



# Opportunities Exchange

## REINVENT vs. REBUILD: Let's Fix the Child Care System

By Louise Stoney

April, 2020



**A**fter leaving her 15-year career as a public school teacher, Audra Smith borrows money from her 401K to step into her dream job—owning and operating her own child care center. In a year she has a facility, a staff, and 35 children enrolled. She signs up for her state's Quality Rating and Improvement System (QRIS) and works hard to become a model center. Making payroll each month is a struggle, but she assumes this will get better. She tells herself things are hard because this is a start-up. Year two brings more children, more teachers, and continued payroll struggles. Last year her accountant warned that the business was losing money and urged her to economize. But how? Every job and every expense seemed vital. Then COVID-19 hit and the Governor said she should close. She did, hoping to re-open after the once-anticipated two-week respite. Now that goal feels impossible.

This is not an unusual story. Across the US there are thousands of women like Audra Smith, struggling to keep their programs open, working hard and following the rules. But what these business owners didn't know was they were fighting an uphill battle from the start. The very structure of their business—with revenues based on market demand and pricing, but costs driven by strong teaching standards and administrative requirements beyond the capacity of a small child care center—was doomed to failure.

In recent years national leaders have begun to use tools to model the per-child cost of delivering early care and education (ECE). This work has underscored that independent child care centers seeking to meet high-quality standards (such as NAEYC Accreditation) **must enroll at least 100 children**, and serve a majority of preschoolers or school-age children, in order to break even. Yet the average center in the United States enrolls about 75 children and, as free PreK has expanded, a growing number of these private child care centers are serving more children under the age of three, the most costly group to serve.

In short, the child care industry was already facing serious sustainability challenges when COVID-19 stopped our nation in its tracks. As our leaders struggle to ensure that first responders are able to work, public and private funders are making dollars available to shore up the child care industry. However, like Audra Smith's program, many of these businesses were unsustainable even in the best of times. Now, in a world where demand will be unpredictable and spotty, so will the weekly tuition these programs rely on to pay the bills. Programs that survive will require carefully crafted budgets that allow them to operate on razor thin margins as they slowly re-build the stable cash flow essential to sustainability. At Opportunities Exchange, we refer to this as effective management of the **Iron Triangle of ECE Finance**: balancing enrollment and unit cost while minimizing bad debt.

Unfortunately, the scramble to get recovery funding to child care



businesses quickly means that these dollars are not designed to address any of the structural problems that plague the sector. While recovery dollars are essential to ensuring that ECE programs can continue to operate and re-open, for much of the sector, short-term recovery subsidy, grants or loans will, at best, only plug holes in the status quo.

Change is possible. With smart, strategic investments, recovery dollars can help re-invent the child care industry. Opportunities Exchange has been focused on ECE system reform for over ten years, and our experience suggests that addressing the following five key issues could be game changers for the field.

## AUTOMATION AND BUSINESS COACHING

Most child care businesses do not have the automated systems or skilled fiscal staff to effectively manage the Iron Triangle of ECE Finance. For many child care owners and operators, the cost and expertise needed to “go digital” is daunting; others have been operating their businesses “by the seat of their pants” for so long that they will continue to do so unless change is embedded in recovery. Opportunities Exchange asserts that every child care business should be using an automated [Child Care Management System \(CCMS\)](#) for two reasons: to gather and use business intelligence in making critical operating decisions; and, to improve administrative efficiencies and re-deploy personnel dollars to teaching staff. We need to build this capacity as we work with industry leaders on recovery. Think of it as essential infrastructure, like roads and bridges.

Automation is a tool, not a solution in itself. While centers need automation, they also need the skills to effectively use technology to strengthen administration and track key business metrics. Research on the [forgetting curve](#) has underscored what we have learned from experience—generic business training is not effective. Programs need site-specific financial management support and coaching on how to use CCMS data to strengthen operations and ensure sustainability. Several [promising projects](#) are delivering business training in small bites, linked to use of CCMS. Learning from and expanding on this work is an important next step.

## ADMINISTRATIVE SCALE

Scale is essential to sustainability. While child care centers need at least 100 children of mixed ages to be sustainable, supporting skilled administrative leadership likely requires program scale of about 300 children. Directing recovery dollars to myriad small programs is not only burdensome but likely to fail. It is simply not possible, or realistic, for every small ‘mom and pop’ child care business to figure out how to apply for recovery grants/loans and restructure their businesses for survival. However, by joining forces, a network of small programs can collaboratively fund and purchase top-notch administrative leadership. This [Shared Services](#) approach aims to help the sector achieve scale and sustainability. Shared Service principles, tools and resources can pave the way for change. Child care business owners and operators can focus on child development and effective teaching while tapping the top-notch fiscal/administrative/business expertise they need to be sustainable, even in an unpredictable economy.

## DE-CENTRALIZED OPERATIONS

During the pandemic, and as demand slowly rises during recovery, our nation will need many small child care sites in disparate locations. The current ECE system isn’t structured for this. Our quality monitoring systems expect each site, no matter how small, to secure a separate license or quality rating and to individually comply with a set of (often complex) standards for staff qualifications and leadership expertise. Public sector systems too often require paper/manual processes rather than electronic invoicing/document submission. These policies no longer make sense. If COVID-19 has taught us anything, it is that jobs can be done by staff in disparate locations linked by technology. Let’s use that lesson to explore and embrace alternatives. The [Micro-Center Network](#) approach, highlighted in an Opportunities Exchange issue brief, is one idea. New national networks of home-based ECE, like [Wonderschool](#), [My Village](#), and [WeeCare](#), is another. While effective recovery will require decentralized operations, we also must understand how and why sustainability is linked to scale and ensure that future policy and finance encourages new business models that link small programs to form a cohesive whole.





“Never before has the need for very precise supply and demand data, coupled with centralized enrollment capacity, been so important to the future sustainability of the ECE sector.

## STRATEGIC COST MODELING

ECE leaders agree that boosting teacher wages and allocating maximum resources to classrooms is essential to effective teaching. To reach that goal, child care businesses—and the intermediaries and policy makers that support them—must better understand how to scale administration for efficiency, ensure sufficient resources for teacher wages even when ratios are low, and then plan to slowly ramp up supply as demand increases. Unit costs will vary based on assumptions around enrollment levels, scale and wages. This strategic cost modeling needs to guide rate-setting going forward. A recent Opportunities Exchange issue brief on the [cost and supply of care for infants and toddlers](#) underscored that setting public reimbursement rates for child care based on market prices is fatally flawed, and argued for a new approach based on cost modeling.

## REAL-TIME SUPPLY AND DEMAND DATA

Collecting real-time supply and demand data to ensure that sites are fully enrolled is vital to securing a stable supply of high-quality care. Despite headlines that underscored child care shortages, a [more detailed look at supply data sorted by age](#) of child suggests that prior to the pandemic most communities had an ample supply of care for preschool age children and that shortages were largely focused on infants and toddlers. Even with extremely low unemployment and academic estimates that predicted strong child care demand, many child care centers and homes reported vacancies before COVID-19—often because the program’s location, price, hours, ages served, or other characteristics did not match parental desires. In short, child care is fickle business.

In a new world, with soaring unemployment and an unpredictable economy, demand for child care is likely to be at an all-time low. Unless efforts are taken to more precisely match supply and demand, and direct families to any and all available spaces, in real-time, programs are likely to be under-enrolled and financially unsustainable. Never before has the need for very precise supply and demand data, coupled with centralized enrollment capacity, been so important to the future sustainability of the ECE sector.

The good news is that COVID-19 has offered an opportunity to address this need. Across the country public and private-sector leaders are tapping technologists to stand up [real time supply and demand data matching systems](#). These systems are forging new pathways and building technology infrastructure that can play a vital role as the industry slowly recovers.

## A Child Care Come-Back Plan

How might public and private sector leaders effectively lead a child care come-back effort? What could be done in the short- and longer-term? The Opportunities Exchange team asserts that recovery investments need to focus on the following steps.

### ▶ Real-Time Data on Supply and Demand

A key first step is investing in expansion of the emergency real-time supply and demand data systems established in response to COVID-19. Families returning to work should be able to ‘find and reserve’ ECE slots online from a data base that includes all options. These data systems must also be used to guide planning, policy and finance. In an economy where growth in employment is likely sporadic, tracking supply and demand with sharp efficiency will be essential to recovery.

### ▶ Provider-based Technology

Every child care program should be using CCMS technology, so that they can run their business effectively and electronically connect to supply and demand data systems. Provider-based support for CCMS should include selecting, purchasing and on-boarding an off-the-shelf tool and, in some cases, purchasing needed hardware.

### ▶ Business Coaching

Support for coaches, with deep experience in CCMS and ECE business management, to help managers predict revenue, lower bad debt, analyze unit costs and establish or track the benchmarks needed to ensure sustainability.





## ► **Network Start-up or Expansion**

Many small centers, and most family child care homes, will not have the administrative staff needed to re-build their business in a fragile economy. These small programs could benefit from joining a [Shared Service Alliance](#) or a [Staffed Family Child Care Network](#) that provides back office services and help securing the skilled fiscal and business management leadership they need to be sustainable.

## ► **Revised Quality Standards**

Standards focused on health, safety and effective teaching are essential; however, the industry should revise standards to encourage scale, networked providers, and streamlined/automated administration. For example, slow recovery will make strategies like Micro-Centers essential, yet current licensing and QRIS rules could prohibit, or have a chilling effect, on business innovations like this.

## ► **Linked Data systems**

CCMS automation can have a profound impact on child care fiscal management, however if state data systems, particularly subsidy, do not enable links to or uploads from provider-based CCMS then administrators will spend precious time and money managing and reconciling multiple payment systems.

## ► **New rate-setting strategies**

The smaller group sizes and stringent health standards established to prevent spread of COVID-19 are likely to remain in force for some time, even into recovery. While these standards significantly increase the cost of delivering services, market prices are not likely to change. Rate-setting must be revised to reflect the new world order. More accurate cost-modeling that takes into consideration these standards, as well as ages of children and type and length of care, is needed to guide rate policy.

## ► **New payment mechanisms**

To stay afloat, child care programs must have a sufficient number of families with the ability to pay tuition—or public subsidy in lieu of tuition. This means that current voucher systems, where dollars follow the child, are not likely to help a child care center secure the stable tuition revenue they need to keep their doors open. Alternatively, states could contract with a provider Network or Alliance for a ‘block’ of child care spaces. This approach would ensure that funding is more stable and predictable and still allow families to choose the care that best fits their child’s needs from a network of available programs.

COVID-19 has turned our world upside down. Coming back from the pandemic will not be easy for any business, and the sad truth is that many small businesses—including child care centers and homes—will not make it. Leaders in the ECE sector need to forge a pathway forward that is strategic and focused on ensuring that high-quality programs, especially those serving vulnerable children and families, not only survive, but thrive. We can use recovery as an opportunity for change if we are guided by careful thinking and a pathway aimed squarely at results. 

