

# How Primrose Schools Entered The Franchising Of Early Education <sup>[1]</sup>

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## EXCERPTS

In the early 1980s, Marcy Erwin had recently moved to Georgia with her husband, Paul, and sought to place her young children in a half-day preschool reminiscent of the one her mother had operated—and that Marcy had worked at—back in Oak Park, Illinois. She could not find one that offered the level of quality she wanted, save for ones offered by churches, which had long wait lists.

So, in 1982, Erwin launched her own school, using her mother's mix of Montessori-style child-initiated learning, and teacher-led curriculum—a blend that is still at the heart of the organization, now known as The Primrose Schools. "We have early-learning specialists who write the curriculum, and then we push it out to all the schools and the teachers follow that daily schedule," says CEO Jo Kirchner. "They can build upon it, but they have to follow that schedule."

The brand grew to three half-day preschools before becoming a full-day education and childcare program in 1988, at which point the Erwins began laying the groundwork for a franchise system, awarding the first license in 1990. At the time, franchised child care and early education were new concepts and Primrose had to rely on its founders' experience, specifically that of Paul Erwin, now deceased, who had previously worked as an operations vice president with Federated Department Stores, now called Macy's. "He systematized the operation of their three schools to get consistency," says Kirchner, who began working with Primrose as a consultant in 1987. "And he was able to lift that into the franchise model."

In 2008 the brand was acquired by Roark Capital Group, an Atlanta-based private equity firm whose other franchise holdings include Arby's, Massage Envy, and the sandwich shop Jimmy John's.

Today, Primrose has 378 locations in 29 states, with 160 in the pipeline expected to open in the next three years, says Kirchner. Last year the home office netted \$18 million in profits on \$55.5 million in generated revenue, while the entire franchise system racked up nearly \$709 million. Systemwide revenue is expected to reach \$750 million by year's end and \$1 billion by 2020, Kirchner says.

Primrose falls into the high-investment category in Forbes' assessment of the Best and Worst Franchises to Buy report, with midpoint investment estimated at more than \$900,000, according to FRANData. For franchisees who wish to purchase a new school, costs can range from \$4 million to more than \$6.2 million, including \$140,000 to \$185,000 in fees going to Primrose. Those who find lease opportunities, though, can pay as low as \$550,000, but costs can still rise into the millions depending on the lease. Franchisees generally seek funding through a Small Business Association loan, and franchisees provide up to 15% of the capital in cash.

Other fees include monthly payments of 7% of gross revenue in royalties, 2% of gross for advertising and development, and 1% of the gross for local outreach, as well as a number of other fees.

Those expenditures can yield steady results. According to Kirchner, a mature school—one that's been in operation for at least three years—can average \$2 million in annual revenue if at maximum capacity. At Primrose, tuition can be as low as \$200 per week and go as high as \$600, depending on the location.

## The Industry

According to market research firm IBISWorld, this year the child daycare industry in the United States will rack up \$47.5 billion in revenue, with growth forecast at only 0.1% per year looking ahead to 2023. Meanwhile, early childhood learning centers in the country are expected to generate \$11.8 billion in 2018 and will grow 0.4% annually over the next four years.

The early education franchising industry only generated \$2.6 billion in 2016. But that figure will likely grow 6.5% per year through 2021, when the number of franchise operators in the space is forecast to hit 2,126.

"Strong marketing has led child-education franchises to outperform the broader daycare industry," says Meghan Guattery, an education industry analyst at IBISWorld. "Demand has been fueled by the long-term shift in women's participation in the workforce and support for early childhood development. Over the past 30 years, women have been entering the workforce at increasing rates. This trend has

contributed to women postponing marriage and having children until after they establish a professional career, a factor that has definitely benefited demand for center-based care.”

Part of the drive behind an increase in consumer interest in early education is the idea that it may benefit a child’s future educational career, or his or her life in general. As it turns out, that might actually be true. “The earliest years for children are the most important in terms of their cognitive development and their social-emotional development,” says William Gormley, a professor at Georgetown University’s McCourt School of Public Policy, and co-director of the Center for Research on Children in the United States. “Very young children are very impressionable, and they’re very susceptible to good teaching and to bad teaching, they’re very susceptible to good care and bad care.”

Though there’s ample data showing that state-funded early education programs have a marked positive impact on a child’s future, there is a strong consensus in the research community, says Gormley, that high-quality early childhood education in general yields substantial and sometimes dramatic improvements in school readiness and cognitive abilities. But that level of quality education requires top-notch teaching. “You need well-educated, thoughtful, sensitive caregivers,” says Gormley. “You also need consistent caregivers—young children are particularly more vulnerable to disruptions in care.”

### Searching For The Right People

Some states require that teachers at private early education facilities have at least associate degrees, and a bachelor’s degree in early learning is preferred. “We go above and beyond,” says Kirchner. “All of our teachers in the preschool, pre-K and kindergarten classes have bachelor of arts degrees, and then we have a person who oversees curriculum who has an early education degree.” Childcare personnel working at the company should either hold or be working towards a Child Development Associate Credential.

Primrose provides its franchisees employee assessment tools to help them find quality personnel. This includes preinterview online assessments, with another assessment regimen during interviews with potential hires. The organization also employs a third party to conduct background checks. “In many states that is required,” says Kirchner. “In some states it’s only required of a few key people in the business, but we require it of everyone involved in the schools.”

### New Ways To Grow

With growth in mind, Primrose has recently identified a way to expand its daycare and education offerings to new areas. Its new Primrose On Premise program, launched last year, allows employers to partner with the company in creating on-site child care for employees. The owners of local Primrose locations will spearhead the outreach to nearby businesses and run the on-site programs, says Kirchner, adding that this is a big part of the company’s growth strategy going forward, particularly in geographical regions where land and square footage are prohibitively expensive.

The fledgling On Premise initiative has so far found a home in the corporate headquarters of Procter & Gamble in Cincinnati, at Frito Lay’s offices in Plano, Texas, and another is soon to open within the home offices of Chevron in Midland, Texas. “It’s a market niche in the child care industry that we haven’t gone after in the past,” says Kirchner. “But we are in the process of doing that now.”

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