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Robert Half International Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). It appears that our first question comes from Mark Marcon with Robert W. Baird. Go ahead, please.

Mark Marcon - Robert W. Baird

Wanted to ask about pricing on the temp side, you mentioned that the primary reason for the contraction in the temp gross margins was essentially lower conversion rates. Could you tell us what the pay bill spreads were, and in addition to that, Manpower the other day said that they were seeing increased pricing pressure on the SMB side. Do you see that and would you pursue that yourself on an active basis just in order to gain share?

Keith Waddell

Well so first of all our bill rates for the quarter declined 2.4% year-over-year and they were down 1.3% sequentially. Our pay rates were down just a little bit less than that, which is why I said there were some modest compressions. As you referred to, the largest reason for the decline in gross margins was the conversions, which are at the lowest, as a percentage revenue we've ever experienced.

Back to the pricing, it's probably the most competitive pricing environment we've ever seen. Not so much just because our competitors are trying to undercut us, but as every company, large and small, feel some sense of entitlement that because of the economy conditions they are entitled to a price discount. So clearly we've had clients' comeback to us in a way they have never before. Even the smaller ones say, "Hey times are tough, it's tough out there, we need a 10%, we need a 15%, we need a price reduction for same services, same hours, et cetera.

And higher the bill rate, i.e. Management Resources being higher than Accountemps, the more the concession they wanted, same is true for Protiviti, which has our highest bill rates. Clearly, our clients were very, very, very intensely focused on cutting their costs this quarter, and that directly reflected itself in our bill rates, staffing and Protiviti. All of that said the big issue with gross margins in the quarter was conversions.

Mark Marcon - Robert W. Baird

How are you responding to those requests? Because 2.9% decline year-over-year on the bill rates given the environment isn't overly dramatic and it's certainly not consistent with folding to a 10% to 15% request for a bill rate decline?

Keith Waddell

That's right. So clearly overall, we are not having to do it everywhere. And having year-over-year bill rates declines of that magnitude frankly is very consistent so far with downturns in the past. But your first order of protection of your margins is, you pay your temporary employees less. And as we've done in previous downturns, we continue to do as well this time, we first turn to our temporary employees and say times are tough. We know we paid you X on your last assignment. The market has changed. We are willing to pay you X minus a \$1 or \$2 on this coming assignment and because that just reflects market reality.

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