



New Strategies to Help Child Care Centers Succeed in the Challenging World of Small Business

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I. Defining the Problem

High labor costs, parent fees that are lower than the cost of providing care, unpredictable funding streams, and high staff and child turnover are all defining characteristics of a child care center business. Taken together, this should predict disaster. And in fact, many centers are reporting deficits that may force them out of business.¹ This paper reviews strategies that may be useful in reducing some of the administrative, accounting and reporting burdens of running child care centers, allowing them to re-direct needed resources for their true mission: to grow children that are safe, healthy and eager to learn.

The Connecticut Department of Public Health, recognizing the administrative challenges facing many child care centers, has drafted a proposal requiring that center directors complete some business management training.² While this seems to be a logical step in addressing the crisis, it will provide little more than a skilled manager of the symptoms, without addressing the underlying problems. The issue for child care centers, like many small businesses, may be more complicated than simply a need for managerial skills.

"It's hard to manage money that you don't have."

Gloria Hays Milford

In a recent report, *Collective Management of Early Childhood Programs: Approaches That Aim to Maximize Efficiency, Help Improve Quality and Stabilize the Industry*,³ Louise Stoney profiled seventeen child care programs or initiatives across the country that are experimenting with alternative management approaches. These approaches, that Stoney terms "collective management strategies," help programs increase their efficiency through shared services and economies of scale. They enable centers to be free of many administrative tasks, allowing more money to be targeted at quality enhancements and more time to be committed to child development.

However, up-front investments in these strategies are necessary. It takes money to save money. These strategies are most successfully implemented when new resources can be dedicated at the front end, allowing centers to put these practices in place and capture the economic returns in the long term. It is not enough to simply provide technical assistance or financial training. Rather, the challenge is to find (or free up) the resources needed to strengthen child care businesses so that they can thrive and grow.

¹ P. Oliveira, *The Crisis in Funding for State-Funded Child Development Centers* (CT Voices for Children, 2005), available at www.ctkidslink.org/pub_detail_228.html.

² DPH has proposed the following in the 2/16/05 draft of new regulations: "Any director hired or newly designated on or after January 1, 2008 shall have at least three credits in business or program administration from an institution of higher education accredited by the Board of Governors of Higher Education or from a regionally accredited institution of higher education."

³ L. Stoney, *Collective Management of Early Childhood Programs: Approaches That Aim to Maximize Efficiency, Help Improve Quality and Stabilize the Industry* (Smart Start National Technical Assistance Center and Cornell University Linking Economic Development and Child Care Research Project, 2005), available at www.earlychildhoodfinance.org/handouts/CollectiveManagementfullreport.pdf.

II. Connecticut's Cost-Quality Challenge

Connecticut Child Care Infoline reports that of the 44 child care centers that closed from July 1, 2004 to June 30, 2005, 75% (33) identified “business not profitable” as their reason for closing. A quick look at centers’ budgets reveals that the central problem is that centers cannot collect the full cost of providing quality child care, because many parents cannot afford it, and the government is unwilling to fully subsidize the difference.

A 2003 survey of Connecticut early care centers showed that prices charged for child care in many of our towns do not cover the full cost of services rendered. In 80% of centers in poorer communities, the cost of running the child care business exceeded the price charged for care; and 20% of centers in wealthier communities reported that costs exceed price.⁴ Centers in the largest, poorest cities are far less able to charge the “true cost” of providing quality child care; yet even in our wealthier suburbs, quality cannot be guaranteed, wages are often artificially low, and programs are reluctant to price themselves out of the market.

In addition, unlike most industries in which demand drives price, while the need for quality care continues to increase, this demand does not translate into parents’ ability or government’s willingness to pay more for it. As a consequence many centers in Connecticut now run substantial annual deficits.⁵ These factors call to question the economic viability of a small, independent child care center business model.

Most businesses have two basic options when faced with a failing economic model: reduce their expenses (and often sacrifice quality) or raise prices. Child care centers have far less freedom to make adjustments on either side of this equation. They face the competing priorities of providing a high quality service at a price that parents can afford. Neither high quality nor affordability can be sacrificed in an effort to salvage a struggling child care center business.

III. Summary of “Collective Management of Early Childhood Programs: Approaches That Aim to Maximize Efficiency, Help Improve Quality and Stabilize the Industry”⁶

Louise Stoney’s *Collective Management of Early Childhood Programs: Approaches That Aim to Maximize Efficiency, Help Improve Quality and Stabilize the Industry*⁷ profiled seventeen child care programs or initiatives that are experimenting with alternative management strategies to help programs reach economies of scale. Her report grouped these programs into three categories relevant to this paper:⁸

A. Multi-site early care and education corporations. In this model, participating center-and home-based sites are operated by a single corporate entity. Participating sites can be non-profit or for-profit. Most of the early care and education (ECE) corporations profiled in the Stoney report were located in the Northeast.

B. Early care and education program alliances. In this model, participating center-based sites have varying degrees of independence, but share all or some management functions. Participating sites can be

⁴ P. Oliveira, *An Analysis of Child Care Center Budgets* (CT Voices for Children, 2003), available at www.ctkidslink.org/pub_detail_201.html.

⁵ P. Oliveira, *The Crisis in Funding for State-Funded Child Development Centers* (CT Voices for Children, 2005), available at www.ctkidslink.org/pub_detail_228.html.

⁶ L. Stoney, n. 3 above.

⁷ L. Stoney, n. 3 above.

⁸ Stoney also discussed a fourth category – Home-Based Early Care and Education alliances – that is not as relevant to this paper on child care centers.

non-profit or for-profit. None of the program alliances profiled in the Stoney report were located in the Northeast.

C. Support services alliances. In this model, participating center-based sites are independent businesses but come together to share costs. Participants contract with a single entity to provide some support services, such as staffing, recruiting and hiring substitutes, and food preparation/management. Participating sites can be non-profit or for-profit. Some examples of services that have been, or could be, shared include:

- **Purchasing Pools or bulk buying:** A group of providers negotiate an agreement to buy from a single vendor, in exchange for reduced prices.
- **Staffing Services:** A single affiliated entity provides staff recruitment and placement services or substitutes.
- **Food Services:** A group of providers share a commercial kitchen or contract with a single entity to cater meals.
- **Contract negotiation:** A group of providers come together to bid collectively on a contract or to negotiate the provision of services for a particular vendor or company.
- **Human Resources:** A group of providers create a shared benefits package, either through their own self-insurance, through collective negotiation with an insurance company, or by working with a Private Employer Organization (PEO). A PEO is a co-employment strategy that allows small business to come together into a larger organization for the purposes of human resources. No PEO projects for ECE have yet been launched.⁹
- **Shared Administration:** A group of providers contract with a single entity to handle overall program management and administration, or with a single entity to handle just some aspects of administration.

IV. Potential Benefits of Collective Management.

Stoney's analysis indicates that collective management strategies appear to have multiple benefits. These include: administrative savings, better cash flow and fiscal stability, and better support for children and families. A few details from the report are summarized below.

A. Administrative savings. Centers report that savings are most likely to occur when the following administrative activities are centralized: staffing, food/nutrition and purchasing.

- **Staffing:** The multi-site corporations or alliances profiled by Stoney shared staff positions among participating centers, such as a non-teaching director, substitutes, psychologists, social workers, and educational consultants.
- **Shared Food and Nutrition Services:** Most of the sites combined administration of the Child and Adult Food Program and nutrition support services. Many also have shared commercial kitchens.
- **Bulk Purchasing:** Discounts for bulk purchase of supplies and services, fuel, transportation, and food were commonly reported.

B. Better cash flow and fiscal stability. The key informants interviewed by Stoney stressed that the two most important tasks in ensuring fiscal viability of a child care center are prompt and full fee collection and full enrollment. Collective management strategies gave programs the dedicated and skilled staff they needed to focus on these tasks. In addition, fiscal management strategies should focus on the accumulation of working capital and the avoidance of debt.

- **Fee Collection:** One of the most significant benefits of collective management strategies is the ability to secure staff that focus exclusively on accounts receivable. Additionally, economies of scale help

⁹ For more information about private employer organizations, see www.napeo.org.

support automated systems that generate parent invoices from a central office and also allow collection of bad debts to be handled centrally--thereby removing site directors (who often have personal relationships with parents) from ultimate responsibility for fee collection. Incentives for parents to establish direct payment accounts so that fees can be automatically transferred from their bank account have been a very effective way to streamline paperwork and ensure prompt payment.

- **Full Enrollment:** A strength of collective management is the ability to secure staff to focus on maintaining full enrollment (e.g. tracking enrollment levels in each classroom, keeping waiting lists up to date and recruiting children to fill vacant slots as soon as they become available). Shared enrollment strategies may be more feasible for multi-site corporations rather than alliances, unless alliances are not geographical neighbors and thus not competitors. Some centers move staff to other participating centers to address fluctuations in enrollment among sites. Marketing counseling and support services to ensure enrollment, and a team approach amongst child care sites to place children have been successful.
- **Ability to Tap and Manage Multiple Funding Streams:** Child care centers rarely have single funding sources. In fact, some of the sites profiled by Stoney reported that they had as many as 30 or more. Again, collective management allows ECE programs to secure staff to focus on development. Tasks can include: a) making sure programs are aware of, and able to respond to, Requests For Proposals when they are issued, and b) providing staffing to prepare and submit the documentation, monitoring and budgets required by multiple funders. Collective accounting strategies can also streamline the management of multiple sources of funding.

C. Support for staff, children and families. Collective management offers peer support and cost sharing as well as greater access to professionals and consultants to help solve problems and make decisions, back-up when crises occur, increased training/staff development/leadership building opportunities, and specialized support services for children and families.

- **Better Working Conditions:** Internal career ladders allow staff to keep their seniority and improve wages and benefits as they move to different positions and/or different sites. Such a system helps alleviate burnout. Assistance with recruiting staff and substitute pools is highly valued.
- **Better Services for Children and Their Families:** Collective management allows multiple sites to share the cost of a host of support services for children and their families, including comprehensive social, health and mental health services, bi-lingual staff, early intervention specialists and so forth. Additionally, several of the sites profiled in the Stoney report had quality improvement staff teams who made sure that children received regular assessments and that staff were able to use these assessments to structure learning opportunities.

V. Potential Challenges of Collective Management.

While collective management has strengths, it also poses some challenges. These are summarized below.

A. Marketing a new and unknown model of services. The concept of shared services is new for the field of early care and education. Helping program directors and boards understand how shared services can strengthen their organization, and identifying which services are most appropriately shared, is key to success.

B. Complexity of multiple sites. The multi site model has the potential to add another level of bureaucracy, which may not be welcome. Indeed, a few of Stoney's key informants noted that multi-site corporations sometimes find it more difficult to make changes, whereas a large single site model might be more able to change in crisis. Others, however, might disagree. For example, one multi-site corporation profiled by Stoney noted that they dealt with changes in enrollment and funding by moving staff among sites,

opening and closing classrooms in response to demand. This approach would not be possible in a single site model.

C. Salary Gap. The programs profiled by Stoney indicated that the efficiencies from collective management are typically not enough to result in significant salary increases for teachers. Multi-site corporations were able to offer better benefits and more opportunity for career advancement--which can result in higher staff satisfaction, lower turnover, and consequently higher quality care.

VI. Collective Management Strategies for Connecticut Child Care Centers

Connecticut child care center directors were asked¹⁰ to identify management strategies that they found useful, offer recommendations in implementing such models, and identify barriers to utilizing them.

A. Recommended Strategies for Implementation in Connecticut. A number of Stoney's models have potential for the more efficient execution of a quality early care and education system in Connecticut.

1. *Create a support services alliance that focuses solely on enrollment and/or fee collection.* If full enrollment and prompt fee collection are essential in keeping a child care center in business, then it stands to reason that collective management should focus primarily on these two goals. Create an alliance linked by shared marketing and the goal of ensuring that all spaces are full. This is a low investment/high return initial collaboration strategy. Shared management of fee collection and the fiscal management of the many funding streams is an additional direct step toward increasing revenues and decreasing spending.
2. *Replicate and expand on existing models of consultative services to early care programs.* Recent efforts to provide mental health consultative services represent a model of providing technical assistance to multiple centers on a common need. Initial FY 05 funding (\$890,000) for the initiative came from the Community Mental Health Strategic Investment Fund with contributions from the Department of Children and Families (\$340,000 Federal Funds), the State Department of Education (\$200,000) and from the Mental Health Strategy Board, CT Health Foundation and the Child Health and Development Institute (\$350,000). The FY 06 General Fund budget includes \$740,410 from DCF and \$200,000 from SDE to provide services to 160 child care centers and about 220 individual children. In FY 07 DCF is to provide \$940,410 in funding. This model could be replicated to support other types of services for multiple child care centers.
3. *Create a support services alliance that focuses solely on the management of a single grant program.* Time can be saved and revenues increased and received in a more timely manner with the experienced management of even one of the many funding streams that child care centers must piece together to create a sustainable operating budget.
 - a. *Create a "broker" for Care4Kids.* Inconsistency of funding from Care4Kids¹¹ is a significant challenge to budgeting for child care centers. Centers are unsure, from one month to the next, how much they will receive from the Care4Kids program. In addition, the difficulties that families have in enrolling in a timely manner and maintaining their eligibility affects centers as they are often NEVER reimbursed for services to families that, they later learn, will not receive the subsidy or lost eligibility while in care. An alliance of centers can create a single shared Care4Kids subsidy bank account that will reimburse centers in a timely manner for their services to subsidy clients, and take responsibility for collecting the money from DSS to reimburse the bank. Initial investment into the account could come from community and/or business donations, foundation grants, or the centers themselves.

¹⁰ CT State Funded Child Development Center directors were informally surveyed, by e-mail, regarding their experience with collective management strategies.

¹¹ Center directors note that the timing of receipt of DSS payment for children served, the loss of funds when children who have already been served are found to be ineligible, and other regulatory challenges create significant accounting problems.

- b. *Create a support services alliance that focuses solely on the management of Care4Kids.* Many sites in Connecticut report having recently to hire one staff person with the sole responsibility of managing the Care4Kids revenues. It would be more cost and time efficient to share one skilled account manager for Care4Kids serving an alliance of centers. The recent transfer of management of the Care4Kids program to the United Way brings new opportunities for coordinating accounting services as well as providing financing and technical assistance.
- c. *Create a support services alliance that focuses solely on the management of the State Funded Child Development Center Grant.* Recent CT Voices for Children research defined significant deficits among State Funded Centers in Connecticut.¹² Documentation of how, on such a tight budget, centers are surviving and what crises lie ahead if the deficits are not addressed would assist centers in their administration of funds as well as in making the case for the need for additional funds.

4. *Choose unlikely partners.* Collaborate with organizations that have expertise in areas like finance, marketing or workforce development rather than early care and education to support management skills that may be lacking in the current early care workforce.

B. Challenges to Collective Management for Connecticut Child Care Centers. A handful of Connecticut child care center directors identified models of shared services and other collective management strategies in use in the state. However, more common in the survey was identification of a litany of challenges to their implementation.

1. *A lack of time and money needed for implementation.* In a time of crisis, there is little energy and few resources to put toward planning, restructuring and experimentation. Collective management strategies may, in the long term, allow for more efficient spending. However, those centers most in need are typically not positioned with the infrastructure or resources necessary to undertake the initial process necessary to coordinate and implement these useful strategies.

2. *The fear of too much “business” in the business of early care and education.* Although center directors recognize the need to run their business without losing money, there is often concern that “quality care” will be compromised in the search for an efficient and lucrative business model. A related concern is that, while assistance with business practices is often welcome, being “managed” is often resisted; and for the same reasons.

3. *There is a lack of information on how costly administration can be and how much time and money can be saved.* The early care and education industry is just beginning to evolve out of its inefficient budgeting and reporting practices, and we have limited data on the costs of administering and running a child care center. Without a clear understanding of operating costs, it is difficult to estimate how much can be saved with collective management strategies. In addition, implementation of management strategies do not often show a bottom line improvement in a center’s budget. Savings are not realized as tangible “dollars in my pocket.” Rather, savings come in the ability to put more toward salaries and benefits or other quality enhancements.

C. Addressing Connecticut’s Challenges to Implementing New Management Models

A common problem is that practices that prove useful in the research setting, are difficult to execute in the real world. Child care center directors consistently report that collective management strategies positively effect the efficiency of their day to day management. However, what we find is that existing funds can barely pay for current costs and that child care center directors’ focus, presently, must remain on the critical tasks of

¹² P. Oliveira, *The Crisis in Funding for State-Funded Child Development Centers* (CT Voices for Children, 2005), available at www.ctkidslink.org/pub_detail_228.html.

caring for young children. There do not, realistically, seem to be the resources, in the short term, necessary for the planning and implementation of strategies that may save time and money in the long term.

What appears needed is an outside investment in the infrastructure that would allow for the design and implementation of collective management strategies. Beyond technical assistance, what centers need is an infusion of funds that are earmarked, specifically, for the implementation of new strategies that the research has shown, are beneficial to child care center's efficiency and, as such, the quality of care they provide.

Philanthropic interest in early care and education is at a high in Connecticut. The target of investment has shifted from funding "programs" to funding the research to inform advocacy as well as to initiatives and fundamental infrastructure needs that empower providers to improve the system from the bottom up. Improving the way child care centers do business through the implementation of collective management strategies and shared services is a domain that fits into this philanthropic frame, and would show positive system reform, with the help of outside support. Foundations are in a position to think creatively about these and other innovative ways to support growth and improve sustainability. Assistance in implementing new management strategies that have been shown to produce positive results should be considered by foundations as a target for future system building change.