



Why you should not underestimate the impact of blocked funds on your business?

Impact of blocked funds:

In the dynamic world of small and medium-sized enterprises (SMEs), entrepreneurs face a multitude of challenges. One of the most insidious and often overlooked issues that plague these businesses is the presence of blocked funds. These blocked funds manifest primarily as excess inventory and stuck receivables, and they have a far-reaching impact on the financial health of SMEs. While business owners may appear to be turning profits on their balance sheets, the reality is often quite different when you peek into their bank accounts.

In this comprehensive exploration, we will delve into [the pervasive problem of blocked funds in SMEs](#). We will uncover how these funds become trapped and illuminate the profound consequences they have on cash flow, growth, and the overall viability of these businesses. Additionally, we will discuss practical steps to identify and address this menace, ensuring a brighter financial future for SMEs and the entrepreneurs who steer their ships.

The Hidden Plague of Blocked Funds

More than 70% of SMEs grapple with funds that are inexplicably trapped within their business operations. These funds, which can amount to significant sums, are often concealed in the form of excess inventory and unreleased receivables. What is particularly troubling is that many business owners are blissfully unaware of the extent of these blocked funds and remain mystified about how to unearth them. Even if they recognize the issue, they often lack the understanding needed to unravel the root causes of this financial entanglement.

The ramifications of blocked funds are far-reaching. They can precipitate cash flow issues, stunting growth and, in severe cases, leading to the closure of businesses. On a personal level, these financial conundrums consume the bandwidth of SME owners, leaving them with little time to focus on strategic planning and charting the course for future success.

Taking Action: The First Step to Liberation

In my role as a coach and webinar facilitator for numerous SME business owners, I have been emphasizing the critical importance of assessing the impact of blocked funds as the initial step in solving this pervasive problem. In this article, I aim to shed light on the profound influence of these hidden financial shackles on businesses. Let us explore the true impact of blocked funds and how they cast a long shadow on the growth and profitability of SMEs.

The True Impact of Blocked Funds

Many business owners may assume that the consequences of blocked funds are limited to increased borrowings and interest costs. While these are certainly significant repercussions, they do not encapsulate the full extent of the damage caused by blocked funds. In fact, the impact of these trapped resources is much more pervasive and detrimental than meets the eye.

To illustrate this point, consider a scenario where blocked funds account for just 20% of your working capital. In this situation, the earning potential of your business can be curtailed by a staggering 60%. If the proportion of blocked funds increases to 50%, the earning potential is affected to a whopping 1.5 times. These calculations are based on a conservative gross margin of 30% and a net margin of 10%.

Let's dive deeper into how and why this happens.

The Vicious Cycle of Blocked Funds

Blocked funds represent profits that are essentially locked away, out of reach in your bank account. This means that you are taking an extended period to convert your investments in working capital into cash. Consequently, the money is not circulating through your business as swiftly as it should, which directly impacts the overall turnover of your company. When your turnover fails to increase, but your fixed expenses continue to rise, the result is immense pressure on your business's profitability.

In contrast, if these blocked funds were to be released, they would become available for reinvestment. Unblocking these funds also shortens the cash rotation cycle, leading to a substantial increase in your business's turnover. Any augmentation in turnover has an exponential impact on net profits, as there are relatively few additional fixed expenses associated with it.

For instance, if you release a substantial portion of your blocked funds and increase your turnover, the net profits will rise disproportionately because the fixed expenses remain relatively constant. This is a fundamental principle that underscores the critical importance of addressing blocked funds in your SME.

The Path Forward

As an immediate next step, I would encourage all business owners to work closely with their finance teams or consultants to determine the extent of funds that are blocked in their operations. Awareness is the cornerstone of solving any problem, and this awareness marks a crucial step in the right direction.

Identifying the Sources of Blocked Funds

To effectively address blocked funds, it is essential to understand their origins and causes. Blocked funds can arise from various sources within an SME's operations, and recognizing these sources is key to devising a targeted strategy for liberation.

Excess Inventory: One of the most common culprits in the realm of blocked funds is excess inventory. SMEs often overestimate their market demand or fail to implement efficient

inventory management systems. The result is that funds are tied up in unsold products, and the opportunity cost of these tied-up resources becomes substantial.

Stuck Receivables: Receivables that are delayed, disputed, or uncollected represent another significant source of blocked funds. SMEs may struggle to collect payments from customers, leading to funds being trapped in unpaid invoices. This situation can be exacerbated by lax credit control measures and inadequate follow-up on outstanding invoices.

Inefficient Supply Chain: Inefficiencies in the supply chain, such as delayed deliveries or misaligned production schedules, can also lead to blocked funds. These inefficiencies can increase holding costs and reduce the speed at which products are converted into revenue.

Inadequate Working Capital Management: Poor management of working capital, including insufficient control over payables and receivables, can lead to funds being needlessly locked within the business. Failing to optimize cash flow and working capital can significantly impact the availability of funds for operational and strategic needs.

Limited Market Access: Limited access to markets or a narrow customer base can result in blocked funds. Expanding the customer base and diversifying market reach can enhance cash flow and reduce the risk of blocked funds due to market limitations.

Unproductive Assets: Unused or underutilized assets, such as equipment or real estate, represent another potential source of blocked funds. SMEs may tie up significant capital in assets that are not generating revenue, hindering the efficient allocation of resources.

Overdue Payables: Delayed payments to suppliers can also contribute to blocked funds. By not managing payables efficiently, SMEs can face strained relationships with suppliers and miss out on potential discounts for early payments.

Addressing the Root Causes

Having identified the sources of blocked funds, it is imperative to delve into the root causes to develop effective strategies for liberation. Here are some strategies to address each of these causes:

Excess Inventory:

Implement demand forecasting and inventory management tools to avoid overstocking.

Conduct regular inventory audits to identify slow-moving or obsolete items and take action to clear them.

Explore just-in-time inventory management to reduce carrying costs and free up working capital.

Stuck Receivables:

Strengthen credit control processes to ensure timely and efficient collection of receivables.

Implement automated invoicing and payment reminders to encourage prompt payment from customers.

Consider offering discounts for early payments to incentivize prompt settlements.

Inefficient Supply Chain:

Streamline the supply chain by optimizing production schedules and coordinating with suppliers and distributors

BLOCKED FUNDS

is a Disease that Needs
Immediate ATTENTION!!!

