Career Education REVIEW
The Career College Information Source

Dedicated Sector Advocate

"This is something I really want to do"

an interview with Ronald Salmon

Ron Salmon, founder/chairman and CEO, heads one of the major CPA firms serving the career college sector. Formerly known as SalmonBeach, Salmon Sims Thomas has become known as a leading advocate for the sector, which is demonstrated regularly through their accounting-related presentations that they have made at national, regional, and state association meetings.

How long have you been in this business and when did you form your company?

I started out with what is now the KPMG accounting group, where I spent five years. Then I spent another three years with an investment banker. This guy gave me some great training that I've been able to use ever since. I always referred to this time as an on-the-job master's degree. In September of 1987, I formed this company.

Do you have an accounting specialty, something that sets you apart from other CPA firms? How would you describe your role around here?

That's a good question, and one easier to answer when I started out with KPMG. It was real easy then to know what I did. But here, it starts with being responsible for the direction of the firm. I'm a big believer in niches. Our firm started out in the real estate niche. Then, in 1980 all of our clients went broke; the few clients we had couldn't pay us. So, we needed to do something different.

I had worked for a small group of cosmetology schools that had several campuses throughout Texas. The owner of the schools and I began an unusual leisure-time activity: Because we were both big baseball fans, we decided we'd go to every major league ballpark around the country just for the experience. The time together gave us a great opportunity to discuss life and business. It was during that time he taught me about the career school business.

I came back from one of our trips and said, "This is something I really want to do." I put together a plan, and our firm went after some new career school clients. It's done well for us. It's not only been a nice career opportunity for me, but clearly some of my best and closest friends have come from this field. I even met my wife through these relationships. It's been very good for us.

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The career colleges represent one of our niches; the other major specialty is the non-profit sector that includes associations and churches.

From your perspective what do you think is the future of the career college sector? What trends do you see that either concern you or excite you?

This is a very exciting time for career colleges. It's hard to imagine that the future is not going to be just as extraordinary. You can see that the cost of doing on-the-job training for companies has become too high. Not only is the cost of the training expensive, but also the cost of loss of productivity during the training time. Employers are looking for prospective employees that have the necessary skills to be productive quickly after they're hired. I think there's no group that provides that training and education better than the career school sector. Certainly as our country moves forward to more of an information-based economy, it's a natural fit. I have very, very high hopes and a high regard for this sector.

How has this new management infusion of Private Equity Groups impacted the operations of career colleges? Have they sort of replaced the third generation of entrepreneurs?

What I think is happening is that as with anything new, there's always some

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Ron is also an active member of the Career College Association, American Association of Cosmetology Schools, and Career Colleges and Schools of Texas. He is a frequent speaker and writer for the private career school industry. Ron is the past president of INTEGRA International, Inc. (Americas, Asia, and Australia Division), a global alliance of accounting and consulting firms.

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resistance and hesitancy within the rest of the sector. However, when you get to know this new breed of investors, you see that the people that are coming in have been very successful, for the most part, in other businesses. They bring a new set of skills to the table that can be truly beneficial to the whole sector. Though we've always said that career schools are different, there are many skills that are transferable into this field.

The private equity groups are bringing in intellectual capital, as well as financial resources; and there are some very bright businessmen and women, who are and will be terrific operators. It is my belief that you've got to have both intellectual and financial capital to go from one level to the next level.

This new group of operators is learning. I'm sure that some of them will stumble and do some things they wish they hadn't done, but bright people usually figure things out quickly. From our vantage point, we are seeing that they're bringing some innovations that might never have happened or been slow to happen.

Some members of the sector are concerned about whether these new operators know enough about the basics regarding the delivery of education. They're also concerned that the "new guys in town" may not know enough or care enough about compliance. My feeling is if these groups don't know, they will learn. Sometimes it takes some "hiccups" to understand the importance of education and compliance in this sector. With new entrepreneurs, you'll have a hiccup or two and they will learn from those.

So, while the concerns are justified, I believe that over time you'll see they'll do as well as others have done. We must hope that whatever the hiccups might be, they don't spill over and complicate the operational atmosphere for everyone. There's relatively little difference between the initial entrepreneurs and the equity groups. They just have a slightly different mindset—not bad, just different. I think as they all learn more and more about the unique characteristics of career colleges, they will be as successful as the entrepreneurs have ever been. But it takes a settling-in period for them to catch up.

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Do you see any general trends that concern you, or are there changes that are making a significant impact on the sector?

One of the changes that we're seeing is that the cost of marketing has really gone up in the last two years. The cost of leads is much higher than it used to be. It is much more difficult to get a lead these days. Certainly part of that is caused by competition, and part of that is just a general increase in the cost of doing business. We're also seeing that the operating costs of our clients are really creeping up. It's always been a significant part of the cost of doing business in this field. A lot of time the cost to the client is hidden in various numbers, but the clients' cost is very high and it's going to do nothing but continue to go up as time goes on.

I think, in general, we're seeing most schools are having some good years. The idea that profits will be increasing positively year over year is not what it once was. Some people view the period we're in as being flat, but it's still a very good time to be in this field.

What do you see as the key challenges in school operations and fiscal management at the campus level?

Well, one of the challenges is this eternal battle of systematizing your operation versus continuing with manual labor process. The checks and balances have become very significant, as we all know, so to be compliance-oriented takes real integrated systems, if you expect to manage the required compliance elements. The time has passed—long passed—when you could work out of your manual tubs of ledger cards and things. You have to have an automated system and that costs money. Sometimes it is very difficult for people to spend the money on compliance because they're just not seeing any immediate rewards. Personally, I think that schools are going to have the challenge of putting everything into some electronic document management system so that they can easily and efficiently monitor the activities on multiple campuses, as well as at a single location. Administrators are going to really have to spend some money to get to the point where most of us need to be.

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Do you think schools should spend money on the people or on the technology?

People have to be trained, no doubt about it. The idea that technology is going to create an opportunity to employ less people has long since passed, if it ever was a reality. So you must spend time and money on training your people and you must have the system for them to work in to assure the compliance that you need. It is not an either/or situation. Compliance simply cannot be done in the same way we've done it in the past.

If you managed a school what would you do differently?

Because of my background, and what I've seen over time, I would probably be more compliance-oriented. There are some groups, including both public and equity-funded, that have taken compliance to an extraordinarily high level. I think I would support that concept. I just don't see how you can operate these days with the huge risks out there without having that kind of continuous compliance system.

If I were operating a school, I would probably spend more time in my curriculum stressing the importance of life-skills for my students, particularly in the area of managing finances. A lot of our students can be trained extraordinarily well to function effectively on-the-job. They just don't have a clue regarding their personal fiscal challenges. We obviously see it in the budgeting process, so they can plan to pay for their student loans. I think that a lot of the drops occur simply because students have run out of money. I believe that default rates come about because students don't know how to manage their lives or what alternatives exist. We see that regularly. There are a lot of schools now that teach what we call "soft skills," where students learn how to manage their checkbooks and how to organize their lives. I firmly believe that these are the things that are needed in addition to specific skill training. I would provide these skills, too, if I had a school.

If you're going to do a quick assessment of a school, what would be the best way *to examine an institution to determine its financial health?*

One of the things I always look for is turnover. Employee turnover is usually an indication of the level or quality of campus leadership. It's also an indication of how well the organization is being operated. If you have extraordinarily high turnover, your operational processes are probably not going to be very good. I realize that turnover is a natural fact; it happens. And, as competition increases, I am sure that turnover will become a bigger and bigger issue. Training new employees is costly.

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I also see bad debt as being a real "red flag" indicator for a school. Student bad debt is usually a result of student drops. It can be a reflection on the quality of the training the students are receiving. Another thing to look at is whether or not the students are getting jobs and how soon they are connected to worthwhile employment. You asked earlier about the trends. I think the increase in bad debt has certainly been a significant financial trend in the schools.

Any other indicators?

Yes, I'd point to some of the standards that relate to financial responsibility of the owners, whether they are contributing equity or lending money to the business—it takes equity. The financial responsibility ratios are certainly geared toward equity. Those who contribute funds to the schools for future growth are obviously more stable. That is what the ratios are geared to reflect. I've heard lots of complaints or concerns about the financial responsibility standards, but, for the most part, they're very solid, and with proper planning they can be managed just like any other part of an operation. I don't think they're perfect mind you—and I might have put in some different ratios—but for the most part, they're very, very solid.

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Why haven't you retired and gone fishing?

My wife, Shirley, won't let me. Actually, I have never enjoyed working more than I have this past year.

Why is that? What was different for you?

My health has been better, for one. That's always a good indicator. But it seems like I'm meeting more people. The friendships that I have spent time developing in the career college field have really grown. I'm enjoying going to conferences now, and seeing and meeting new people. I find that we even vacation with some of them.

I think probably the biggest thing is that I have never had a better staff. We've reorganized our firm and recognized some new partners. Business is good. We all know that our successes depend on the people that we work with. We've never had a better group of people here to work with. They've done some really good work, and it helps me not to do as much of the work personally—that's always good. I feel very comfortable with our staff. I don't worry about the performance of their work like I once did, and I feel really blessed for the people that I work with on a daily basis.

Tell me about the three people who most influenced your life.

Well, strange as it might seem, one of those people would be Gene Burdine, who had nothing to do with schools or education. He ran a donut company. It was a donut company that sold its product to Sam's and Wal-Mart (so it sold a lot of donuts). Gene was just a really bright man. He understood the concept of urgency and patience. Rene Champagne, former chairman of ITT Educational Services, also mentioned this to me, and I saw it recently in an interview. He's someone that has had a very big impact on me, too, showing me that you've got to have that balance of a sense of urgency and patience. That is so much what this business is about. My "donut man" had that same ability in that he could be patient with people and say we have to do this and do it today, and yet understand that some things needed to be put off until tomorrow. That has a big impact.

Joe Mehlmann's idea in life is that there are ways to work things out and there's always a solution; when something goes wrong, you don't start shooting people—you find out how to correct the problem.

Another person that has had a big impact on me is Dick Fessler, owner and president of Hallmark Institutes in San Antonio. Dick's schools have set a particularly high tone. He has taught me the importance of integrity. Dick is one of the people with the highest integrity I've ever met; in times when the wrong way would have been easier, he wouldn't even consider taking that road. It's really meant a lot to me to see how he's operated his life as well as his businesses.

You also mentioned Joe Mehlmann.

Yes, Joe Mehlmann, former owner of ATI, headquartered here in Dallas, would be another person who greatly influenced me. Joe has taught me about honest optimism. There are handfuls of people who are optimistic, but have no depth, and it's obvious they've become very shallow over time. Joe demonstrated that he had the most honest optimism because he had an ability to see the best in people, as well as the best in opportunities. But he never let them fool him. If everything always looks bad, then it's probably going to be bad. He has a great ability to be optimistic. I visited his offices regularly, and when I would leave there, I would just have a little higher kick in my step from being around him. Joe's idea in life is that there are ways to work things out and there's always a solution; when something goes wrong, you don't start shooting people—you find out how to correct the problem.

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