

## **ECONOMIES OF SCALE: HOME-BASED ALLIANCES**

**Are there innovative ways to reach economies of scale? What have we learned about this approach in general as it relates to home-based alliances?**

### **Background**

A major barrier to financing early care and education programs is the fragile nature of the industry and the absence of economies of scale. Early childhood programs--unlike their counterparts in most other industries--tend to be very small. And very small businesses rarely have the financial stability and fiscal expertise necessary to take advantage of new, innovative financing strategies. Because of their size, early childhood programs find it difficult to weather bad economic times (when enrollment might be down), take financial risks (such as borrowing money to grow), or try new educational approaches or service delivery strategies (because they don't have enough qualified staff to do so.) The issue of size is particularly salient for home-based child care providers, who rarely serve more than 6 children at one time and often have as few as 3 or 4.

There are a number of ways that early childhood programs can join forces to stabilize the industry and obtain economies of scale. Smart Start's National Technical Assistance Center and the Cornell University Linking Child Care and Economic Development Project recently commissioned a study that examines various approaches that early care and education businesses currently use to help stabilize the industry. The report, *Are There Economies of Scales in Early Childhood Program Management? Approaches to Early Childhood Program Administration and Finance That Maximize Efficiency, Help Improve Quality, and Stabilize the Industry*, identified two approaches that are relevant for home-based providers. These include the following:

*Home-Based Early Care and Education Alliances* – In this model, participating homes are typically independent businesses, but share all or some management functions, including billing and fee collection. The report profiles four initiatives of this type, three administered by a non-profit umbrella organization and one by a proprietary organization. All four of the profiles describe alliances that go beyond what is typically included in a family child care network, satellite or system, to include assuming responsibility for many of the fiscal and management aspects of running a home-based child care business.

*Multi-Site Early Care and Education Corporations that include both center- and home-based providers* – In this model, a single corporate entity delivers services in multiple center-based sites and also administers a family child care network. Network homes are typically independent businesses with sponsoring entity providing fiscal/administrative and other support services. The report profiled two initiatives of this type, both run by non-profit agencies.

The models cited above represent current practice in early care and education. They are not, however, the only or best answer. This discussion group will focus on lessons learned from current practice as well as potential next steps.

## Discussion Questions

- 1) What works best about the home-based alliances currently used by the field of early care and education? What doesn't work as well? How can we capitalize on strengths and minimize weaknesses?
- 2) All of the home-based alliances profiled in the report were started from the top down. (In other words, a lead agency established the network and recruited providers.) Is this approach to leadership essential? Or is it possible to establish a home-based care and education alliance from the ground up -- as a grass roots effort forged by participating providers?
- 3) What new financing strategies are needed to support home-based early care and education corporations and provider alliances? Are there new industry-wide investment approaches we should explore? The alliances profiled in the research frequently struggled to provide support services (i.e. benefits, shared consultants such as nurses or mental health staff, support for child assessments or observations, and so forth.) The primary reason was financial: most of the alliances simply couldn't raise the funds that were necessary to provide on-going support services and/or were not a large enough group to benefit from a shared benefits package. Several key informants indicated, moreover, that public support for family child care networks is waning. What can be done to encourage new home-based alliances and strengthen existing ones? Are new strategies needed?
- 4) How can we encourage more family child care network operators to get involved in the fiscal aspects of family child care management, specifically billing and fee collection? The interviews and profiles of home-based alliances underscored that helping family child care providers collect fees from families is a vital service that helps to increase provider income and program stability. Yet many agencies that sponsor networks appear reluctant to take on this responsibility.
- 5) Does the field of early care and education need to nurture a new approach to leadership? And if so, what are key next steps? In an early care and education program, leadership involves a careful balance between professional management skills (a focus on the bottom line) and a deep understanding of child development. Many believe that it is not possible -- or advisable -- to find these skills in the same person, especially in the case of home-based care. Do we need to think about building cross-sector leadership teams? And if so, what might those teams look like?

## Suggested Resources

Stoney, Louise (2004) *Are There Economies of Scales in Early Childhood Program Management? Approaches to Early Childhood Program Administration and Finance That Maximize Efficiency, Help Improve Quality, and Stabilize the Industry.*

Smart Start's National Technical Assistance Center.

[www.earlychildhoodfinance.org](http://www.earlychildhoodfinance.org)

See profiles of home-based early care and education alliances.