# ChildCare Centers
# Identifying and Managing Intangible Assets

## *Building and strengthening centers' reputation, goodwill, and competitive advantages…*

**Dr. Deb Moberly and Children 1st**

# A Childcare Center's Intangible Assets…

Are economic benefits anchored in unique blends of a center's programs and activities, processes and procedures that can be effectively used to differentiate a center within *its* market space and among its competitors by creating efficiencies, adding to its' value, and generating additional sources of revenue. Adapted by Dr. Deb Moberly and Michael D. Moberly from the work of Michael Porter, Harvard Business School

Are a center's primary source of competitive advantage as they become embedded in the distinctive 'knowhow', operating culture, child/family interactions of the director and staff, and value that comes from the unique understanding of how and when *those* skill sets can be used most effectively. Adapted by Dr. Deb Moberly and Michael D. Moberly from the McKinsey Quarterly, 2004

Evolve over time within a center and may not always be the result of a specifically planned actions or the product of specific capital allocation decisions. Adapted by Dr. Deb Moberly and Michael D. Moberly from Brookings Institution's report titled 'Understanding Intangible Sources of Value'

# Defining a Childcare Center's Intangible Assets

<u>**Intangible Asset Categories**</u> <u>**Intangible Asset Examples**</u>

**Marketing** - distinctive marketing – promotional concepts, practices, and channels, outcomes/findings of parent advisory group meetings, contact lists/data bases of previous, current, and prospective families, teachers, attractive signage/logo, and newsletters…

**Location -** easements, accessibility, in-climate weather features, adjacent properties (visuals, proximities)…

**Building and Environmental Design -** interior and exterior features that maximize child - staff visibility and supervision, deter - reduce vulnerability that adverse risks and/or threats will materialize…

**Center's internet presence -** registered (uncontested) domain names, center website design, use of social media platforms, …

**Center' identity -** image, goodwill, reputation, trade name, logos, brand…

**Technology -** children's accessibility and use of developmentally appropriate technologies, center developed curriculum planning templates, family involvement communication methods, software, databases, and custom applications (probably proprisetary and unpatented)…

**Relationship Capital –** positive relationships with children, parents, teachers, community organizations, universities, and other stakeholder groups, capability for parents/teachers to observe their child *at will* through secure center website, i.e., CCTV, and the ability to engage in timely communication with and between families and other stakeholders…

**Intellectual Capital -** the collective application of director and staff expertise, specializations, competencies, skills, experience, education, training, attitudes, abilities, and technology proficiencies in center operation, new staff orientation program, current training manuals, and internally developed processes,

**Structural Capital -** operating structures and processes that enhance center performance, safety, security, create efficiencies, liability insurance coverage…

**Employment contracts/agreements**: any employment, service, and/or vendor contracts that have a definable life <u>and</u> some form of exclusivity, transferrable non-compete and/or non-disclosure employment agreements…

**Research -** actionable information-insights regarding local/regional (governmental) strategic planning, macro/micro trends impacting childcare industry, competitor plans, current, in-process research studies and/or collaborations with universities, approvals by regulatory/oversight agencies, outstanding RFP's…

**Products/Services -** warranties, high state of repair-maintenance, enrollment wait list, operating permits, licenses, renewals, expirations, etc…

**Intellectual Property –** registered service marks, logo design, trade name…

This list of intangible assets was adapted by Dr. Deb Moberly and Michael D. Moberly from their professional experiences and engagements, and Weston Anson's 'The Intangible Asset Handbook: Maximizing Value From Intangible Assets' <u>and</u> Section 197 of the IRS Code.

***Examine these examples - categories of intangible assets which your center likely produces <u>and</u> possesses. Determine how <u>or</u> whether they are delivering the value, sources of revenue, <u>and</u> competitive advantages which they are capable***

# Intangible assets must become permanent fixtures on every childcare center director's radar screen *because…*

1. **65+%** of most center's value, sources of revenue, and building blocks for growth and sustainability evolve directly from intangible assets a center and its' staff produce, particularly reputation…

2. It is becoming common practice to **measure center effectiveness** by how well its director and staff recognize, assume, and execute their (fiduciary) responsibilities for…
   a. identifying, managing, and exploiting a center's intangible assets to increase value, sources of revenue, reputation, growth, image, and goodwill, etc.
   b. building and strengthening relationship, structural, and intellectual capital on behalf of a center

3. **Slight advances** and/or **small refinements** in center practices and activities can create significant competitive advantages. Adapted by Dr. Deb Moberly and Michael D. Moberly from the work/research of Christopher R.J. Pace

4. Many center's **intangible assets,** particularly reputation, are **perishable,** costly and time consuming to re-build once compromised or brought into disfavor. Economic and competitive advantages previously produced can dissipate rapidly and often times permanently. Dr. Deb Moberly and Michael D. Moberly

## We Provide Experienced and Business Focused Consultations and Seminars with Proven Strategies for Improving a Childcare Center's Economic <u>and</u> Competitive Advantage Health…

Conventional financial statements and balance sheets do not provide center directors with a complete picture of a center's economic and competitive advantage health! This is especially relevant in today's knowledge (intangible asset) based business economy in which…

> *65+% of most childcare center's value, sources of revenue, and 'building blocks' for growth, profitability, and sustainability evolve directly from its intangible assets!*

Conventional financial statements and balance sheets describe whether or not financial targets are being achieved, but they were never designed to describe the various qualitative aspects, i.e., intangible assets that we now know are directly related to every childcare center's success. While financial statements and balance sheets remain necessary, they simply do not tell the whole story. That's because…

- *the* real sources and drivers of center's value and revenue evolve directly from assets that are seldom, if ever, reported or accounted for in conventional financial statements other than in the form of 'goodwill'.
- tracking and monitoring the intangible assets a center produces and uses has become a business necessity.

There are a number of factors *in play* today that influence center directors and staff to pay closer attention to monitoring the performance of their intangible assets which include:

- Increasing competition in the childcare industry nationwide.
- Parents securing options other than center based childcare as one consequence to the pro-longed recession.
- Heightened respect and appreciation for the role and contributory value of a center's reputation (image, goodwill).
- Growing necessity for centers to accelerate their ability to accurately predict - adapt to parent, caregiver, and market trends, needs, and demands and the associated costs.
- The speed which adverse events (acts, behaviors, injuries, interactions, etc.) are communicated externally to affect reputation.
- Increasing center operating costs influenced by additional non-funded mandates, regulatory agency oversight, and reputational risks that can destroy a center's sustainability.

## Center assessments' include especially designed protocols for recognizing distinctive and reputation building characteristics *by*…

- Describing how intangibles (non-financial) can be efficiently/effectively combined (bundled, integrated) with other operational elements and processes to generate value, competitive advantages, and sustainability.
- Identifying asset support and enhancement strategies necessary to maximize asset potential, contributory value, and competitive advantages.
- Evaluating intangibles' performance as part of a center's total value creation system.

## Assessments also include practices related to effective stewardship, oversight, and management of centers to…

1. Align decisions about intangibles with a center's economic, financial, and risk management planning, core business strategies and transactions. Mitigate vulnerability to compromise commensurate with *the* assets' value, functionality, and overall life-cycle.

2. Counter expanding risk or threat patterns and adverse circumstances that can impede business momentum, erode asset performance, reputational capital, and undermine competitive advantages.

3. Avoid costly and time consuming entanglements precipitated by disingenuous personnel, misappropriation, and other challenges over the origin, control, use, and ownership of intangible assets.

## Children 1st focuses attention on childcare centers' because…

Each center operates in *the* service sector wherein they are particularly dependent on *their* intangible assets to:

- emphasize *their* uniqueness
- distinguish *their* market space
- build *their* competitive advantages

However, research has found that many small business leaders, e.g., childcare center directors are frequently not as well attuned to or familiar with the intangible assets their center produces and possesses. This reality frequently inhibits a centers' ability to:

- articulate *the* assets' importance, relevance, and contributory value to prospective parents, caregivers, and stakeholders at large
- make more substantive, enthusiastic, and credible presentations to influence parents and caregiver decisions in childcare selection process
- sell or transfer their business for *its* true (real) value

A key finding of numerous private sector studies is that many small business decision makers, i.e., childcare center directors perspectives and definitions of intangible assets are frequently limited to – constrained by conventional contexts, i.e., brand, reputation, image, and goodwill.

## Our Key Recommendations are for center directors, boards, and significant stakeholders to immediately:

1. Broaden their awareness and recognition of *the* intangible assets their center produces

2. Develop practical 'diagnostic' tools/practices to enable their centers' to identify, assess, utilize, and capture-extract value from *their* intangible assets on a regular basis.

3. Develop practices-methods to sustain control, use, ownership, and monitor value and materiality of *their* intangibles.

## Dr. Moberly's blog describes how to conduct intangible asset assessments to aid directors in center operation by…

- Identifying how and where intangible assets originate-evolve in a center, how best to utilize and appropriately exploit them…
- Providing timely, important, and potentially revenue producing insights by 'lifting out' embedded, promising, and proven intangible assets to elevate a center's reputation, image, and goodwill…
- Identifying a center's vital operating signs…
- Measuring asset performance and contributory value (internally and externally)…
- Learning how to bundle (position, convert) intangibles into efficiencies, value, sources of revenue, competitive advantages, and relationship and structural capital…
- Ensuring assets are effectively aligned with the center's mission and strategic plan…
- Learning how to prevent and/or mitigate adverse events (acts, behaviors, interactions, etc.) from cascading…
- Delivering greater value to stakeholders

***If these responsibilities are neglected and/or dismissed by center directors and staff, the probability that immediate and potentially lethal reputational risks will appear and rapidly erode a center's competitive advantages, marketing initiatives, and strategic planning. In other words, a center's value, reputation, and competitive advantages can quickly 'go to zero'…***