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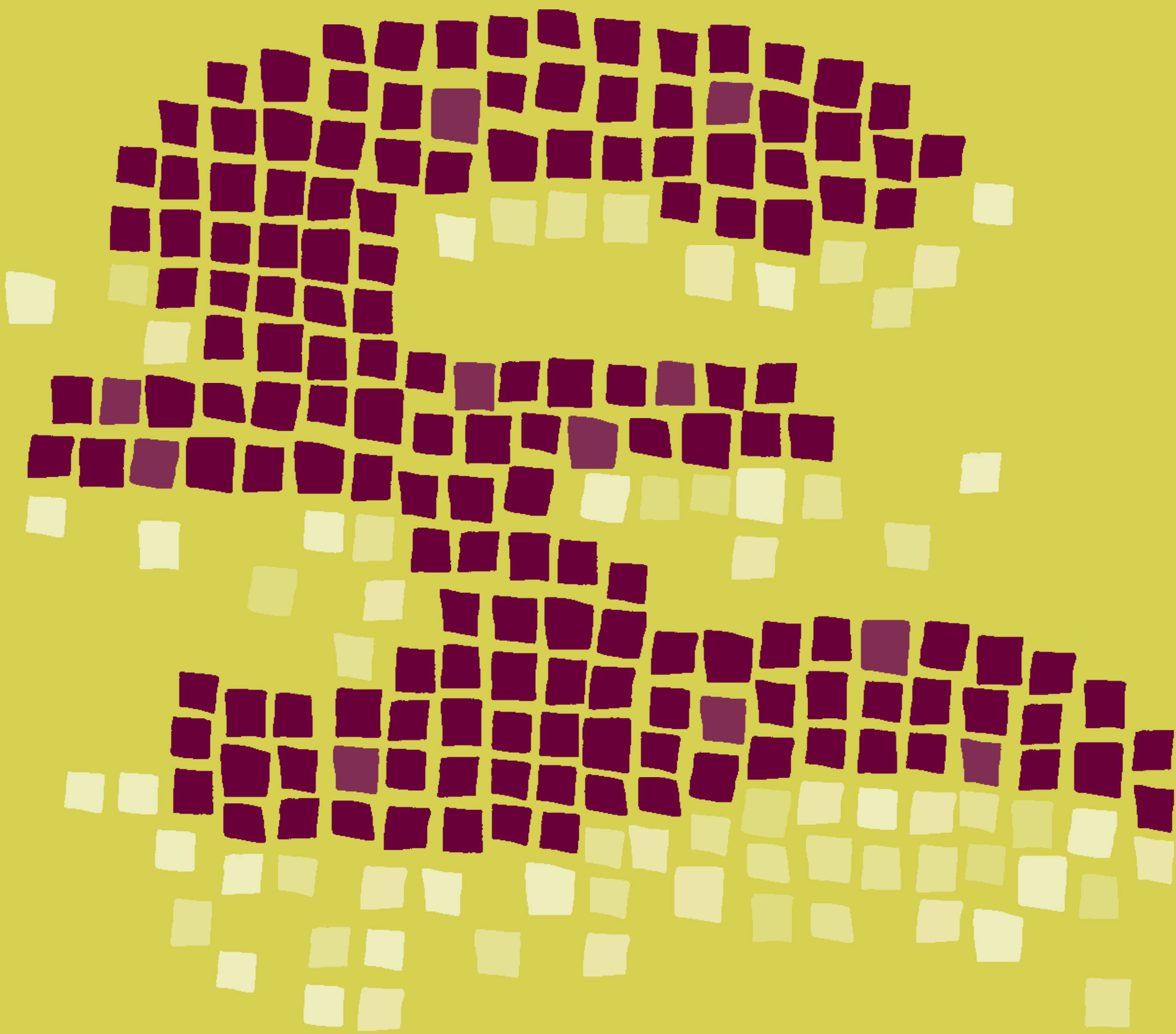
research report

getting the price right:

costing and charging commercial provision in Centres of Vocational Excellence (CoVEs)

Liz Aitken, Arthur Chadwick and Maria Hughes



getting the price right: costing and charging commercial provision in Centres of Vocational Excellence (CoVEs)

Current government policy expects employers and individuals to pay a greater share of the costs of training, particularly at Level 3, which is the level at which CoVEs are expected to deliver. For CoVEs, increasing the proportion of their income derived from full-cost provision is a key performance indicator, but guidance is required on how decisions are taken about the critical issues of costing and pricing this provision. The Learning and Skills Development Agency (LSDA) therefore investigated the factors that influence how costs are determined, and how policies to determine the price employers pay are developed.

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Contents

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Executive summary

Centres of Vocational Excellence (CoVEs) were established in 2001, and were intended to be a key driver in enhancing the contribution of the further education (FE) sector to meeting skills needs. In 2006, there is a national network of some 400 CoVEs offering leading-edge provision in FE colleges and work-based training organisations.

Current government policy expects employers and individuals to pay a greater share of the costs of training, particularly at Level 3, which is the CoVE priority area. For CoVEs, increasing the proportion of their income that is derived from full-cost provision is a key performance indicator, but guidance is required on how decisions are taken with regard to the costing and charging of provision. Establishing the cost of such provision, and what the customer should be charged, is a critical part of developing successful commercial provision. The Learning and Skills Development Agency (LSDA) therefore investigated the factors that influence how costs are determined, and how policies to determine charges and costs to employers are developed.

Key findings

Costing and charging policies
Most of the 32 CoVEs taking part in the extended survey on which this research is based have a policy on costing and charging for commercial provision. The policy generally provides a framework within which there is some discretion to vary prices up or down. Small numbers of CoVEs operate a fixed formula to which all costings must adhere or use an *ad hoc* process, dealing with each proposal on its merits.

Costing elements
The elements taken into account in costing commercial provision include:

- the curriculum area involved
- the type of staff used for delivery (ie full-time or part-time or agency staff)
- time needed to develop the course
- time needed to deliver the course
- accommodation costs
- travel time and costs
- a charge for consumables
- catering costs
- administration charges
- overheads.

Market forces
Where CoVEs had the freedom to adjust prices up or down, the most common reasons for so doing were pressure from market forces and awareness of what the customer was prepared to pay. Many respondents appear to invest time and money in researching their markets to establish training needs and the prices charged by competitors. In two cases, market forces was the main factor in determining the fee to be charged.

Transparency of the costing and charging process
Respondents expressed differing views on the issue of the transparency of the costing and charging process. Some were happy to share the process with customers. This practice was

said by one respondent to have led to gaining a contract, despite the customer being offered provision at lower prices by other providers. In contrast, other CoVEs thought that the costing process was commercially sensitive and should not be shared with the customer unless this was an absolute requirement – as was sometimes the case in tendering for work from a local authority.

Costing and pricing approval processes
In a third of the 32 responses, authority to decide on the price to be paid by the customer was delegated to the CoVE manager or curriculum leader, thus enabling the customer to be given a rapid response to a training enquiry. At the other extreme, approval was required at three levels in two CoVEs, and there were concerns over the time that might be lost while gaining approval. Although a framework provides freedom to adjust the price up or down, one respondent expressed a preference for a fixed formula with delegated power of approval.

Promotion and marketing of full-cost provision
The survey results indicate that CoVEs are committed to expanding their full-cost provision as required in their development plans after the end of their three years' dedicated funding, but also as part of their strategy for sustaining activity (see also the forthcoming LSDA report *Sustaining CoVEs*). Administrative structures within the organisation in which the CoVEs are located were seen to encourage and support this aim. A large majority of respondents had appointed a business development manager to lead this operation. In a few cases, these managers had been appointed purely for the CoVE, but in most cases the post carried responsibility across the whole organisation. Typically, each vocational area across the organisation had also identified a member of staff with responsibility for increasing commercial provision in collaboration with the business development manager.

Staffing
Most survey returns noted that staffing issues limited full-cost delivery. Tensions between the staffing of full-cost work and the staffing of mainstream provision were commonly reported. A number of solutions to this were in place and in a few cases staff were contractually obliged to develop and deliver commercial provision.

Disposal of surpluses generated from full-cost provision
Arrangements for dealing with the surpluses created from full-cost activity varied considerably. In some CoVEs, all of the surplus was returned to the section delivering the training, whereas in others all surpluses were retained centrally, with no special allocation back to the section that delivered the training. Few respondent organisations offered individual incentives by providing financial rewards for the staff developing and delivering the provision, although in at least one case performance in the area of full-cost provision was a key aspect of annual appraisal. This same CoVE was considering the introduction of team bonuses for good performance and including the expansion of full-cost provision as a key measure of individual performance.

Income from commercial provision
The average income from commercial provision was £290,656 across the 15 respondents to this question. All 15 had targets to increase commercial income. While in most cases, these targets were ambitious, there was a good deal of confidence that they would be achieved.

Conclusions

The management of the costs of customised provision is taken seriously in most CoVEs, although there is still some work to be done to ensure that systems are fully developed and used consistently.

- There is considerable agreement about the elements to be included in costing commercial provision, although uncertainty remains about what should be fixed and what may be flexible.
- Market forces play a major role in determining the price charged to the customer.
- CoVEs are undertaking a considerable amount of research into employers' needs for customised provision.
- Processes for approving fees paid by customers are sometimes complicated and time-consuming.
- Although new posts (eg business development managers) are beginning to be put in place, there are further issues for consideration in terms of the appropriate infrastructure and organisational development required for customised provision.
- Staffing customised provision can present difficulties due to the irregular nature of the work. Some CoVEs are putting solutions in place to ensure that this provision can be delivered by appropriate staff, but difficulties remain which may be inhibiting the further development of such provision.

Recommendations

- Processes for determining the fees charged to commercial clients should be in place and be fully understood and complied with.
- Regular reviews of these processes should be undertaken to ensure that they result in a rapid response to the customer and a viable return to the organisation.
- Processes should be simple, and accompanied by appropriate administrative support.
- Costing frameworks or formulae should take account of all costs that are material to the activity, including, where appropriate, the costs of development.
- Procedures for exceptional cases should be in place.
- Approval processes should be in line with the need to secure a rapid response to customer requests for services.
- The influence of market forces should be considered when costing commercial provision. This should include an awareness of needs and trends, differences in price sensitivity in different sectors, or sizes of firms and the prices charged by competitors.
- Charges should reflect the value of the service being offered to the customer, and efforts should be made to understand the potential value in relation to the client's business.

- Posts and responsibilities should be reviewed to ensure that organisational structures and infrastructure support commercial activity.

- Systems should be developed to manage information about contacts with actual and potential clients to ensure that this information is shared, as appropriate, throughout the organisation.

- Solutions to staffing commercial provision should be in place before taking on commercial activity. These solutions should anticipate that activity will be episodic and irregular.

- Different courses require staff with different skills. The actual cost of the particular staff used should be taken into account in costing policies.

- Consideration should be given to ways in which income from commercial activity is disbursed across the organisation. Where possible, those delivering the activity should be rewarded, either in cash or kind. There should also be clear and open systems for determining how surpluses are used to improve other aspects of the organisation's capacity.

- There should be appropriate systems for quality assurance of commercial provision which emphasise value for money and customer satisfaction.

- Targets for income from commercial provision should be informed by analyses of needs, market trends and differences in sectors and sizes of company.

- Account should also be taken of intangible benefits, such as the development of good relationships and enhancement of reputation.

1 Background and introduction

Throughout the post–16 sector there is growing pressure to increase the extent to which provision is funded by the end user rather than through mainstream Learning and Skills Council (LSC) finance. Centres of Vocational Excellence (CoVEs), which were established in 2001, were intended to be a key driver in enhancing the FE sector's contribution to meeting skills needs. CoVEs are required to increase the amount of commercial provision that they deliver, as responsiveness to the training needs of business and industry is a key indicator of CoVE performance.

This project aimed to:

- determine factors that influence the costing and charging of commercial provision for employers
- investigate the factors that influence the policies for charging and the charges made
- make recommendations for developing good practice.

It also looked at some of the broader issues influencing the growth of commercial provision, such as:

- mechanisms for approving costings and agreeing prices
- disposal of surplus income within the company or college
- structures for managing and marketing commercial provision
- staffing considerations
- quality assurance.

By analysing the survey responses of a fairly large sample of providers, it was possible to compare policy and practice in different vocational areas and to compare CoVEs in both colleges and work-based learning (WBL) organisations. The results of the research enabled conclusions to be drawn about current practice in costing and charging, and identified good practice in this most critical area of expanding full-cost provision.

2 Method

A short questionnaire (see Appendix 3) was sent to the 287 CoVEs which had been approved before March 2005 (Rounds 1–6). This questionnaire asked about the overall approach taken by the providers towards costing and pricing of commercial provision, and asked for volunteers to take part in the second stage of the investigation, which involved:

- a more detailed examination of their systems and practices through an extended questionnaire (see Appendix 5)
- telephone interviews to follow up issues raised in the detailed questionnaire
- a site visit to collect information for a case study.

The initial questionnaire also asked respondents to indicate whether a standardised costing policy was in place across the company/college, and if not, to give a brief statement on their overall approach to costing commercial provision.

In order to draw conclusions on the relative merits of operating commercial provision with and without a standardised costing policy, both approaches were investigated in the extended questionnaire. However, some respondents thought that their approach included elements from both a fixed costing regime and a framework; others thought that related questions were not applicable to their organisations and therefore made no reply.

Respondents were also asked if they were willing to provide information on the income generated from commercial provision. However, as information about income is commercially sensitive, providers unwilling to make this information available were not excluded from continued participation in the research.

3 Analysis of initial questionnaire returns

Number of returns

79 questionnaires were returned from a range of CoVEs, as shown in **Table 1.**

Table 1 Vocational areas covered in the survey

Vocational area	Number of CoVEs
Business and management	11
Catering	7
Childcare	3
Construction	12
Creative industries	5
Engineering	19
Financial services	4
Food technology	3
Hairdressing and beauty therapy	1
Health and care	11
Information and communication technology (ICT)	11
Land-based	5
Logistics	2
Retail	2
Sport and leisure	2
Tourism	2
Total	**100**

Table 1 shows that 100 CoVEs were covered in the survey, although there were only 79 respondent organisations. Of those 79 respondents, 59 were organisations with a single CoVE, 19 had two CoVEs and one had three CoVEs. The split between the different sectors is shown in **Table 2.**

Table 2 Respondents by sector

Sector	Number of respondents
Further education (FE) colleges	65
Work-based learning (WBL) providers	12
Sixth form college	1
University	1
Total	**79**

Designation of person completing the questionnaire

The job titles of the respondents to the questionnaire indicated the different levels of seniority at which the sample colleges and companies dealt with an enquiry about the costing of provision within their CoVEs, as shown below in **Table 3.**

Table 3 Respondents to the initial questionnaire

Job title	Number of respondents
CoVE manager	25
Section head	20
Business development manager	13
Assistant director	6
Director/general manager	4
Vice-principal	4
Training manager	4
Director of finance	1
Funding and data manager	1
Senior training consultant	1
Total	**79**

Subsequent discussions suggested that in a number of cases, the section head was also the CoVE manager, although the latter post was often filled through a fixed-term appointment from outside the organisation. The next largest category – business development manager – reflects the growing incidence of such posts in both the FE and WBL sectors. While the returns from a director or assistant director came largely from the FE sector, those from a general manager or a training manager came almost entirely from the WBL sector.

More than 60% of the 79 respondents to the initial survey said that their organisation had a policy on the costing and charging of commercial provision and expressed their willingness to take part in the detailed questionnaire and interviews. A sample of 32 was constructed from these initial returns to achieve a balance of curriculum areas and FE-based or work-based CoVEs in the next phase of the research.

4 Analysis of extended questionnaire returns

Number of returns

The extended questionnaire was returned by 32 CoVEs. In some cases, respondents said that more than one of the suggested responses applied to their organisation; in some other cases, respondents did not answer all the questions. The figures given in the report may therefore be more or less than 100% of all respondents. This is indicated in the text or tables concerned.

Costing policies

CoVEs were asked whether they had a policy in place for costing and charging for commercial provision, and what type of formula or framework this included for determining the price paid by the customer. The suggested methods included:

- a fixed formula
- a framework with flexibility
- an *ad hoc* approach.

The majority of the 79 respondents to the initial questionnaire said that they had a policy for costing commercial provision. This picture was reflected in the extended questionnaire, with 24 of the 32 respondents reporting that their college or company had a costing policy.

Of those 24 respondents, 21 said that the policy was standardised across the whole institution. However, 15 of the 32 respondents to the extended questionnaire reported that departmental variations were allowed in some circumstances. A range of reasons for departmental variation was given. These included:

- inherent differences in the market or costs of some provision in particular curriculum areas
- to develop a relationship with a new customer
- to develop a new area of training
- the nature of the particular market and the customer's ability to pay
- to attract new learners into training and meet LSC targets
- competition from other providers
- availability of staff.

Some of the respondents who said that they did not have a policy said that this was because the level of commercial activity within the organisation was still comparatively low and confined to a small number of departments or sections.

The nature of costing policies

Only four CoVEs said that their costing policy provided a fixed formula to which all proposals must adhere. 17 thought that their policy provided a framework within which they had freedom to adjust costs up or down. Five said that their policy was to look at each proposal on its merits, which suggests an *ad hoc* approach. The remainder indicated that their approach was a combination of formula and framework.

Fixed formula
While the number of respondents using a fixed costing formula was very small (four), in three cases, their formulae had a great deal in common. All based their charges on an hourly or daily rate and made different charges for delivery on the customer's premises rather than their own. All varied their charges depending on whether staff were deployed within their normal timetable or at overtime rates; two charged different rates for full-time, part-time and agency staff. Only one CoVE said that the price would be affected by the curriculum area concerned. All used a checklist of the elements which made up the direct cost of delivering the provision, and the responses are summarised in Table 4.

Table 4 Direct cost of elements included

Element	CoVE 1	CoVE 2	CoVE 3
Staff time to develop the course	•		•
Staff time to deliver the course	•	•	•
Accommodation charge	•		•
Charge for equipment used	•		•
Charge for consumables used	•	•	•
Catering charge	•	•	•
Administration charge	•	•	•
Percentage of staff time to cover overheads	•	•	•
Charge for facilities available but not necessarily used	•	•	•

One respondent included a charge for registration and certification. Another used a fixed formula in which hourly rates had been established across the college, reflecting LSC subject weightings.

Framework with flexibility to adjust price
Seventeen respondents said that their policy was best described as a framework within which they were at liberty to adjust charges up or down. A further four said that their policy was partly a fixed costing formula and partly a framework. The responses relating to this section are summarised in Table 5.

Table 5 Direct cost elements included

Costing element	Number of CoVEs making a charge (out of 17)
Staff time to develop the course	15
Staff time to deliver the course	17
Accommodation charge	17
Charge for equipment used	15
Charge for consumables used	17
Catering charge	17
Administration charge	10
Percentage of staff time to cover overheads	14
Charge for facilities available but not necessarily used	4

In their more detailed responses to this question, 14 respondents mentioned the curriculum area as one of the factors influencing price; 16 said that the price would depend on whether the course was delivered by full-time, part-time or agency staff. Nine said that the price would vary depending on whether full-time staff were employed as part of their normal timetable or on an overtime basis.

All 17 respondents to this question included delivery, accommodation, consumables and catering costs in their pricing method; four also made an overall charge for equipment based on what is available rather than what is actually used. However, two CoVEs in the sample did not charge for course development, a further two did not charge for the use of equipment, and three did not apply an overhead charge to cover central costs.

Factors influencing price
A wide range of factors appeared to influence the cost of provision and these have an impact on the price charged to the customer. They include:

- staff costs, such as:

  - the use of senior staff on higher salary rates
  - buying in expensive consultants for development and/or delivery
  - low staff–student ratios for safety or statutory reasons
  - use of additional technician-level staff to support delivery
  - delivery out of normal working hours

- specialist provision, which may require:

  - expensive resources and equipment, which may need to be hired
  - tuition which leads to a higher level of qualification for learners
  - high-cost accreditation fees
  - higher development costs

- high-quality accommodation and catering costs

- market-related issues, such as:

  - lack of competition for the business
  - perceived ability of the customer to pay more
  - size of the company and the perception that large companies can afford to pay more than small and medium-sized organisations (SMEs).

The main reasons for reducing the price to the customer were linked to capacity- and market-related issues.

Capacity-related issues included:

- using staff who would otherwise be underemployed or even redundant
- using equipment which would not otherwise be in use
- the opportunity to develop new provision in a particular specialism.

Market-related issues included:

- significant competition for the business
- the chance of securing repeat business and block bookings
- preventing a competitor from gaining the contract
- loyalty discounts for good customers and key account holders
- a reduced price needed to secure the business
- the need to offer a 'loss leader' to secure business in a particular area or with a particular client
- the availability of LSC or other funding to support the provision
- the ability of the customer to pay.

Ad hoc *approaches to pricing*

The responses to the extended questionnaire suggest that some CoVEs could not decide which of the three broad categories described in Question 2 best summarised their institution's position on costing provision.

Of the five respondents who said that their pricing policy was *ad hoc,* only one went on to describe a process which appeared fully to justify that description. This respondent declared that the price they charged was based purely on the ability of the client to pay, together with a consideration of the numbers involved and the possibility of achieving economies of scale. An introductory price might be offered if repeat business was a realistic prospect. One CoVE reported having offered all courses at a reduced price under a contract agreed with the customer for a longer-term commitment to training, but expressed some doubts as to the enforceability of such a contract.

A further three of those claiming to use an *ad hoc* approach described methods which considered:

- an assessment of the costs involved in delivery
- whether funding could be accessed
- any possible variation of price based on factors such as the ability to pay and the going rate in the market.

One of these respondents added a 50% surcharge on the sum of the direct costs to cover college overheads. This respondent also attempted to find out what competitors charged and compared these charges with prices levied by other departments within the college.

Another respondent sometimes turned the costing process upside down, by asking the prospective customer how much their company was prepared or able to pay; if this was considered a viable sum, the CoVE would then tell the customer what could be delivered at that price.

One of the responses claiming to use an *ad hoc* approach described a process, as follows.

1. The first attempt at determining a price was based on the charges for core provision within the discipline concerned, the price of which was reviewed annually.
2. The calculation then took into account a number of factors including whether the delivery was onsite or offsite, what the customer expected and what the customer was perceived as being able to spend.
3. The price this produced was then checked to confirm that it covered all costs, including tuition, course management, non-contact hours involved, materials, catering, overheads and awarding body fees.

4. The final consideration was what the market would stand, with supporting evidence from a market research exercise undertaken every 2 years to determine the prices charged by competitors.

Travel costs
Specific questions were asked about recouping travel costs when provision is delivered on clients' premises. Of the 32 respondents, about three quarters charged for the travelling time of those delivering the course. Only about 65% made a charge for travel and accommodation expenses, with most basing the charge on actual costs and a minority basing it on a formula.

Management of commercial provision

A number of questions in the survey looked at the ways in which CoVEs manage their commercial provision, with particular reference to course approval mechanisms, internal structures and organisation, allocation of income and promotion/marketing.

Approval mechanisms
Twenty-four respondents indicated that there was a formal process for approving course proposals and proposed charges. Five said that no process was in place, and two respondents indicated that there was an informal mechanism.

A varied picture was presented in terms of the levels of seniority of the people agreeing the price to be paid by the client. These ranged from a senior manager or finance officer to the principal/chief executive officer (CEO), as shown in Table 6. The senior manager giving approval was most often the head of the section in which the training was based; and in 11 cases, this person was empowered to decide on a price without reference to anyone else. At the other end of the spectrum, two CoVEs required proposals to be approved at three levels – by the section head, the senior finance officer and the principal/CEO. Governors were involved in only one case and, although the academic board was listed as a possible approving body in the questionnaire, none of the respondents reported that this was part of their process.

Table 6 Approval of costing proposals

Proposals approved by	Number of CoVEs (out of 32)
1. Principal or CEO	4
2. Director of finance or senior accountant	11
3. Other senior manager	17
4. Governing body	1
5. Senior management team	1
1, 2 and 3 (as above)	2
1 and 2 (as above)	1
2 and 3 (as above)	4
3 and 4 (as above)	1

Company/college structures
There was a very strong view that structures within the college or work-based training organisation in which the CoVE is located influence whether they develop commercial provision. Twenty-eight respondents indicated that their organisation's structures supported

the development of commercial provision, three said that their structures did not provide encouragement or support, and one described support as partial.

Further questions were asked on the types of structure in place and responses to these are summarised in Table 7.

Table 7 College/company structures and commercial provision

Question	Number of positive responses (out of 32)
1. Is there a college/company business development manager?	25
2. Does a member of the departmental staff have responsibility for business development?	17
3. Is there a dedicated section through which all full-cost provision is delivered?	10
4. If so (Q3), is that section expected to generate some or most of this kind of provision?	10
5. Does that section have an income target?	18

As Table 7 shows, most of the sample CoVEs (25 out of 32) have a designated business development manager within their organisation. However, 12 of these respondents and a further five respondents, also reported that a member of staff in the department or section also had responsibility for business development. This could imply that business development managers coordinate and support commercial provision, while subject specialists negotiate curriculum content and delivery arrangements.

Ten respondents said that commercial provision was delivered under the aegis of a dedicated section which was also expected to generate some or most of the business.

In 18 cases, annual targets for commercial income are set. In some cases, a year-on-year target is set to achieve a percentage increase in commercial income. One CoVE respondent spoke of a negotiated figure linked to an incentive – permission to spend a portion of the income generated once the agreed target has been achieved. Another said that targets were set by senior management based on past performance, and a third said that targets arose from the normal business planning process which took place each year.

Staffing issues
In 24 cases, the delivery of commercial provision was said to be limited because of staffing issues.

17 respondents reported tensions over the staffing of commercial work and the staffing of mainstream provision. Some CoVEs reported overall staffing shortages because of difficulties in recruiting people with the right ability. Staff considered to be the most suitable for delivery of commercial provision were often fully occupied with mainstream work, and in one case, a respondent said that there was no incentive for staff who would already reach their annual teaching commitment to take on extra work on full-cost courses.

One respondent observed that full-cost income was linked to capital expansion plans within sections in order to provide an incentive to the section rather than the individual.

Some CoVEs reported that they used agency staff or guest speakers to deliver full-cost provision; this resolved staffing problems, but could mean a higher price to the customer.

Only three CoVE respondents reported that staff contracts included a specific requirement to generate and deliver commercial provision. In only one case was performance against this requirement specifically measured at the annual appraisal.

Commercial provision was seen as prestigious and good for CoVEs in many ways, not least because of the money it can generate. However, mainstream provision was seen by most providers as the core business, involving long-term commitments extending at least the length of an academic year. Commercial provision is often short-term and very intensive. CoVE providers are judged on performance indicators concerned with achieving high retention and achievement rates for mainstream provision, and managers were not prepared to jeopardise these by taking a first-class teacher away from timetabled courses to teach on lucrative but limited-term commercial courses.

Dispersal of commercial course income

There are big differences between the FE and WBL sectors when it comes to the dispersal of the income from commercial provision. From the discussions and visits which followed up the questionnaire returns, it became clear that in the WBL sector it is common to regard all income as commercial and to cost and price provision on the basis that all activities must pay for themselves. Some WBL providers are comparatively limited in the range of training they deliver, and do not feel the need to organise on a departmental or sectional basis. As a result, there is less of an issue about who benefits from surpluses generated by particular courses and events.

Within the FE sector, the management of commercial income is much more of an issue, and the survey suggests that there are two principal ways of dispersing such income within the institution. Examination of the returns from all 32 respondents to the extended questionnaire showed that income in 12 CoVEs is retained centrally, with only direct delivery costs returned to the section that delivers the training. In a further 12 cases, once the direct delivery costs and any central costs have been met, any surplus is retained by the section delivering the training.

These two methods appear to be diametrically opposed. The first method implies that commercial income is college/company income and the section delivering the training has no entitlement to benefit from any surplus. The second method suggests that surpluses can be used as an incentive for sections to generate more commercial business.

Further discussion during the telephone interviews suggested that a number of the CoVEs operate a policy halfway between the two approaches. This may involve some of the surplus being retained centrally and some being returned to the section generating the income; alternatively, the section that delivers the training may be able to bid for a share of the surplus along with other sections of the organisation.

Some of the comments made by respondents are summarised below.

- All commercial income is regarded as college income and is used at the discretion of senior management.
- All income is retained by the section delivering the training.
- 47% of income is held centrally and 53% is returned to the curriculum area concerned.

- Income is divided in the ratio 2:1:1 between the central college budget, the section delivering the training and the business development section – in this case, the funds returned to the section that delivered the training can only be used on capital equipment.
- There is an agreed budget for delivery of all programmes, the amount being increased for commercial provision.
- All income is credited to sections with an income target which have incurred expenditure while engaged in income generation

Payment in kind for training

Accepting 'payment in kind' as settlement of part or all of the cost of delivering the training was said to be acceptable by 18 respondents out of 32 – they had either accepted this method of payment or said that they would do so. The conditions for accepting such a settlement included the following:

- if the 'kind' was something the CoVE really wanted or could readily exchange for money
- if the customer was able to offer training of college/company staff in a priority area
- reduced fees being offered in order to develop stronger links or secure discounts from suppliers
- the possibility to waive fees if the company offered to donate equipment
- if there is a reciprocal arrangement with a company whereby the CoVE can use the company's training facilities free of charge in return for delivering some free training.

Non-financial benefits of commercial provision

Most CoVEs in the survey considered that commercial provision brings non-financial benefits to the CoVE that could influence the price charged to the customer. 31 respondents, the largest number for any issue in the survey, thought that offering such provision was a good way to develop a new customer relationship or maintain and strengthen an existing relationship. 14 respondents said that delivering full-cost provision for a company prevented competitors from developing a relationship with that customer. 19 said that staff development opportunities arose through delivery of commercial provision and this was a real benefit to the provider.

Other non-financial benefits resulting from commercial provision were as follows:

- opportunities to develop other business, especially WBL
- by delivering full-cost training to employers, the CoVE hopes to encourage them to send apprentices to it for training
- demonstrating good employer engagement to the local LSC
- can generate training opportunities for other sections of the provider organisation outside the CoVE
- helps to support other activities within the college
- provides good-quality information on skill shortages.

Similar issues were explored from a slightly different angle in another question which asked about the non-financial value to the whole organisation of delivering commercial provision through the CoVE. The responses to this question are summarised below.

- It provides a service to industry that may not be satisfied in other ways.
- It creates opportunities for staff to be updated on industry developments.
- It raises the profile of the college/company with industry.
- It helps to project a responsive image.

- It broadens the customer base.
- It can help to increase mainstream student numbers.
- It helps the provider to respond to government targets on employer-led training.
- It focuses the curriculum offer.
- Commercial provision serves as a good marketing tool which can raise awareness of the resources available within the CoVE and the college/company.
- It enables staff to deliver training in response to a clearly stated aim without the constraints of a set syllabus.
- It often involves very interesting work which enables staff to use and develop their specialisms.
- It helps to create a coherent base integrating WBL and other forms of business engagement.
- Commercial business with a customer is a natural complement to apprentice training.
- It provides good-quality information on employment opportunities for mainstream students.
- Commercial provision is a major factor in sustaining CoVE activities.
- It is our mission to provide training opportunities for industry. It also enables our employer base to increase which in turn leads to more business.

Marketing commercial provision

The responses to questions about structures for delivering commercial provision indicated the prevalence of business development managers working alongside staff from the section or department with responsibility to develop full-cost work. This situation is also reflected in the ways in which respondents described their approaches to promotion and marketing. In 10 CoVEs, responsibility for marketing was shared between a central marketing function and the department; in nine cases, responsibility lay entirely with central marketing, and in a further nine it was the sole responsibility of the department.

Most CoVEs said that there was a mechanism for different sections across the organisation to exchange market information, often coordinated through the central business development unit. However, eight respondents admitted that departments within their organisation guarded market information in case their own reputation with a customer was damaged by the poor performance of another section.

Opportunities to generate commercial business vary greatly between curriculum areas. One CoVE had established a group to exchange market information, but restricted membership to those sections which were active in this area. In another CoVE, market information was exchanged between all sections at a fortnightly senior management team (SMT) meeting.

The survey asked CoVEs if they had ever deliberately set a price for commercial provision which would reduce their chances of being awarded the contract. Five said that they had done so; all five also said that they had still, on occasion, been awarded the contract. The reasons for adopting this approach were as follows.

- They did not want the business, but did not wish to be seen as not responding (2).
- They were not sure that they could deliver the training required to an appropriate standard (2).
- They were too busy with other work (2).

One CoVE observed that 'we felt that the perceived quality of the training provided would be devalued by proposing a lower fee simply to secure the business'. Another reported that provision had often been priced at a level which was likely to be undercut by other providers. Nevertheless, business had still been won after explaining to the customer that the main concern was to deliver a quality product rather than a cheap one. This particular CoVE also believed in telling the customer how the price had been determined by explaining the costing model used.

Factors that made the marketing and promotion of commercial provision more difficult were as follows:

- the wrong image of colleges – despite all the effort that had been put into raising awareness about college provision, some employers still held misconceptions about colleges; for example:

- they only teach 16–18-year-old students
- they only offer programmes which start in September and end in June
- staff are not in touch with commercial and industrial practice

- competition from subsidised provision – many employers were thought to delay training until a course which was free or heavily subsidised was available; in some cases, a competitor with access to special funding could undercut a more local supplier

- membership of training groups – employers may belong to group training organisations (GTOs) which offer training to members at a low cost. CoVEs unable to establish the right working relationship with GTOs might be denied access to a substantial market.

Quality control in commercial provision
Most respondents reported that commercial provision was subject to the same quality control arrangements as other provision within the organisation. These arrangements included:

- classroom observation
- evaluation
- employer and customer satisfaction surveys
- statistics on learner numbers, including retention and achievement rates
- repeat business statistics.

Other arrangements mentioned by individual respondents included:

- use of an external quality assurance agency to monitor provision and to seek the views of customers on the quality of the training
- where provision was delivered under licence from an external agency, the agency's quality processes had to be followed.

Only nine of the 32 CoVEs surveyed said that they were accredited under ISO 9000 or were working towards accreditation. ISO 9000 is sometimes regarded as more important in the WBL sector than it is in the college sector. This was not, however, borne out by the responses to the questionnaire, in which seven colleges and two WBL providers said that they held ISO accreditation. However, the latter said that ISO 9000 processes formed the entire basis of their quality system, while the colleges used it as part of a series of measures.

Levels of income from commercial provision
In asking the question about the amount of income raised from commercial provision, it was accepted that this was extremely sensitive information. Respondents were assured that

figures from individual providers would be treated with complete confidence, and that even the case studies would be anonymous. Despite these assurances, only 16 CoVEs provided this information. The total income generated from these CoVEs in the last financial year was £4.65m, or an average of £290,656 each. In some cases, the sums were very small and respondents said that commercial provision was a developing part of their organisation's portfolio. Almost all reported that income from this source had increased in the last year and that they had targets to increase it year-on-year.

In a very few cases, commercial income had gone down in the most recent returns, but this was regarded as a normal situation since training in many companies is sporadic, with periods of high activity followed by periods of relative inactivity. In a few cases, where safety-related training was a requirement to be allowed to work in a specific industry, there was a cycle of initial certification with a need to renew certificates after a number of years, and this was said by some CoVEs to lead to big variations in the demand for training and hence in the level of income.

The responses to the extended questionnaire together with the follow-up calls and visits confirmed the perception that some occupational areas are more readily able to generate commercial work than others. From the 32 respondents, the greatest levels of activity were found to be in the areas of care, construction, engineering, IT and management.

5 Conclusions and recommendations

Conclusions

Policies in place
The majority of the CoVEs responding to the survey had a policy on the costing and pricing of commercial provision. This was usually standardised across the whole organisation, although sections and departments might have some freedom to take into account the particular trading conditions in their vocational area.

The most common form of policy provided a framework for costing within which proposers could exercise some discretion to vary prices up or down in response to a wide range of issues.

While this demonstrates that the management of the costs of customised provision is taken seriously in most organisations, there is still some work to be done to ensure that systems are fully worked through in terms of the implications of delivering the job within the price quoted.

Determining costs
The elements contained within the costing framework or formula were largely the same (see Table 4 in section 4). Most respondents used a form or at least a checklist to make sure that all possible costs were taken into consideration; one CoVE went a stage further, in using an electronic spreadsheet for this purpose and training appropriate staff in its use.

However, very few CoVEs operated under a strict costing formula to which all sections must adhere, while an equally low number operated an *ad hoc* system in which each individual proposal was considered on its merits without a structured and formalised approach. Some respondents using this last option had low volumes of full-cost work and said that they were intending to introduce a more formalised method of costing and pricing as the volume of business increased.

The differences in the methods being used perhaps indicate that there is a lack of certainty about the elements which are fixed in costing and pricing formulae and those which are less rigid. It may also suggest that formulae need to distinguish between costs that are material to the activity as opposed to those which could potentially be incurred. Prescriptive lists of standard charges, which may not apply to the case in hand, may be unhelpful, and unnecessarily inflate fees.

A small number of respondents said that they made no charge for development costs and/or use of equipment. This may indicate that managers are unaware of the value of these activities and the extent to which development time and depreciation of resources represent a real cost to the organisation.

Influence of market forces
Almost all respondents identified market forces as the most important factor in a decision to adjust prices either up or down. For example, large companies were generally perceived as being able to pay more than small companies; or prices might be adjusted to reduce profit margins if there was a realistic prospect of repeat business.

The range of practice that was described illustrates the extremely volatile nature of the training market, and the many competing influences on it. Companies' unwillingness to pay for training is a major concern in the UK. Although strong incentives, such as legislation in some sectors, are beginning to change this attitude, there are also seemingly contradictory policies which encourage reliance on state subsidies. The pragmatic approach of some respondents illustrates ways in which CoVEs are attempting to make sense of such situations.

Establishing the need for customised provision
There was widespread evidence that the CoVEs surveyed invested time and effort in conducting market research – either using their own staff or buying in specialists – to establish training needs and develop appropriate portfolios of provision from which customised training programmes could quickly be produced. An equally important aspect of this research was to establish the prices charged by competitors. Some CoVEs also undertook research into the views of existing customers on the quality of the training and service generally provided by the CoVE.

These processes enable the CoVE to be aware of market needs and what the market will bear as well as indicating the value of their services as perceived by the customer. This information is a vital component in determining what should be offered and at what price.

Informing the client about costs
The issue of the transparency of the costing and pricing process provoked widely varying responses. Some CoVEs were happy to share this information with prospective customers, and provided an explanation of the way in which the price had been arrived at, including a breakdown of the elements included in the price. Other respondents felt that this was inappropriate, and that such information should not be shared with customers.

The LSC has recently been involved in a project with colleges which provides a full breakdown of the costs of publicly-funded provision to individuals enrolling on courses in the hope that this heightens their awareness of its value (LSDA project RC603 on clarifying the costs of learning). This approach is also thought to reduce 'drop out'. Judgements need to be made as to whether knowing the full cash value of customised provision would have a similar impact on employers. However, the extent to which customers are comfortable with providers' overhead costs and profit margins may be an important factor in making decisions about transparency in the costing process.

Approving charges and fees
Although practices varied widely among the CoVEs surveyed in relation to the approval of charges, the overall picture was encouraging. CoVEs generally appear to be operating efficient processes which allow managers to respond quickly to requests for course proposals from customers. Clearly, the ability to respond rapidly is vital in winning commercial business and the evidence suggests that CoVEs are well organised in this respect.

However, in a couple of cases, approval was required at three different levels, including the principal, and one respondent noted that very large potential contracts would require approval from the board or corporation. While in the latter case it was emphasised that special arrangements were in place to ensure that proposals were dealt with quickly outside the normal committee cycle, such long chains of command must have an impact on the responsiveness of the organisation to the customer's needs.

Although almost all CoVEs questioned liked to have the freedom to adjust prices, some said that, on balance, they would prefer to operate a more rigid system if it allowed them to make decisions without recourse to senior management.

Infrastructures to support expansion

One of the strongest messages emerging from the survey was that CoVEs were committed to developing and expanding full-cost work. Most respondents thought that their organisational structures supported expansion, notably when the post of business development manager (or a similar role) was in place: this was the case in 24 of the CoVEs in the survey.

In contrast, the small number of respondents who considered that the organisational structures were not supportive of the development of commercial provision thought that this was related to the appointment of business development managers who were seen as introducing an unnecessary additional tier, interfering with long-established customer relationships and creating extra paperwork.

While discrete business units and business development managers have been in place in many colleges for a number of years, a persistent problem with these arrangements has been the lack of coordination between such units and the curriculum specialist. The most commonly reported situation in this study was that the business development manager worked in partnership with vocational specialists to develop commercial provision – often having a particular responsibility to gather market information on training needs, which was then shared with specialists who prepared and costed course proposals for joint presentation to the customer. In about a third of the responses, all commercial provision was delivered under the banner of a business development division. One college had gone substantially further by appointing a group of staff to work with the business development manager on all aspects of business development and employer engagement.

Structures such as these may help to secure more responsive provision which is also highly specialised.

Sharing market information

A further problem that has been difficult for colleges to solve is ensuring that databases of contacts are kept up to date, and that contacts with employers are managed across the organisation. Managing the exchange of market information between vocational sections is an important aspect of work with employers. A quarter of respondents (eight) reported in their questionnaire returns that market information was guarded carefully to avoid the possibility that a hard-won reputation could be damaged by the poor performance of others in the organisation, and several more said that this was the case during further discussions.

Business development managers were in a good position to manage this process and several were using customer relationship management (CRM) software to support the exchange and use of information.

Staffing full-cost provision

Tensions between the staffing of full-cost work and the staffing of mainstream provision are a further inherent difficulty which limits the ability of CoVEs to deliver commercial provision. CoVE managers employed strategies for overcoming these problems, such as using consultants and part-time or agency staff, reserving timetabled hours for key individuals to deliver commercial work, or appointing staff on flexible contracts to cover peaks in demand and using instructors on extended timetable commitments.

However, few staff contracts included a requirement to develop and deliver full-cost work with performance monitored as part of the annual appraisal. As a result, the routine capacity to respond to demands for customised provision is not developed within the business planning processes. This in turn has an impact on the cost of provision, as contract staff need to be employed to meet demand. Although in some cases this may be more cost-effective than using full-time staff, the shortage of specialists with the required skills may raise the costs of provision.

Financial incentives to staff
Few CoVEs in the survey offered financial incentives to staff to deliver full-cost provision, although all recognised that the work could be more demanding than mainstream course activity and produced widespread benefits for the college or company. Incentives for the section that was delivering the training – usually in the form of arrangements to use any surplus income for investment in resources – were more common, although some organisations held the view that full-cost income and any surpluses were solely college/company income. In at least one CoVE where the contribution to full-cost work was linked to the annual appraisal, this could lead to individual bonus or good performance payments.

There is some resistance to linking performance to financial incentives, especially for individuals. Such a policy could be seen as divisive, having a negative impact on staff not involved in this work, but undertaking equally valuable and difficult work. However, recognition of performance and especially of development time and working unsocial hours would put lecturers' involvement in full-cost work on a proper business basis.

Non-financial benefits
The CoVEs in the survey attached great importance to the non-financial benefits arising from offering full-cost provision, and particularly emphasised the positive effect it had on customer relationships. A number of CoVEs suggested that full-cost training and apprenticeship training were complementary activities, and companies undertaking one were likely to use the same provider for the other. Almost all respondents had identified opportunities for staff development through the delivery of commercial provision, but only about half had been able to take advantage of those opportunities.

Colleges and providers need to take account of these intangible benefits in relation to improving employer engagement and their standing in the local business community.

Quality assurance of full-cost provision
There appears to be a lack of consistency in the way that full-cost provision is monitored and undergoes quality assurance. Processes for quality control of commercial provision were said by most respondents to be the same as those for other forms of provision. A very few described special measures, including the use of external agencies to monitor provision, in some cases undertaking a more far-reaching study on employer perceptions of the quality of service provided overall.

A small number of survey respondents were registered under ISO 9000. Some saw the standard as being at the heart of their quality assurance systems, whereas others used it as a component of a wider range of quality processes. Some CoVEs which were aware of the standard but were not registered under it, perceived it to be of variable importance in specific industrial sectors.

There appears to be a need for a generic standard which covers responsive provision as a regular occurrence in CoVEs.

Levels of income from full-cost work
Income from commercial provision in the last financial year varied from very large to very small amounts, the largest sum being £2m, and the average (across 15 respondents) being £290,656.

Increasing income from commercial provision is a key performance indicator for CoVEs and an important part of the strategy for ensuring the sustainability of activity after the end of their 3-year CoVE funding. However, most of those questioned in the survey regarded an expansion of commercial income as essential to the continued financial health of their organisation, and were investing substantial sums in creating an infrastructure to support this. The most obvious manifestation of that investment was in the appointment of business development managers, sometimes with a number of support staff with the responsibility to market and develop all forms of provision, but with special emphasis on full-cost work.

Differences between sectors
Not surprisingly, the survey showed that some vocational sectors find it easier than others to generate full-cost work, with the greatest volume of activity being in the areas of care, construction, engineering, IT and management. Legislation that requires people to be licensed to work in a specific industry is having an impact in care and construction, while in engineering and management, there are long-standing traditions of taking part in formal training. The IT industry is growing and this, coupled with the speed of innovation, means that there is a substantial demand for training. Some CoVEs have been extremely entrepreneurial in developing full-cost work in areas related to, but not exactly the same as, the original designated area of activity. Others have used CoVE funding to expand commercial provision through a number of strategies which include:

- investment in resources to support an expanded training portfolio
- training of staff to facilitate delivery of an increased range of training
- commissioning of professional market research to obtain good-quality information on training needs and customers' perceptions of previous training provided
- development of e-learning materials to support a blended learning approach in response to the stated needs of SMEs in particular
- establishment of consortia of CoVEs to accelerate the production of e-learning materials.

Differences between further education and work-based learning CoVEs
Differences are apparent in the ways in which the FE and WBL CoVEs regard the generation of full-cost work. With a few exceptions, the FE sector saw full-cost income as an attractive addition to mainstream income – in particular, that from the LSC. Within the WBL sector, it was common to regard all income as full-cost, and to expect every activity to pay for itself entirely, with less scope for marketing ploys such as offering introductory rates to encourage new business. Some WBL providers said that they felt they had to work hard to ensure that they offered a high-quality product to overcome what they saw as an advantage enjoyed by the FE sector – having much larger overall budgets from which they could, if necessary, discount training for market reasons.

Several WBL providers gave a clear message that apprenticeship training was a key market for their sector and that provision of full-cost training to companies was a good means of attracting their apprenticeship training business.

These different attitudes illustrate the difficulty that largely publicly-funded colleges may have in distinguishing between subsidised and full-cost provision. In particular, it highlights a possible reason for the difficulties they have in allocating costs to activities.

Full-cost income and sustainability
While CoVEs were conscious of the need to plan for sustainability, not all had addressed the issue to any great extent.[1] Full-cost provision was seen as an important part of the sustainability strategy, but more in terms of revenue (ie for spending on staff salaries, etc) than capital expenditure (ie for spending on new buildings and equipment). There were real concerns about maintaining high-quality resources without CoVE funding, and while some respondents were aware that the LSC is providing funds for investment in new buildings, there was no similar confidence that capital funding for new equipment will be forthcoming. In some parts of England, the Regional Development Agency (RDA) had provided funding for the improvement of resources, both in terms of equipment and the production of learning materials in high-demand areas.

Recommendations

- Managers should ensure that processes for determining the fees charged to commercial clients are in place, and that these are fully understood and complied with. There should be regular reviews of these processes to ensure that they result in a rapid response to the customer and a viable return to the organisation. Processes should be simple, and accompanied by appropriate administrative support.

- Costing frameworks or formulae should take account of all costs material to the activity, including, where appropriate, the costs of development. Procedures for exceptional cases should be in place.

- Approval processes should be in line with the need to secure a rapid response to requests for services.

- The influence of market forces should be thoroughly investigated when considering the development of commercial provision. This should include an awareness of needs and trends, differences in price sensitivity depending on the sector or size of firm, and the prices charged by competitors.

- Charges should reflect the value of the service being offered to the customer, and efforts should be made to understand its potential value in relation to the client's business.

- Colleges and WBL providers seeking to deliver commercial services to business should ensure that their organisational structures and infrastructure support this activity. This should include a review of posts and responsibilities, and the development of systems to manage information about contacts with actual and potential clients to ensure that this information is managed and shared as appropriate throughout the organisation.

- Solutions to staffing commercial provision should be in place before taking on such activity. These solutions should anticipate that activity will be episodic and irregular. The implications of the type of staff used in commercial provision should be taken into account in costing policies, which should ensure that the actual cost of the particular staff being used is allowed for.

- Consideration should be given to ways in which income from commercial activity is disbursed across the organisation. Where possible, those delivering the activity should be rewarded, either in cash or kind. The introduction of team rewards should be considered in situations where the release of a member of staff to deliver a commercial course results in additional work for other members of the team. There should also be clear and open systems for determining how surpluses are used to improve other aspects of the organisation's capacity.

- There should be appropriate systems for quality assurance of commercial provision which emphasise value for money and customer satisfaction. Providers should consider the possibility of using a third party to conduct a satisfaction survey among customers on an occasional basis.

- Targets for income from commercial provision should be informed by analyses of needs, market trends and differences in sectors and sizes of company. They should also take account of intangible benefits, such as the development of good relationships and enhancement of reputation.

6 Checklist for providers

The checklist below has been drawn from the responses to the survey, follow-up telephone calls and visits to providers. It should be helpful to those offering or developing full-cost provision.

1. Is there a policy for costing and pricing full-cost provision?

2. Is the policy based on a rigid formula, a framework, an *ad hoc* approach or an entirely different approach?

3. Is the approach right for the organisation?

4. Does the policy ensure that all possible costs are taken into account?

5. If there is a charge to cover overheads and administrative costs, is it set at the correct level to meet those costs without making the overall price uncompetitive?

6. Does the policy allow sections that deliver full-cost provision the freedom to adjust prices for commercial and other reasons? Are the non-financial benefits of delivering this provision considered when determining the price to be charged?

7. Is there a formal process for submitting costings and prices for approval and does that system ensure a rapid response to the customer?

8. Is commercial income managed within the organisation in such a way as to give sections an incentive to increase the amount of such provision?

9. Do the structures within the organisation encourage the development of commercial provision?

10. Is market information gathered systematically and in a timely way? Do the structures ensure that information is managed for the benefit of all sections?

11. Is staffing a barrier to increasing commercial activity, and if so, is the issue being addressed?

12. Are there personal incentives or contractual requirements for staff to increase commercial activity?

13. Do sections have targets for the generation of full-cost income, and are these demanding?

14. Do the arrangements for quality control cover all the critical success factors for commercial activity?

15. Are all of the non-financial benefits associated with full-cost provision appreciated and are opportunities, including those for staff development, being exploited?

References

Treacy M and Wiersema F (1997). *The discipline of market leaders: choose your customers, narrow your focus, dominate your market*. Massachusetts: Perseus Books.

Endnotes

1. CoVEs receive additional funding for 3 years. After that, they are expected to maintain their CoVE activities using their own resources. Sustainability is part of all CoVE development plans. See also the LSDA research project SR708 on sustaining Centres of Vocational Excellence.

Appendix 1: Case studies

Case study 1

CoVE funding has been used to develop a discrete Centre for Management Training within an FE college which also provides a substantial higher education (HE) programme. The college has a costing policy which involves completion of a Cost Recovery Form and a Budget Proposal Form, but allows variations between the different vocational sections to reflect the different trading conditions which apply. The Cost Recovery Form is intended to ensure that all direct delivery costs are covered, and includes the elements which almost all providers take into account.

However, there is an aspect of the approach which is different to that taken by most providers, in that prices for core provision within the CoVE (and for that matter, throughout the college) are used to form the basis for the fees charged for commercial provision. These charges are set each year through incremental pricing with a more comprehensive review currently under way. The indicative price which this suggests is balanced against an assessment of 'what the market will bear', and every 2 years research is carried out to establish the rates which competitors charge – this is considered to be especially important in a region where there is a lot of competition for business. Prices are occasionally reduced to offer introductory rates for new customers or to maintain or develop particular areas of work or customer relationships.

The CoVE takes the view that it is not good business practice to make the pricing process transparent, although sometimes in tendering for local authority contracts, some detail may have to be supplied. The preferred approach is to provide the customer with details of the elements covered by the price, though not the charges associated with every element. Great importance is also attached to explaining the benefits which the training will deliver to the customer and the value it will add to their company.

The college management structure, as with most other respondents to the survey, includes a business development manager and is considered to encourage the development of full-cost business. One aspect of management is, however, felt to be less helpful. Course costings require approval by three senior managers, which is regarded as excessive. It is also felt that this addresses the wrong target, in that prices rather than costs should be the focus of attention. In this context, the view was expressed that a more rigid process would be worth accepting in return for more devolved power of approval. There are also concerns about the way in which the surpluses from full-cost work are dealt with: while some of this does come back to the section that delivers the training, the percentage may not be high enough to provide an incentive for staff to continue to expand commercial work.

Case study 2

A CoVE in Management and Professional Studies has approached the delivery of full-cost provision in an entirely commercial way. There is no college policy on costing and charging for such provision, and the price of CoVE training is based on the ability and willingness of the customer to pay. At an early stage of the negotiation process, the prospective customer is asked how much the company can afford to pay for training; if this is not considered to be a realistic sum, the negotiator will say so. If the sum is felt to be realistic, the company will be told what can be done within the budget available.

Much of the training is aimed at SMEs, and CoVE funding was used initially to commission market research by an independent agency to establish the requirements of companies within this traditionally hard-to-reach sector. The conclusions of the research were that SMEs, in general:

- do not want qualifications
- do want skills
- do want courses of short duration (up to 30 hours) delivered flexibly
- do not usually think first of the local college as a likely source of training.

Armed with this information and with additional data on the prices charged by competitors, the CoVE set about meeting the needs identified. The chosen vehicle is a programme of taster courses of up to 30 hours' duration, delivered through blended learning. Staff are credited with the same timetable hours as would be allocated to conventional delivery of the same material – this is intended to allow them to support the learning process by workshops held every 3 weeks, and to offer ongoing support when required between workshops.

To facilitate this method of delivery, CoVE funding was used to take additional steps to:

- purchase professional software to support blended learning, including online assessment and the creation of a whole-life student e-portfolio
- employ a secretarial support person to convert lecturers' conventional teaching notes into e-learning materials
- purchase commercial e-learning materials where these were considered to be of an appropriate standard
- initiate the creation of a network of 16 colleges with a core of CoVEs to work jointly on the creation of 32 taster courses covering a wide range of topics in the business area.

The experience gained is being shared with a wide audience, and already the e-learning developments are being rolled out across the college and a second network of colleges is being formed to accelerate the process of creating materials.

Case study 3

In a CoVE providing specialised training to the construction industry, charges are based on a tariff, which is reviewed annually. Many of the courses offered are well established and lead to a permit to work, meaning that there is limited need for variations in the content or mode of delivery. The tariff system is supported by a course coding system which allows managers to look at the income and expenditure associated with every training event and assess whether or not it has generated a surplus, broken even or run at a loss. Every item of expenditure must be allocated to a course code to initiate payment, and within the system, staff are all individually coded to ensure that delivery costs reflect the actual cost of employing the individuals concerned rather than a notional average for all staff. Staff from the CoVE and from external agencies carry out market research to further check the rates within the tariff against those levied by competitors. Although the prices included in the tariff are expected to generate an overall surplus for reinvestment within the CoVE, training in some areas can be provided at cost if deemed necessary.

The construction industry uses the levy and grant system, under which employers who are registered with CITB-Construction Skills (part of the Sector Skills Council for construction) can claim training grants even if they have not paid the levy. For a range of standard courses, the grant rates are published. For training needs which are not entirely met by standard programmes, the CoVE uses a CITB compact disc (CD) which enables the company to develop a training plan for an individual employee, with support from a CoVE training consultant if required. The CD also helps the employer to calculate the grant support available and make the necessary claims.

The contracts of staff within the CoVE include a specific requirement to develop and deliver commercial provision, and performance is measured at the annual appraisal. This can result in enhanced payments, and especially good performance can attract additional bonus payments. Recently, the CoVE has looked at team incentives as a means of spreading good practice within the organisation.

Case study 4

Starting as a training operation related to the use of liquefied petroleum gas (LPG) in agricultural applications, a Gas Training CoVE has assembled a comprehensive portfolio of provision leading to registration under the CORGI regime, training related to LPG and mains gas and training in collaboration with manufacturers on horticultural equipment, while still seeking to develop niche markets in catering and road surfacing.

The system for the costing and pricing of provision is described as a framework applying to the whole college, but within this, the CoVE manager has freedom to adjust prices up or down in response to a range of factors. In some of the areas of provision, there is strong local competition for business, and market forces are the dominant factor; in response to this, the CoVE manager has freedom to adjust prices without reference to senior management, thus allowing quick decisions to be made. Market surveys are carried out on a regular basis to establish the charges made by the competition and to generate information from which the training portfolio can be modified and new provision developed.

Income generated is credited to the CoVE and compared with an income target set annually after discussion between senior management and the CoVE manager. Any surplus is regarded as college income, but the CoVE manager can make a case for some of the surplus to be allocated to the CoVE for investment in resources and to help sustain CoVE activities after the end of dedicated funding. In some areas of training, particularly those related to the award of certificates without which employees cannot work, the demand fluctuates depending on the point in the cycle of validating and re-validating those certificates. This demands a flexible workforce, and the CoVE has a number of strategies for managing this. Although many full-time staff are employed on all-year-round mainstream courses, some who have shown particular aptitude and enthusiasm for delivering full-cost provision are given an allocation of hours to allow them to deliver commercial training, with a vice-principal monitoring their overall timetable commitment. A second approach is the maintenance of a register of appropriate part-time staff and consultants who are prepared to undertake additional work, often at short notice. The third approach is to make extensive use of instructors under contracts which involve more contact hours, shorter holidays and built-in flexibility.

Case study 5

An Accounting and Financial Services CoVE has a policy for costing and pricing full-cost work, as well as policies and structures for winning, developing and delivering such provision. However, it is considered that these are of little value unless they are part of a holistic approach to the management of the entire institution. In addition to the Accounting and Financial Services CoVE, there are two other areas – both with Grade 1 inspection reports from the Office for Standards in Education (Ofsted) – which operate in a very commercial way, as well as a Management and Leadership School and a Care School delivering full-cost work. It is intended that these five areas will lead a process of change in which any other areas or schools wishing to become more commercially active must sign up to a set of values.

In terms of the organisational development required to support this commercial activity, the senior management team (SMT) will be developing an overarching Balanced Scorecard (as devised by Treacy and Wiersema 1997) with three key themes:

- customer
- culture
- innovating the 'Core'.

Using the Treacy and Wiersema framework, this college has completed a gap analysis of where it currently 'sits' and where it needs to be in relation to being:

- product innovative
- operationally excellent
- customer intimate.

All CoVEs are particularly expected to deliver on the third element in this list by developing full-cost work and rolling out the good practice shown in the CoVE area across the organisation as a whole.

In order to move the organisation forward to being more commercially active in a professional way, the approach being adopted is as follows:

- define new customer-related/service provision processes that are required
- determine the roles and methods to be used
- develop the supporting technology tools required
- build portal-based external links.

Each step in the process is underpinned by a 'RASCI' chart – used to define new roles to accelerate the transformation of the organisation:

- is Responsible for it
- Approves it
- Supports it
- is Consulted on it
- is Informed about it.

In relation to developing a commercial ethos, the organisational transformation required is delivered in a phased way – with all of the necessary supporting roles, tools, methods and technologies as detailed below in Table 8.

Table 8 Phases for delivering organisational transformation

Financial – meet financial targets for:	■ core LSC-funded targets ■ new revenue targets ■ new margin targets.
Customer intimacy:	■ capture market information ■ meet business needs ■ deliver added value ■ deliver quality ■ price competitively.
Process – customer contact management:	■ develop new products and services ■ deliver new products and services ■ independent surveys ■ capture market data ■ network and partner.
Culture – manage knowledge and intellectual capital by:	■ capturing best practice ■ innovation ■ calculated risk taking ■ new skills and continuing professional development (CPD) ■ collaboration ■ developing new products and services.

Case study 6

A college with a single-entity CoVE in General Engineering, as well as collaborative CoVEs in Leadership & Management, Construction and Equine Studies, is also a Beacon College with special reference to employer engagement. A key element in its successful strategy for engaging with employers is the college's Business Enterprise and Support Team (BEST). The head of BEST is the director of employer engagement and marketing who leads a team of business development managers without specific vocational backgrounds and industrial training managers who do have specific vocational areas of expertise.

There is one industrial training manager for each vocational area which is active in commercial provision and the particular target for these staff is to engage with SMEs. At appropriate stages in the process of developing course proposals (such as agreeing content, deciding on the duration of the course and the mode of delivery), subject specialists can be brought in from faculties to advise the BEST team. Each industrial training manager has a caseload of companies to deal with, and companies which are large or particularly important for other reasons are referred to as key account holders. Faculties can ask the BEST team to target areas of work or geographic regions, reporting back on business opportunities, training needs and areas requiring the development of new or additional training programmes.

The BEST team has responsibility to generate labour market information and manage its use within the college. A customer relationship management (CRM) database is used for this purpose and is operated by the BEST team with support from the management information systems (MIS) team. All staff can view the database, but authority to write to the system is restricted to administrators who enter visit reports produced by sales managers, industrial training managers and faculty staff. Reports are expected to include details of the visit and the company with reference, if appropriate, to previous visits and their outcomes. They are also expected to include the projected date of the next visit so that other sections or individuals with an interest in the company can arrange to make a visit at the same time or agree a series of issues to be raised on their behalf.

The college has developed an electronic spreadsheet to determine the cost associated with a training event. The spreadsheet software takes all anticipated elements of cost including central costs and arrives at a price to be offered to the customer. Training in the use of the spreadsheet is provided for BEST staff, programme area managers and course managers by faculty deans; once trained, these staff are authorised to propose prices to customers without reference to senior managers. This approach results in a very rapid turnaround of requests for course proposals, with the aim of achieving a 'same day response' where possible.

Case study 7

A WBL provider with a CoVE in Engineering, Sheet Metal and Fabrication operates a fixed costing formula which is based on a structured *pro forma* identifying all of the normal cost elements, including administrative and central costs. One slightly unusual aspect of the costing process is that travelling expenses and time for staff are built in for distances of up to 20 miles; but after that, travel costs are charged at a fixed mileage rate, and staff who travel for more than one hour outside normal working hours are given time off in lieu of payment for the time that they spend in reaching the delivery point.

Although staff are paid at different rates, the sum included in the costing relates to the member of staff who is the most highly paid of those delivering the training. Development costs are charged only if it appears certain that repeat business will not be forthcoming, and it is normal practice to deliver National Vocational Qualification (NVQ) training on a contract basis to avoid any issues over payment for candidates who fail to complete. The aim is to achieve a target profit margin of 50% on the indicative costing produced by the formula, with a minimum figure of 38%. The information contained within the costing *pro forma* is regarded as commercially sensitive, and is kept within the CoVE unless there are compelling reasons for sharing some or all of it with the prospective customer. Experience suggests, however, that few customers regard price as the critical factor and they are more concerned with the quality of the provision and the reputation of the provider.

Responsibility for costing and generating commercial work rests with a divisional executive manager who works closely with a team of three sales staff; two of these work by telephone at the CoVE base and the third is mainly employed in visiting existing and prospective customers, looking for business. Authority to decide on the price to the customer rests entirely with the divisional executive manager, leading to a rapid response to customer enquiries. The sales staff have individual monthly targets for generating business and are paid a bonus for achieving their target figures. In the event that a member of the team fails to reach a monthly target, this situation can be redeemed by an especially good performance in the following month and in this circumstance, a double bonus payment is possible.

Although bonus payments are decided over a full month, performance is examined on a weekly basis. In addition, if the annual team target is reached, a further bonus payment is made to the sales staff.

As far as those delivering the training are concerned, there are financial incentives to acquire new skills, and hence the ability to train in more than one area of activity. There are several departments within the organisation and market information is exchanged at monthly meetings where new business areas are discussed and reports are made on contracts that have been won. There is also an internal customer database; only department heads and sales staff have authority to write to it, but a wider range of staff can read information from it.

The CoVE is registered under ISO 9000 and staff feel that this is a good discipline. Perhaps unusually, registration covers marketing and promotion as well as delivery. Its commercial activity has grown strongly, with a tenfold increase in seven years, and good progress has been made towards a target of matching the income from commercial activity to that received from the LSC for apprenticeship training. Some of the credit for this is attributed to the structured way in which provision is marketed and promoted under the policies and procedures defined within the ISO 9000-registered system.

Appendix 2: Respondents to initial questionnaire

1. Abingdon and Witney College
2. Alliance Learning
3. Askham Bryan College
4. Babington Business College
5. BAE Systems (Preston)
6. Barnet College
7. Birmingham College of Food, Tourism and Creative Studies
8. Bishop Burton College
9. Boston College
10. Bridgwater College
11. Burnley College
12. Capel Manor College
13. Cheadle & Marple Sixth Form College
14. Chichester College
15. City College Norwich
16. City of Bristol College
17. City of Westminster College
18. Clarkson Evans Limited
19. Cornwall College Camborne
20. Craven College
21. Croydon College
22. Derby College
23. Eastleigh College
24. Easton College
25. Evesham and Malvern Hills College
26. Gateshead College
27. Gen II Engineering and Technology Training Ltd
28. Guildford College of Further and Higher Education
29. Henley College Coventry
30. Highbury College
31. Huddersfield Technical College
32. Isle of Wight College
33. Kent Equine Industry Training Services Ltd (KEITS)
34. Kingston College
35. Lambeth College
36. Lancaster and Morecambe College
37. Leeds College of Technology
38. London College of Communication
39. Loughborough College
40. Merton College (Morden)
41. Middlesbrough College
42. Milton Keynes College
43. National Construction College
44. NETA Training Group Ltd
45. Newcastle College
46. Newham College of Further Education

47. Nortec Training
48. North Devon College
49. North East Worcestershire College
50. North Nottinghamshire College
51. North Trafford College of Further Education
52. Northampton College
53. Northumberland College
54. Norton Radstock College
55. Oldham College
56. Peterborough Regional College
57. Plumpton College
58. Plymouth College of Further Education
59. Prospects Training
60. Quantica Training
61. Reaseheath College
62. Richmond Adult Community College (RACC)
63. Sheffield College
64. Skillnet
65. Solihull College
66. South Kent and West Kent Colleges
67. Sparsholt College
68. St Helens College
69. Strode College
70. Stroud College
71. Sussex Downs College
72. Thames Valley University
73. Tower Hamlets College
74. Truro College
75. Wakefield College
76. Walsall College of Arts and Technology (Walcat)
77. Warwickshire College
78. West Suffolk College
79. York College

Appendix 3: Initial questionnaire

Survey on costing and charging for commercial provision

1. Do you have a company/college policy on costing and charging for commercial provision?

   YES ☐
   NO ☐

2. If not, please describe very briefly how you arrive at the price the customer is asked to pay.

3. Are you willing to answer a detailed questionnaire on costing and charging for commercial provision?

   YES ☐
   NO ☐

4. Following your return of a completed questionnaire, are you willing to:

   a) take part in a telephone interview?

   YES ☐
   NO ☐

   b) be visited by a consultant?

   YES ☐
   NO ☐

5. Are you willing to provide information on the income which the company/college attributes to full-cost provision?

   YES ☐
   NO ☐

Contact information

Contact name: Job title:

Organisation name:

Address:

Postcode:

E-mail: Telephone number:

Is your CoVE collaborative?
YES ☐ NO ☐

If so, please name your partners:

Appendix 4: Respondents to extended questionnaire

1. Abingdon and Witney College
2. Alliance Learning
3. Babington Business College
4. Bishop Burton College
5. Cheadle & Marple Sixth Form College
6. Chichester College
7. Clarkson Evans Limited
8. Cornwall College Camborne
9. Easton College
10. Evesham and Malvern Hills College
11. Gateshead College
12. Gen II Engineering and Technology Training Ltd
13. Henley College Coventry
14. Highbury College
15. Kingston College
16. Leeds College of Technology
17. Loughborough College
18. Merton College (Morden)
19. Middlesbrough College
20. Milton Keynes College
21. National Construction College
22. North East Worcestershire College
23. North Trafford College of Further Education
24. Oldham College
25. Plymouth College of Further Education
26. Reaseheath College
27. Sparsholt College
28. Strode College
29. Sussex Downs College
30. Tower Hamlets College
31. Wakefield College
32. Warwickshire College

Appendix 5: Extended questionnaire

Survey on costing and charging for commercial provision

1. **Does the company/college have a *standardised* policy on pricing commercial/full-cost provision?**

   YES/NO

   Is this standardised across the whole organisation? YES/NO

   Are there departmental variations? YES/NO

   If so, please give a brief explanation as to why these exist

2. **Would you describe the policy as providing:**

- A fixed costing formula to which all proposals must adhere? ☐
  Go to Q3

- A framework within which proposers have some freedom to adjust costs up or down? ☐
  Go to Q5

- An *ad hoc* approach which looks at each proposal on its merits? ☐
  Go to Q6

Note: If more than one of these applies, please tick all the relevant boxes and complete all the sections referred to.

3. **If there is a fixed costing regime, is it based on an hourly charge? YES/NO**

   If there is a fixed costing regime, is it based on a daily charge? YES/NO

   If either of these applies, does the charge vary depending on any of the following factors? *(please tick all that apply)*

- Curriculum area involved ☐
- Whether provision is delivered on the provider's or the customer's premises ☐
- Whether full-time, part-time or agency staff are used ☐
- Whether the staff time is within normal contracted hours or premium hours (overtime) ☐

- Actual costs material to the activity ☐
- Other factors ☐

  Please explain

4. **If there is a fixed costing formula based on the nature and content of what is delivered, what are the elements in that formula?** ***(please tick all that apply)***

- Staff time to develop the course ☐
- Staff time to deliver the course ☐
- Charge for the accommodation used ☐
- Charge for the equipment used ☐
- Charge for consumables used ☐
- Catering charge ☐
- An overall administration charge ☐
- A percentage of staff time total costs to cover overheads ☐
- Actual costs material to the activity; ie do you charge for facilities that are just there or ones that are used? ☐
- Other ☐

  Please explain

5. **If there is a framework within which the delivering department has freedom to adjust the price up or down, does the baseline price depend on any or all of the following elements?** ***(please tick all that apply)***

- Curriculum area involved ☐
- Whether provision is delivered on the provider's or the customer's premises ☐
- Whether full-time, part-time or agency staff are used ☐
- Whether the staff time is within normal contracted hours or premium hours (overtime) ☐
- Other factors ☐
- Actual costs material to the activity ☐

- Staff time to develop the course ☐
- Staff time to deliver the course ☐
- Charge for the accommodation used ☐
- Charge for the equipment used ☐
- Charge for consumables used ☐
- Catering charge ☐
- An overall administration charge ☐
- A percentage of staff time total costs to cover overheads ☐
- Actual costs material to the activity; ie do you charge for facilities that are just there or ones that are used? ☐
- Other ☐

Please explain

What factors would lead to the price being:

- Increased?
- Reduced?

6. **If the approach to costing is best described as *ad hoc* – ie [based on] historical data, 'gut feelings', knowledge of the customer, what the market will stand, etc – briefly outline the steps you would take to arrive at a charge.**

7. **If the programme is delivered on customer premises, is there a charge for:** ***(please tick all that apply)***

- Lecturer's travelling time? ☐
- Lecturer's travel and accommodation expenses? ☐

Is this:

- Based on a formula? YES/NO
- Based on actual costs? YES/NO

8. **Is there a formal process for submitting costed course proposals for approval? YES/NO**

If so, is the proposal submitted to: *(please tick all that apply)*

- Principal/chief executive? ☐
- Director of finance/senior accountant ? ☐
- Another senior manager? ☐

  Please specify

- Governing body? ☐
- Academic board? ☐

9. **How is the income from commercial/full-cost provision managed within the company/college?**

- It is retained centrally, with only the direct delivery costs being returned to the section delivering the training ☐
- After the direct delivery costs and any central costs haven been met, any surplus income is retained by the section delivering the training ☐

  If so, are there any restrictions on the use of the surplus? YES/NO

  If YES, please explain

- Another approach ☐

  Please explain

10. **Are there any non-financial benefits associated with the delivery of commercial/full-cost provision, and would these ever influence the price paid by the customer? YES/NO**

If YES, please tick all that apply

- Perceived need to develop or maintain a relationship with the customer ☐
- Perceived need to stop a competitor from developing a relationship with the customer ☐
- Possible opportunities for staff development for trainers with the customer ☐
- Other ☐

  Please explain

11. **Have you ever charged for provision at a level which you feel would reduce the chances of your gaining a contract? YES/NO**

If YES, was this because:

- You didn't really want the contract, but didn't want to be seen as not responding to the enquiry? ☐
- You weren't absolutely certain that you could deliver the training in the area involved to an appropriate standard? ☐
- You were too busy with other work? ☐
- Other reasons ☐

Please explain

12. **Have you ever adopted the approach in question 11 and found that you were still awarded the contract? YES/NO**

13. **Do the company/college structures encourage the development of commercial/full-cost provision? YES/NO**

How would you describe those structures? *(please tick all that apply)*

- There is a college/company business development manager ☐
- A member of departmental staff has responsibility for business development ☐
- There is a dedicated section through which all commercial/full-cost provision is delivered ☐

In this case, is that section expected to generate some or most of this kind of provision? YES/NO

Does this department have an annual income target? YES/NO

If YES, how is this set?

Is there a mechanism for different departments of the company/college to exchange market information on potential business? YES/NO

Do departments guard that market information in case their reputation is damaged by the perceived poor performance of another department within the organisation? YES/NO

14. Is your ability to deliver commercial/full-cost provision limited by staffing considerations? YES/NO

Are there ever tensions over the staffing of commercial/full-cost provision and mainstream provision? YES/NO

If YES, please explain

15. Are you prepared to give an estimate of your income from commercial/full- cost provision in the last financial year? YES/NO

If YES, please include it here (this will be confidential to the LSDA)

If YES, can you say whether this is greater than or less than the corresponding figures for the previous 2 years?

- Greater than ☐
- Less than ☐

Do you have targets for such income over the next few years? YES/NO

16. Is commercial/full-cost provision marketed centrally or does each department have responsibility for promoting customised courses?

- Marketed centrally ☐
- Marketed by the department/section ☐

17. Is there a specific clause in lecturers'/trainers' contract of employment stating that they will be expected to develop and deliver commercial/full-cost course provision? YES/NO

18. Is your commercial/full-cost provision accredited and/or Kitemarked, or are you working towards accreditation; eg ISO 9002? YES/NO

19. How is the quality of commercial/full-cost provision monitored?

20. Have you ever, or would you, accept 'payment in kind' in lieu of all or part of the costs of delivering provision? YES/NO

If YES. please describe the circumstances under which this would happen

21. What is the value to the organisation (apart from the money!) of providing commercial/full-cost provision?

Do you have any other comments?

Thank you for completing this questionnaire

Please return the completed questionnaire to Paul McGettigan at LSDA pmcgettigan@lsda.org.uk preferably in electronic format; or by post to Paul McGettigan, Learning and Skills Development Agency, Regent Arcade House, 19–25 Argyll Street, London W1F 7LS