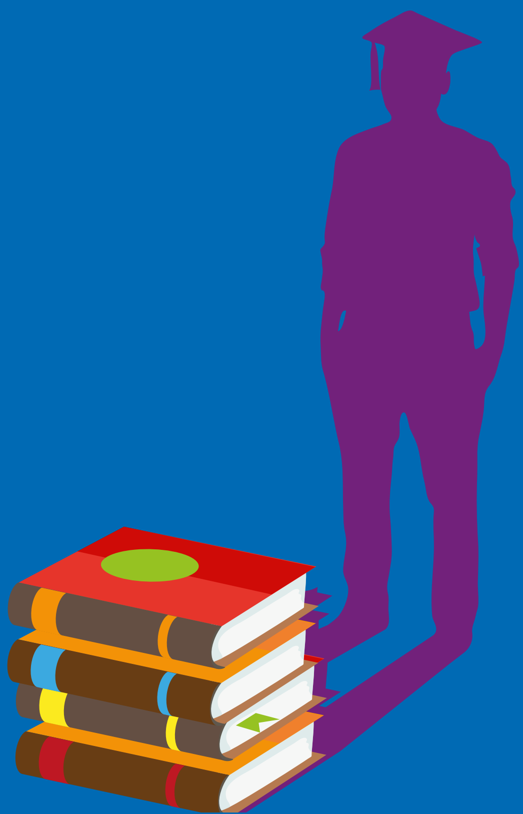
Reimagine Education

What further education can learn from Warren Buffett



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- To cover costs and provide stability, colleges should focus on what they do best
- FE establishments face challenges managing the expectations of different groups
- Early conversations with banks are vital
- Failure is often the result of leadership teams with the wrong mix of individuals.

Warren Buffett once said the best investment strategy was to "put all your eggs in one basket but watch that basket very closely". In UK further education, the opposite seems to have happened. Colleges have diversified, creating large and often complex organisations with multiple revenue streams. I believe colleges need to change tact and specialise where they can add most value.

Further education is no different from any other business. In order to cover its costs and maximise its surplus for future investment it has to focus on what it does best – to acknowledge which of its services are the highest quality, which are the most sought after, and which will continue to serve the institution best through the medium term.

The biggest problem colleges face is in deciding where they should focus their resources. To have a clear and accurate picture of their prospects, they have to understand what each of their services contributes to the organisation as a whole. This involves analysing the revenue, costs and contributions of each of their business streams while considering the possible changes ahead in legislation and business opportunities. Of course this isn't easy but, by combining this intelligence they can assess how best to proceed.

Tug of war

Then there's the issue of managing differing groups' expectations. The local MP, for instance, might think that the college's purpose is to serve all the local young people not at school or work. The governors might want to pursue the apprentice levy as a route to growth. Meanwhile the local catchment population of students will have their own priorities.

How best can colleges address these different visions? By really getting to grips with understanding return on investment. This was not a priority for the further education system in the past because of the way funding was allocated previously, but those days are long gone.

Forward-thinking chief executives and finance directors in FE have learnt from looking at how businesses in other sectors consider their operations from different perspectives and have refined their approach to financial analysis and forecasting. Armed with better forecasts, management will be in a far better position to engage the college's stakeholders who want to hear considered reasons for recommendations. It will be easier to explain why, for example, there should be less focus on certain projects until income streams from new areas reach a certain level; why planned investment should be postponed until there is sufficient surplus to cover interest payments, or highlight funding gaps in priority areas to stakeholders such as Local Enterprise Partnerships.

Keeping the banks onside

Projections by business activity will also enable colleges to engage with their funders. My experience is that some colleges in financial distress are having solutions dictated to them by their banks – even though these solutions are not what their governing bodies want. Bringing the banks into the conversation about forecasting and downside scenarios as part of business as usual from an early stage is vital. That's how you can avoid taking on excessive debt and leaving the college open to future financial troubles.

Why isn't this always happening? I believe that the greatest barrier to success is not having the right mix in their leadership teams. Exceptional educators are a must. But so are good account managers to engage with corporate clients. Colleges need a competent finance director who can produce realistic projections and converse with lenders. The management team needs to be involved and engaged in the external environment, assessing the impact of public policy and the local political and business environment.

The further education sector has shown itself to be amazingly resilient and flexible. These traits will be increasingly important in the future. Colleges need to take the initiative in performing an honest assessment of the relative performance of their different business activities before making tough decisions on what to keep and what to cut.

Warren Buffett built a business empire by judiciously choosing quality stocks. By following his example and focusing on the areas of strong performance and income, FE colleges can secure the funding they need to remain in good health. Specialisation should be viewed as a positive, not a sign of weakness.

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