

## **ECONOMIES OF SCALE: SUPPORT SERVICES ALLIANCES**

**Are there innovative ways to reach economies of scale? What have we learned about this approach in general as it relates to support services 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.)

While the average child care center serves approximately 70 children, it is not uncommon to find centers that enroll only 30 or 40. And 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. This is in stark contrast to other fields, such as elementary and secondary education, higher education, subsidized housing, agriculture (which uses a cooperative strategy), and many other sectors that have established a large administrative infrastructure that can provide stability and help the field benefit from economies of scale.

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 a few examples in which participating centers or homes contract with a single entity to provide some--but not all--management support services. These services include tasks that are typically part of basic child care program operations such as staffing, recruiting and hiring substitutes and food preparation/management. These include the following:

- Non-profit early care and education "employment center" that recruits and screens individuals interested in employment in early care and education programs on behalf of member child care centers - The employment center is accessible via the web. At present, 25 centers participate. Participating centers are--proprietary and non-profit, single and multi-site, inner city and suburban.

- Complete staffing program for child care centers that recruits substitutes/temporary staff, temp-to-hire staff as well as direct placement staff - Participating centers have access to a hotline (from 6am - 10pm Monday -Friday and 6-10pm Sunday) to request staff. Currently 40-50 child care centers participate. The umbrella agency is non-profit. Participating centers are proprietary and non-profit.
- Meal service program that prepares and delivers meals (2 snacks and 1 lunch daily) to multiple child care centers, and will also handle all USDA food program paperwork for programs that request it - The umbrella agency that manages the food program is non-profit; participating programs are both non-profit and proprietary.
- Substitute/relieve staff initiatives - One uses Americorps volunteers and another employs six resource teachers full time. Unlike temporary staff, these individuals provide on-going support, teacher modeling and coverage for professional development, class preparations and emergencies. The umbrella agency for these initiatives is non-profit; participating programs are both non-profit and proprietary.

The examples 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) Only one of the examples cited above is self-supporting; the remainder rely on grants or fundraising from third party sources. Is it reasonable to expect that a support services alliance can support itself on user fees alone? And if not, what new financing strategies are needed? Are there new industry-wide investment approaches that should be explored?
  
- 3) Is it possible to create a support services alliance that focuses solely on marketing, enrollment and/or fee collection on behalf of a group of early care and education programs? The support services alliances profiled in this report have elected to focus on staffing needs and quality improvement services. However, the real "bottom line" issues for child care programs are prompt fee collection and full enrollment. Is it possible to create an alliance to address these issues? And if so, under what conditions? Would it be necessary to address issues of "market differentiation?" (In other words, could one collectively market a group of child care programs of varying quality? Or is it necessary to simultaneously establish common quality standards so that marketing efforts focus on selling a somewhat common product?)
  
- 4) 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 or organization. Do we need to think about building cross-sector leadership/management teams? And if so, what might those teams look like? Could a support services alliance be developed by a shared management team?

## 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 the profiles of support services alliances.

Anderson, B. and Henehan, B. (January 2002)

*Questions Cooperative Directors Should Be Asking Management.*

Cornell University: Department of Applied Economics and Management. College of Agriculture and Life Sciences. SP2002-01.

Bradley, B., Jansen, P. and Silverman, L. (May 2003)

"The Nonprofit Sector's \$100 Billion Opportunity."

*Harvard Business Review*. Harvard Business School Publishing Corporation: Reprint RO305G.

Henehan, B. and Anderson, B. (February 2001)

*Considering Cooperation: A Guide For New Cooperative Development.*

Cornell University: Department of Applied Economics and Management. College of Agriculture and Life Sciences.

Inserra, A., Conway, M., and Rodat, J. (February 2002)

*Cooperative Home Care Associates: A Case Study of a Sectoral Employment Development Approach.*

Washington, D.C: The Aspen Institute Economic Opportunities Program.

Structured Employment Economic Development Corporation (November 2002)

*When Good Work Makes Good Sense: Social Purpose Business Case Studies.*

New York, New York: Seedco.

Kreiner, S. (2002)

"Sectoral Strategies in CED: Critical Factors in the Success of CHCA and Childspace."

*Makingwaves*. Volume 14, Number 3. pp 4-10.

Taillon, M. and Leclerc, A.

"The Power of Networking."

*Makingwaves*. Volume 14. Number 3. pp 17-20.

Wallace, N.

"Charities Venture Into Business"

*The Chronicle of Philanthropy*. May 15, 2003. Pp 31-33.