



Building a Cash Buffer That Covers Payroll

A slow month should never mean scrambling to make payroll. A 4-person crew needs \$20,800 set aside to cover 4 weeks with zero incoming revenue, a number that scales exactly with crew size and however many weeks of cover feel safe.

Payroll does not wait for a slow month to pass. A crew that gets paid every week needs cash on hand for every one of those weeks, whether or not revenue is coming in on schedule. The reserve target for that is not a guess, it is a direct multiplication.

A worked example: 4 people, 4 weeks of cover

A 4-person crew at a \$32.50 loaded labor rate, working 40 hours a week each, costs \$5,200 a week in payroll. To cover 4 weeks of that payroll with zero incoming revenue, the reserve target is \$20,800. Double the desired weeks of cover to 8, and the target doubles too, to \$41,600. There is no curve here, no diminishing or compounding effect, just crew size times loaded rate times hours times weeks.

Why the linearity matters for planning

Because the relationship is linear, the reserve target scales predictably as the crew grows. A solo operator's reserve is a fraction of a 4-person crew's, and a 4-person crew's is a fraction of an 8-person crew's, in exact proportion. That makes the reserve target something to revisit every time headcount changes materially, not a number set once and forgotten as the business grows past it.

How many weeks of cover is enough

There is no universal answer, it depends on how lumpy revenue is and how fast a slow stretch can be seen coming. A business with steady recurring contracts can reasonably plan for fewer weeks of cover than one that depends heavily on a few large seasonal jobs. The point of naming a specific number of weeks, rather than "a healthy cushion," is that it turns an intuition into a dollar figure that can actually be saved toward.

Operating reserve and cash conversion cycle round out the picture

A payroll reserve covers one specific, recurring, and unavoidable cost. Operating Reserve Sizing extends the same logic to the business's full weekly burn, not payroll alone, rent, insurance, equipment payments, everything that keeps running whether or not a job closes this week. Cash Conversion Cycle explains a related but different problem: even a profitable job can leave cash tied

up in receivables and unbilled work for weeks before it actually lands in the account, which is exactly the gap a reserve exists to bridge.

Key takeaway. Payroll reserve is a direct multiplication: loaded rate times crew size times hours times weeks of desired cover. There is no shortcut version, and the target moves every time crew size changes.

Assumptions

- The worked example uses a \$32.50 loaded labor rate, a 4-person crew, 40 hours a week per worker, and 4 weeks of desired cover, all illustrative round numbers.

Frequently asked questions

Does this reserve need to be liquid cash, or can it include a credit line?

A true reserve should be cash on hand or an equivalent that can be accessed within days, not weeks. A line of credit can supplement it (see Line of Credit Sizing for Seasonal Cash Gaps), but relying on credit alone for payroll coverage adds interest cost and approval risk that a cash reserve does not carry.

Should the reserve target include payroll taxes and burden, or just wages?

Use the loaded labor rate, which already includes payroll taxes, workers comp, and benefits, not the base wage. Reserving only against base wage understates the real weekly obligation by the same margin the loaded rate accounts for.

How often should this number be recalculated?

Any time crew size changes materially, or at least once a year alongside a wage review, since both the loaded rate and the crew size directly and linearly move the target.

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