

# Why Staffing Agencies Need So Much Working Capital

Ask a staffing agency owner how much working capital they need and the honest answer is usually a number pulled from experience, not a calculation. That gap between felt and calculated is exactly where agencies run into trouble, because the underlying requirement is genuinely calculable, and it's usually bigger than intuition suggests.

## The structural reason, restated plainly

Payroll is fixed-schedule and non-negotiable: workers get paid weekly or biweekly no matter what. Client payment is not: even a well-run client pays on *their* terms, typically 30 to 60 days after invoicing, sometimes longer. Every dollar of billings sits in that gap for weeks before it becomes cash you can use to fund the next payroll cycle. Working capital isn't a cushion against something going wrong, it's the amount of money required for the business model to function at all, present in every single billing cycle regardless of how well the agency is run.

## The baseline number: steady-state float

For a stable book of business, Payroll Float / Working Capital gives the baseline figure: weekly payroll, weekly billings, and your collection delay combine into the cash float the business needs to carry continuously. This is the number that exists even if the agency never grows another dollar, purely a function of running the current book on the current payment terms.

Try it with your own numbers:

|                                                                      |                                                             |                                                          |
|----------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------|
| <div>Weekly payroll (all-in)</div> <div>30000<div>\$/wk</div></div>  | <div>Weekly billings</div> <div>36000<div>\$/wk</div></div> | <div>Collection delay</div> <div>6<div>weeks</div></div> |
| <div>Financing advance (if factoring)</div> <div>0<div>%</div></div> |                                                             |                                                          |
| <div>Required starting cash</div>                                    |                                                             |                                                          |

# \$180,000.00

This is a simulated result, not the crude "payroll x delay" shortcut (\$180,000.00, which happens to match here).

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## Where the baseline understates the real need

Steady-state float is the floor, not the ceiling. Three situations require more cash than the baseline calculation alone would suggest:

- **A new contract ramping up.** [New Contract Cash Requirement](#) runs a full period-by-period cash timeline for a specific new deal, including startup and ramp costs, and finds the actual cash trough, the deepest point before receipts start arriving, rather than a rough weekly-payroll-times-DSO estimate. That distinction matters: a ramping contract's trough is usually deeper and later than a steady-state shortcut implies, because early weeks carry rising payroll against zero collections yet.
- **A seasonal or surge ramp.** [Seasonal / Surge Cash Requirement](#) applies the same trough-finding logic to a temporary headcount spike, the kind retail, agriculture, or light-industrial clients often need around predictable calendar peaks. The requirement here is genuinely temporary, but sizing it wrong at the peak is exactly as dangerous as sizing steady-state float wrong.
- **An unplanned gap.** [Payroll Reserve / Runway](#) answers a different question: given your current reserve, how many payroll cycles could you actually cover if collections stalled entirely? This is the number worth knowing before you need it, not during a cash crunch.

## Why a single "rule of thumb" multiple doesn't work

A common shortcut is something like "carry six weeks of payroll." That can be directionally reasonable for a stable book on uniform terms, and directionally wrong the moment any of three things are true: your DSO is meaningfully above or below the assumption baked into the rule of thumb, you're ramping a new contract or seasonal surge on top of steady-state operations, or your client payment terms are inconsistent enough that an average hides real concentration risk. A calculated figure, run against your actual numbers and actual timeline, replaces a rule of thumb that was never built for your specific book.

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## Financing the gap, once you know its size

Knowing the number is what makes financing decisions concrete instead of reactive. A credit line or factoring facility sized to a guessed-at need either sits underused (cost without benefit) or gets breached at the worst possible moment (the exact crisis working capital planning exists to prevent). Once you have a real trough figure from the engines above, sizing a facility, or deciding between factoring and a line of credit, becomes a comparison against a known target rather than a guess against an unknown one.

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## Related

- [Staffing Agency DSO Explained](#)
- [New Contract Cash Requirement engine](#)
- [Seasonal / Surge Cash Requirement engine](#)
- [Payroll Reserve / Runway engine](#)



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