

The Return on Investment of the Early Learning VenturesSM Shared Services Model



Summary

This brief outlines the methodology and key findings of a Return on Investment (ROI) study conducted on the Early Learning Ventures (ELV) Shared Services model. The results indicate that the ELV model produces significant returns for almost all participating child care providers, with the strongest returns for center-based providers. The full report can be accessed at: www.earlylearningventures.org/ROI

✦ The Problem: Inefficiencies in the Child Care Market Impact the Quality of Care and, Ultimately, School Readiness

Each day, millions of children ranging in age from six weeks to 14 years old are placed in some form of child care arrangement while parents work. While many children are cared for by relatives, a majority are placed in paid child care arrangements that range from for-profit and nonprofit center-

“Market imperfections are a primary reason for the low quality of care in the child care market.”

based arrangements to care that is offered out of a provider’s home (also known as “family child care”). The quality of such “market-based” child care varies widely, but has been found to be, on average, of mediocre quality. Moreover, researchers have

found that higher-income families access significantly higher quality care than their lower-income peers. Among low-income families, including those who receive federal child care subsidies, the quality of the market-based care that they access is quite low—considerably lower than that of the federal Head Start program, for example. It is for this reason that even while a majority of children in the United States are cared for in paid child care arrangements, market-based care is still considered the “weak link” of the country’s early care and education system.



STRONGER
Together



Market imperfections are a primary reason for the low quality of care in the child care market. Inefficiencies derive in part from the fact that most parents either do not have a good understanding of what quality child care is, or have difficulty recognizing quality characteristics when they are present. Because of this “lack of information,” parents cannot accurately value different child care options, and often fail to choose the “optimal” child care arrangement based on their specific preferences related to quality and cost. Therefore, it is not surprising that research has found that parents significantly overestimate the quality of the care that their children receive. This issue, coupled with the fact that working parents often prioritize convenience and affordability over quality when choosing care, negatively affect the overall quality of care in the market, which undoubtedly has an impact on the school readiness of children who are placed in these settings prior to entering kindergarten.

Federal and state governments have responded to these market inefficiencies by creating a regulatory structure that consists of both mandatory and voluntary regulations. States, for example, have mandatory health and safety standards for licensed child care that outline the minimum levels of quality that must be provided to the child care consumer. In addition, a number of states offer voluntary participation in a Tiered Quality Rating and Improvement System (TQRIS). In theory, a TQRIS makes a child care market more efficient by providing parents with simple, readily available ratings of the quality of child care programs. These ratings allow parents to more easily weigh the cost and quality dimensions of different child care options in order to make a more informed decision about care. In addition, child care providers are often rewarded with higher subsidy reimbursement rates by the state as they achieve higher quality ratings. The Obama Administration considers TQRIS so valuable to improving the child care market that these systems were the centerpiece of the federal Race To the Top—Early Learning Challenge competition.

For regulatory and TQRIS structures to be considered successful, however, the benefits of regulation must exceed the costs. In the case of child care regulations, while there is a consensus that the benefits of providing at least some health and safety-related assurances for children clearly outweigh the costs created by these regulations, there is less agreement about regulations that support higher quality care. Smaller teacher to child ratios, more qualified educators, improved professional development, and educational supplies all increase a provider’s per child cost of care. Given the market imperfections, there is not enough demand to support this level of quality as parents are unwilling or unable to pay the rates that providers must charge to offer higher quality care.

“Given the market imperfections, there is not enough demand to support this level of quality as parents are unwilling or unable to pay the rates that providers must charge to offer higher quality care.”

✦ The Innovation: The Early Learning VenturesSM Shared Services Model

The Early Learning Ventures (ELV) Shared Services model is a non-regulatory innovation designed to mitigate the effects of child care market imperfections and improve child care quality. Strong nonprofit organizations are selected to start ELV Alliances which then act as streamlined, central hubs to provide business support for the child care industry. The ELV Alliance in turn brings technology and business practices to networks of center-based and family child care providers known as Affiliates. For a fee, the Affiliates share business services and take advantage of bulk purchasing agreements available only through the network. The goal of the model is to create greater operational efficiencies among smaller providers to allow them to provide care at a lower cost, thus making quality enhancements more economically feasible.

“... operational efficiencies and economies of scale created by the Alliance network allow child care providers the opportunity to offer higher quality care at a lower cost.”

This brief summarizes the major findings from a return on investment study of the Early Learning Ventures Shared Services model. The fundamental assumption of the ELV model is that the operational efficiencies and economies of scale created by the Alliance network allow child care providers the opportunity to offer higher quality care at a lower cost. The first step in testing this assumption is to analyze the extent to which the money invested in the model produces

a return that is greater than the original investment. To do this, Development Research Partners conducted a return on investment (ROI) study using data from Alliance networks currently operating in Colorado. The research team analyzed the value of the efficiencies created by participation in the networks against the costs of participation and generated findings for different types of providers and different levels of service offered by the Alliances.

✦ ELV Shared Services Model Components

The monetary returns from participation in the ELV Shared Services model derive from services that Alliances offer Affiliates that create efficiencies and generate additional revenue. These services include:

Access to the ELV Platform: The platform provides a virtual child care business infrastructure that includes curriculum templates, employee and parent handbooks, human resources policies and procedures, marketing tools and mailing templates, and online training modules. Affiliates can also use the platform to buy commonly used materials at discounted bulk purchase rates.

Technical Assistance (TA), Training Opportunities, and Quality Improvement Services: Alliances offer TA, host regular training sessions, and provide access to professional development opportunities for Affiliates. These offerings are designed to promote quality and assist with the implementation of the model, and include trainings that count towards state-mandated staff training for providers.



✦ Data and Methods

The data and assumptions used for the ROI study derive from the real-world implementation of four Alliance networks and their Affiliates in Colorado. While each Alliance has a different number of Affiliates in its network and its own unique relationship with each Affiliate, the ROI modeling uses a uniform set of assumptions based on “typical” Alliance, Affiliate, and network characteristics. However, the modeling is run separately by provider type (child care center and family child care provider) and the level of service received by an Affiliate (i.e. Tier I, II or III) to capture the differences in the returns based on these characteristics.

Return on investment (ROI) is defined as the net benefit of an investment divided by the cost of the investment and is derived using the following formula:

$$\text{Return on Investment} = \frac{(\text{Benefit from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

The different costs and returns used in the formula are outlined below.

✦ ELV Shared Services Model Costs



Training: Initial implementation of the model requires that Affiliates receive training in the various platforms and services. Training for Tier I services is minimal but the training burden increases for Tiers II and III. This burden is monetized for family child care and center-based providers and included in the model.

Tiered Quality Rating Improvement System: Membership in an ELV Alliance requires the Tier II and III Affiliates to participate in the state’s Tiered Quality Rating and Improvement System. Obtaining a quality rating can be expensive—up to \$1,000 for a family child care home and \$1,000 per classroom for a child care center. These costs are included in the model.

Affiliate Fees: Affiliates pay a monthly fee for participation in an Alliance network. The fee ranges based on a number of factors and can be \$50 per month for a family child care home receiving Tier I services to \$250 for larger center-based providers receiving Tier II services. Tier III is the most expensive with Affiliates paying based on the cost of billed items.

✦ ELV Shared Services Model Benefits

There are both direct and indirect benefits from the model that are discussed below.

✦ DIRECT

Discount Purchases: The ELV Platform offers direct benefits through the discounted materials and lower service costs. The largest benefits are through the discount school supply platform that offers a 20 percent discount on purchases. Other direct cost savings are through the office supplies, janitorial and kitchen supplies, and sanitary gloves, among other things.

Benefits from Tier II services: For a family child care provider, Tier II services include the hardware (computer, etc.) used to manage child records and to log children in and out each day. Center-based providers are also provided with this hardware and can also utilize the vended meal service program at discounted rates which can save \$0.25 per child per day.

Billing Services: Billing services provided by the ELV Alliance result in direct benefits to the Affiliate through a reduction in internal billing costs.



✦ INDIRECT

Productivity and Time Savings: The services offered by the Alliance provide indirect benefits through increased productivity and time savings. The ELV Platform provides a one-stop resource for business materials and services. Time savings through the ELV Platform result from the efficiencies gained by not having to create business forms and materials. The CORE child management system brings additional time savings to the Affiliate through improved records management, improved bookkeeping, and improved parent-provider interactions. Billing services provided through an ELV Alliance reduce the time spent collecting bills, managing bad debt, and sending invoices.

Value of ELV Alliance Services: Indirect benefits also include the value of services that are provided by the ELV Alliance that further benefit the provider. This includes the value of the ELV Alliance's technical assistance, training opportunities, quality improvements and TQRIS assistance, and billing services that add value to the family child care home without having to be internalized by the provider.

Indirect Cost Savings: This includes the savings on products and services supplied through the model that would have had to be purchased if not for the Alliance. For example, the ELV Platform includes 12 credit hours of training that satisfy most of the 15 credit hours of continuing education required by the state. The value of this training is the market value of similar training that would be received elsewhere if it was not available through the platform.

✦ Findings

The return on investment results are calculated both as a per dollar return and as the total return to the Affiliate over a 5-year period. The findings are calculated separately for center-based child care providers and family child care homes for each level of service offered by the Alliance network. Figure 1 presents the findings for center-based providers. For these providers, the costs of participating in the model—fees, training, participation in a Tiered Quality Rating Improvement System (TQRIS), and other costs—are more than offset by the direct and indirect benefits produced by the services. The direct and indirect return on the investment is \$8.08 for a child care center receiving Tier I services, \$6.17 for a center receiving Tier II services, and \$0.61 for a center receiving Tier III services. This means that providers receiving Tier I, II or III services receive an additional \$8.08, \$6.17 and \$0.61 in value for every dollar they invest in the ELV Alliance model, respectively. After five years in network, a child care center receiving Tier I services will have received \$83,800 more in direct and indirect benefits than their participation costs. A Tier II child care center will have received \$114,400 more and a Tier III child care center will have received \$99,100.

Figure 2 reports the findings for family child care homes. Given that this provider type serves fewer children, on average, than center-based providers, it is not surprising that the returns are smaller. The findings for the model are most compelling for family child care homes receiving Tier I services with a per dollar return of \$0.35 and a total five-year return of \$1,270. The returns are also positive, albeit smaller, for family child care homes receiving Tier II services (per dollar return of \$0.04 and five-year return of \$270). A family child care home receiving Tier III services, which includes the more expensive billing services, does not realize a benefit large enough to cover the costs and fees of these services. Both the per dollar and five-year returns are negative.

✦ Conclusion

The results of the ROI study indicate that the ELV Shared Services model produces significant returns for almost all participating providers. These returns are strongest among center-based providers and are significant, albeit smaller, for Tier I and Tier II family child care home providers. As such, participation in the model does provide the operational efficiencies to allow providers to offer care at a lower cost to them. This indicates that the ELV Shared Services model makes the operation of a small child care business more efficient and sustainable and provides the opportunity for providers to offer higher quality care. The results also indicate that more can be done to improve the operational efficiencies of family child care providers and the findings presented here are currently being used to improve the model. It is also important to note these findings provide a point-in-time snapshot of an evolving and constantly innovating shared services model. New innovations have already been put in place to improve the model and the developers expect that the ROI results will continue to improve for both center-based and family child care providers over time.



Figure 1: Return on investment of the ELV Shared Services model for child care centers

Level of Service	Per Dollar Return	Total 5-Year Return
Tier 1	\$8.08	\$83,800
Tier 2	\$6.17	\$114,400
Tier 3	\$0.61	\$99,100



Figure 2: Return on investment of the ELV Shared Services model for family child care homes

Level of Service	Per Dollar Return	Total 5-Year Return
Tier 1	\$0.35	\$1,270
Tier 2	\$0.04	\$270
Tier 3	-\$0.10	-\$1,660



ELV Leadership Team

Sue Renner

Executive Director

Merage Foundations

srenner@merage.org

Judy Williams

Program Director

ELV

jwilliams@earlylearningventures.org



Primary funding for the ELV Shared Services model is provided through the generous support of the David & Laura Merage Foundation, with additional funding support from Anschutz Foundation, Colorado Health Foundation, Daniels Fund, Mile High United Way, Piton Foundation, and Walton Family Foundation.

