Rebate with the Child Care Benefit (CCB now known as the Child Care Rebate), which assists families with their child care costs. With the introduction of the CCB, there was a shift in focus from funding service providers to funding parents to use approved services. Various other Commonwealth child care initiatives were introduced in 2001 including the In Home Care Initiative, where families with particular needs are supported to have child care provided in their own homes. The net affect of these initiatives was to increase government funding of child care.

IBISWorld estimates that industry revenue grew at average annualised real rate of 4.9% in the five years to 2001-02. Over the same period, Commonwealth Government expenditure on child care increased by an average annualised real rate of 5.5%, and other expenditures on child care (principally fees paid by parents) increased at an average annualised real rate of 3.3% (held down by low child care fee inflation). The rate of real growth varied over this period, largely depending on Government child care expansion initiatives from year to year, the rate of growth in employment (affecting female labour force participation rates), and the rate of growth in child care fees.

Jargon & Glossary

Industry Jargon

AUSTRALIAN GOVERNMENT CENSUS OF CHILD CARE SERVICE A survey undertaken by the ABS assessing the state of the Childcare industry in 2004-05.

BABY BONUS A payment from the Federal Government – originally a lump sum, and later a staggered payment – that comes with the birth of a child.

CHILD CARE ASSISTANCE REBATE (CCAR) A tax rebate paid by the government to parents who place children in child care.

COMMUNITY-BASED CENTRE Non-profit child care centre, funded by Government, designed to meet demand in certain communities. These centres are more highly regulated than private centres, and demand is greater.

LONG DAY CARE CENTRE (LDCC) A child care centre that specialises in providing care for children during work hours.

OCCUPANCY RATE The number of possible places in a given child care centre that are filled by children requiring care. A rate of 70%-80% is considered necessary for a centre to be profitable.

OUTSIDE SCHOOL HOURS CARE (OSHC) Care aimed at children needing care before and after school, but within business hours.

IBISWorld Glossary

BARRIERS TO ENTRY Barriers to entry can be High, Medium or Low. High means new companies struggle to enter an industry, while Low means it is easy for a firm to enter an industry.

CAPITAL/LABOUR INTENSITY An indicator of how much capital is used in production as opposed to labour. Level is stated as High, Medium or Low. High is a ratio of less than $3 of wage costs for every $1 of depreciation; Medium is $3-$8 of wage costs to $1 of depreciation; Low is greater than $8 of wage costs for every $1 of depreciation.

DOMESTIC DEMAND The use of goods and services within Australia; the sum of imports and domestic production minus exports.

EMPLOYMENT The number of working proprietors, partners, permanent, part-time, temporary and casual employees, and managerial and executive employees.

ENTERPRISE A division that is separately managed and keeps management accounts. The most relevant measure of the number of firms in an industry.

ESTABLISHMENT The smallest type of accounting unit within an Enterprise; usually consists of one or more locations in a state or territory of the country in which it operates.

EXPORTS The total sales and transfers of goods produced by an industry that are exported.

IMPORTS The value of goods and services imported with the amount payable to non-residents.

INDUSTRY CONCENTRATION IBISWorld bases concentration on the top four firms. Concentration is identified as High, Medium or Low. High means the top four players account for over 70% of revenue; Medium is 40–70% of revenue; Low is less than 40%.

INDUSTRY REVENUE The total sales revenue of the industry, including sales (exclusive of excise and sales tax) of goods and services; plus transfers to other firms of the same business; plus subsidies on production; plus all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); plus capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED The market value of goods and services produced by an industry minus the cost of goods and services used in the production process, which leaves the gross product of the industry (also called its Value Added).

INTERNATIONAL TRADE The level is determined by: Exports/Revenue: Low is 0-5%; Medium is 5-20%; High is over 20%. Imports/Domestic Demand: Low is 0-5%; Medium is 5-35%; and High is over 35%.

LIFE CYCLE All industries go through periods of Growth, Maturity and Decline. An average life cycle lasts 70 years. Maturity is the longest stage at 40 years with Growth and Decline at 15 years each.

NON-EMPLOYING ESTABLISHMENT Businesses with no paid employment and payroll are known as non-employing establishments. These are mostly set-up by self employed individuals.

VOLATILITY The level of volatility is determined by the percentage change in revenue over the past five years. Volatility levels: Very High is greater than ±20%; High Volatility is between ±10% and ±20%; Moderate Volatility is between ±3% and ±10%; and Low Volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees of the establishment.