

2. The ToneZone

Lizzie James and Tony Holmes had set up ‘The ToneZone’ as a partnership in 2007. They had both been employed at the town’s football club – Tony as a player and Lizzie as a sports science consultant. When Tony’s career was ended by a major injury, they decided to set up a fitness consultancy business. For the first four years they had operated from premises which they rented on an annual basis and they had built up a very loyal clientele. At the start of 2011 they moved into their brand new purpose-built fitness centre, having convinced their bank to lend them a substantial amount of money repayable over the next five years. This was a dream come true and the centre was fitted with state-of-the-art rented equipment. They had recruited a receptionist and three newly qualified part-time assistant instructors, enabling Tony and Lizzie to maintain the contracts they had with local authority schools in the town. However, the money from this was very likely to be cut at the end of the financial year.

At the start of 2012, Lizzie was becoming very concerned about the business as it seemed that they had been far too optimistic about the attraction of their new fitness centre, especially as a new ‘Esporta’ fitness centre had just opened on the outskirts of the town. In addition, some of their longer term clients were not happy about the service and advice they were getting from the new part-time staff. A few customers felt that they were quite rude on occasions and that they were not fully competent when giving instructions on how to use the equipment. In fact, some customers were threatening not to renew their annual membership in April. Lizzie drew up a cash flow forecast for the next six months (**Table 1**) and met with Tony to discuss the situation. They needed to act quickly, if Lizzie’s forecast was correct, as the bank manager was very unlikely to extend their overdraft limit.

One area of the business that particularly concerned her was the numerous complaints that had been received about their new staff. When she approached them about this, they pointed out that they had received no guidance or training from either her or Tony on how they wanted them to run the centre when they were not there. They felt very unhappy that they had been thrown in at the deep end, especially as they often found themselves as the only instructor on duty. Lizzie began to realise the *laissez faire* style that they had adopted towards the staff had been a big mistake.

Table 1: Cash flow forecast for The ToneZone January - June 2012**Overdraft Limit: £4 000**

	£000s	£000s	£000s	£000s	£000s	£000s
	January	February	March	April	May	June
Entrance Fees	4 500	4 000	3 800	4 000	4 200	4 200
Membership Fees				60 000		
Schools Contracts	3 000	3 000	3 000			
Total Sales Receipts	7 500	7 000	6 800	64 000	4 200	4 200
Loan Repayments	1 500	1 500	1 500	1 500	1 500	1 500
Wages	2 200	2 200	2 200	2 200	2 200	2 200
Heating and Lighting	50	50	50	50	50	50
VAT			5500			
Telephone	30	30	30	30	30	30
Insurance			1 200			
Equipment Rental	700	700	700	750	750	750
Contract Cleaners	600	600	600	600	600	600
Advertising	200	200	500	500	200	200
Business Rates	900	900	900	900	900	900
Drawings	3 000	3 000	3 000	3 000	3 000	3 000
Total Payments	9 180	9 180	16 180	9 350	9 230	9 230
Net Cash Flow	(i)	(2 180)	(9 380)	54 650	(5 030)	(5 030)
Opening Balance	7 000	5 320	3 140	(6 240)	48 410	43 380
Closing Balance	5 320	3 140	(ii)	48 410	43 380	38 350

- (a) Using the cash flow forecast calculate the:
- (i) net cash flow for January; [1]
 - (ii) closing balance for March. [1]
- (b) Explain the advantages to a business, such as The ToneZone, of drawing up a cash flow forecast. [6]
- (c) Suggest ways in which Lizzie and Tony might improve their worrying cash flow situation **and** consider any consequences your suggestions might have. [8]
- (d) Explain **two** benefits to The ToneZone of having a well-trained workforce. [4]
- (e) To what extent do you agree that The ToneZone's problems are due to Lizzie and Tony's **laissez faire** leadership style? [8]