

TELETECH HOLDINGS INC
Form 10-K
February 28, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-11919

TeleTech Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

84-1291044

*(I.R.S. Employer
Identification No.)*

9197 South Peoria Street

Englewood, Colorado 80112

(Address of principal executive offices)

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Registrant's telephone number, including area code:

(303) 397-8100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No R

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No R

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes R No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes R No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. R

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer R

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, there were 56,615,262 shares of the registrant's common stock outstanding. The aggregate market value of the registrant's voting and non-voting common stock that was held by non-affiliates on such date was \$528,201,476 based on the closing sale price of the registrant's common stock on such date as reported on the NASDAQ Global Select Market.

As of February 23, 2012, there were 56,615,002 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the proxy statement for the registrant's 2012 annual meeting of stockholders.

TELETECH HOLDINGS, INC. AND SUBSIDIARIES

DECEMBER 31, 2011 FORM 10-K

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NON-GAAP FINANCIAL MEASURES

In various places throughout this Annual Report on Form 10-K (Form 10-K), we use certain financial measures to describe our performance that are not accepted measures under accounting principles generally accepted in the United States (non-GAAP financial measures). We believe such non-GAAP financial measures are informative to the users of our financial information because we use these measures to manage our business. We discuss non-GAAP financial measures in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K under the heading Presentation of Non-GAAP Measurements.

CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Form 10-K and the information incorporated by reference contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, the Private Securities Litigation Reform Act of 1995 (the PSLRA) or in releases made by the Securities and Exchange Commission (SEC), all as may be amended from time to time. In particular, we direct your attention to Item 1. Business, Item 3. Legal Proceedings, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 7A. Quantitative and Qualitative Disclosures About Market Risk and Item 9A. Controls and Procedures. We intend the forward-looking statements throughout this Form 10-K and the information incorporated by reference to be covered by the safe harbor provisions for forward-looking statements. All projections and statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, believe, plan, will, anticipate, estimate, expect, intend, project, would, could, scheduled to and other words and phrases of similar meaning. Known and unknown risks, uncertainties and other factors could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on information available as of the date of this Form 10-K and on numerous assumptions and developments that are not within our control. Although we believe these forward-looking statements are reasonable, we cannot assure you they will turn out to be correct. Actual results could be materially different from our expectations due to a variety of factors, including, but not limited to, the factors identified in this Form 10-K under the captions Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, our other SEC filings and our press releases. We assume no obligation to update: (i) forward-looking statements to reflect actual results or (ii) changes in factors affecting such forward-looking statements.

AVAILABILITY OF INFORMATION

You may read and copy any materials TeleTech files with the SEC at the SEC's Public Reference Room at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549. Copies of such materials also can be obtained at the SEC's website, www.sec.gov or by mail from the Public Reference Room of the SEC, at the proscribed rates. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. TeleTech's SEC filings are also available to the public, free of charge, on its corporate website, www.teletech.com, as soon as reasonably practicable after TeleTech electronically files such material with, or furnishes it to, the SEC.

PART I

ITEM 1. BUSINESS

Our Business

Over our 30-year history, we have become one of the largest global providers of customer experience strategy, technology and business process outsourcing (BPO) solutions. We help our clients design, build, implement and manage superior customer experiences across the customer lifecycle in order to maximize revenue, increase brand loyalty and optimize business profitability.

Our fully integrated suite of technology-enabled customer-centric services span:

- Professional Services. Leveraging our proprietary, data-driven methodology, our team of management consultants partner with clients to build the business case and design the roadmap for implementing a customer-centric business strategy. We utilize highly sophisticated customer analytics to create technology-enabled, multi-channel interaction strategies to optimize and personalize the customer experience, increase brand loyalty and help clients achieve their business and financial objectives.
- Revenue Generation. Through our data-driven sales and marketing capabilities we help our clients improve revenue and profitability by targeting new or underpenetrated markets and maximizing the revenue potential of each customer. We deliver more than \$1 billion in annual revenue for our clients via more than 700 TeleTech-designed and managed client-branded e-commerce websites. We also process more than three terabytes of customer data daily to create and implement sophisticated customer targeting and segmentation strategies to maximize customer acquisition, retention and growth.
- Customer Innovation Solutions. We redesign and manage clients' front-office processes to deliver just-in-time, personalized, multi-channel customer experiences. Leveraging our highly trained customer experience professionals within our onshore and offshore delivery centers as well as our TeleTech@Home work-from-home agents, our solutions integrate voice, chat, e-mail, ecommerce and social media to optimize the customer experience for our clients.
- Enterprise Innovation Solutions. We redesign and manage clients' back-office processes, such as administration, finance, accounting, logistics and distribution, to significantly advance clients' abilities to obtain a customer-centric view of their relationships, and maximize operating efficiencies. Our delivery of integrated business processes via on our onshore, offshore or work-from-home customer experience professionals reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher customer satisfaction and brand loyalty and an improved competitive position.
- Managed Technology Solutions. We offer software and infrastructure as a service on a fully hosted basis. In addition, we provide the design, implementation and ongoing management of clients' premise-based delivery center environments to enable companies to deliver a superior customer experience across all touch points on a global scale with higher quality, lower costs and

reduced risk.

- Learning Innovation Training Solutions. We offer workforce training services via a blended methodology which includes virtual job-simulation environments, eLearning courses, interactive social media networking and collaboration, as well as intuitive 3D and game-based learning courses to increase speed to proficiency, improve employee engagement and retention while also lowering training expenses.
- Data Analytics. We offer and underpin all of the above solutions with a robust data analytics capability to provide real time and actionable customer insight regarding how to grow revenue, reduce customer churn, and maximize operating efficiencies.

We support more than 450 unique programs for approximately 175 global clients, many of whom are in the Global 1000, which are the world's largest companies based on market capitalization. As of December 31, 2011, our approximately 42,300 employees provided services across 24 countries from 58 customer experience delivery centers and work-from-home environments for governments and private sector clients in the automotive, broadband, cable, financial services, healthcare, logistics, media and entertainment, retail, technology, travel, and wireline and wireless communication industries.

We were founded in 1982 and reorganized as a Delaware corporation in 1994. We completed an initial public offering of our common stock in 1996 and since that time have grown our annual revenue from \$183 million to \$1.2 billion, representing a compound annual growth rate (CAGR) of 13.2%.

In 2011, our revenue increased 7.7% to \$1.2 billion from \$1.1 billion in 2010 as a result of a net increase in existing client programs, the addition of 41 new clients and the acquisitions of both the Peppers & Rogers Group and eLoyalty Corporation. Our revenue is reported in our North American and International BPO segments. Certain information with respect to segments and geographic areas is contained in Note 3 to the Consolidated Financial Statements.

As of December 31, 2011, we had \$156.4 million in cash and cash equivalents and a debt to capitalization ratio of 12.4%. We generated \$75.5 million in free cash flow during 2011 and our cash flows from operations and borrowings under our revolving credit facility have enabled us to fund \$38.7 million in capital expenditures and \$63.7 million in stock repurchases. Approximately 60% of our capital expenditures were related to the opening and/or growth of our customer experience delivery platform with the remaining 40% used for maintenance of our embedded infrastructure and internal technology projects. See Management's Discussion and Analysis of Financial Condition and Results of Operations for discussion of free cash flow.

The Company has a stock repurchase program which was initially authorized by the Company's Board of Directors (the Board) in November 2001. The Board periodically authorizes additional increases to the program. As of December 31, 2011, the cumulative authorized repurchase allowance was \$462.3 million, of which we have purchased 32.2 million shares for \$430.6 million. As of December 31, 2011, the remaining allowance under the program was approximately \$31.7 million. For the period from January 1, 2012 through February 23, 2012, we have purchased an additional 0.2 million shares for \$2.4 million. The stock repurchase program does not have an expiration date.

Our Market Opportunity

We market our customer experience solutions primarily to Global 1000 clients in G-20 countries which represent 19 of the world's largest economies, together with the European Union, and perform the majority of our services from strategically located customer experience delivery centers around the globe. Many of our clients choose a blended strategy whereby they outsource work with us in multiple geographic locations and may also utilize our work-from-home offering. We believe our ability to offer one of the most geographically diverse footprints improves service flexibility while reducing operational and delivery risk in the event of a service interruption at any one location.

Our solutions are designed to address the rapidly changing profile of the customer. Digital interactions, including text, web, chat, self-service and social media, are increasingly outpacing the volume of voice and email transactions. While 90% of customer inquiries were handled by phone or email just five years ago, today more than 50% of inquiries are coming through self-help and community channels. At the same time, customer expectations are also rising. A recent survey showed that 75% of consumers

expect a response from a company online within one hour.

We believe these trends are placing the customer experience at the forefront of business leaders' agendas as a critical path to growth and differentiation and driving increased demand for our solutions. Our technology-enabled solutions seamlessly integrate mobile devices, self-service and human-assisted channels while embedding data-driven customer insights to optimize and personalize the customer experience for our clients.

Industry studies indicate that companies with high quality customer experience levels tend to grow faster and more profitably and typically enjoy premium pricing and market valuations in their industry. Given this strong correlation between customer satisfaction and improved profitability, we believe that more companies are increasingly focused on selecting partners, such as TeleTech, that can deliver strategic solutions across a continuum of capabilities that are designed to grow revenue and optimize the customer experience versus merely reduce costs.

We believe that our revenue will grow over the long-term as global demand for our services is fueled by the following trends:

- *Increased focus on the customer experience.* Given the strong correlation between customer satisfaction and improved profitability, we believe that more companies are increasingly focused on selecting outsourcing partners, such as TeleTech, that can deliver strategic solutions across a continuum of capabilities that are designed to grow revenue and optimize the customer experience versus merely reduce costs.
- *Focus on partners who can offer multi-channel, technology-rich customer experience solutions.* The rapidly changing profile of the customer and rising customer expectations are driving increased demand for personalized and seamlessly integrated multi-channel solutions that incorporate mobile devices, self-service and human-assisted channels while embedding data-driven customer insights.
- *Focus on partners who can offer fully integrated revenue generation solutions.* A focus on partners who can offer fully integrated revenue generation solutions to maximize the revenue and profitability potential of each customer, improve customer acquisition, retention and growth and target new or underpenetrated markets.
- *Integration of front- and back-office business processes to provide increased operating efficiencies and an enhanced customer experience especially in light of the weakening global economic environment.* Companies have realized that integrated business processes reduce operating costs and allow customer needs to be met more quickly and efficiently resulting in higher customer satisfaction and brand loyalty thereby improving their competitive position. A majority of our historic revenue has been derived from providing customer-facing front-office solutions to our clients. Given that our global delivery centers are also fully capable of providing back-office solutions, we are uniquely positioned to grow our revenue by winning more back-office opportunities and providing the services during non-peak hours with minimal incremental investment. Furthermore, by spreading our fixed costs across a larger revenue base and increasing our asset utilization, we expect our profitability to improve over time.
- *Increasing percentage of company operations being outsourced to most capable third-party partners.* Having experienced success with outsourcing a portion of their business processes, companies are increasingly inclined to outsource a larger percentage of this work. We believe companies will continue to consolidate their business processes with third-party partners, such as TeleTech, who are financially stable and able to invest in their business while also demonstrating an extensive global operating history and an ability to cost effectively scale to meet their evolving needs.
- *Increasing adoption of outsourcing across broader groups of industries.* Early adopters of the business process outsourcing trend, such as the media and communications industries, are being joined by companies in other industries, including healthcare, retail and financial services. These companies are beginning to adopt outsourcing to improve their business processes and competitiveness. For example, we see increasing interest in our services from companies in the healthcare, retail and financial

services industries. We believe the number of other industries that will adopt or increase their level of outsourcing will continue to grow, further enabling us to increase and diversify our revenue and client base.

- *Focus on speed-to-market by companies launching new products or entering new geographic locations.* As companies broaden their product offerings and seek to enter new emerging markets, they are looking for outsourcing partners that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies are seeking BPO partners with an extensive operating history, an established global footprint, the financial strength to invest in innovation to deliver more strategic capabilities and the ability to scale and meet customer demands quickly. Given our financial stability, geographic presence in 24 countries and our significant investment in standardized technology and processes, we believe that clients select TeleTech because we can quickly ramp large, complex business processes around the globe in a short period of time while assuring a high-quality experience for their customers.

Our Competitive Strengths

Entering a business services outsourcing relationship is typically a long-term strategic commitment for companies. The outsourced processes are usually complex and require a high degree of customization and integration with a client's core operations. Accordingly, our clients tend to enter long-term contracts which provide us with a more predictable revenue stream. In addition, for many of our clients we provide services for multiple of their unique programs across their many lines of business. We do provide certain client programs on a short-term basis. We have high levels of client retention due to our operational excellence and ability to meet our clients' customer experience management objectives, as well as the significant transition costs required by our client to exit the relationship. Our client retention was 95% in 2011 and 90% in 2010, excluding the completion of the short-term government programs.

We believe that our clients select us due to our:

- End-to-end suite of customer experience solutions, spanning strategic professional consulting, revenue generation, front and back office business process outsourcing, fully-hosted or managed technology and learning innovation services.
- Ability to deliver multi-channel, technology-rich customer experience solutions to meet the demands of the rapidly changing profile of the customer and rising customer expectations.
- Industry reputation and our position as one of the largest and most financially sound industry partners with 30 years of expertise in delivering complex customer experience management across targeted industries;
- Ability to scale infrastructure and employees worldwide using globally deployed best practices to ensure a consistent, high-quality service;
- Ability to optimize the performance of our workforce through proprietary hiring, training and performance optimization tools; and

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- Commitment to continued product and services innovation to further diversify our revenue and enhance the strategic capabilities of our clients.

As the complexity and technology required to deliver an exceptional customer experience increases, we continue to develop other innovative services that leverage our investment in a centralized and standardized delivery platform to meet our clients' needs, and we believe that these solutions will represent a growing percentage of our future revenue.

These investments include our 2010 acquisition of a majority interest in Peppers & Rogers Group to further enhance our professional services capabilities and our 2011 acquisition of eLoyalty to enhance our systems integration and telephony and technology offerings. In addition, we have begun to offer cloud-based hosted services where clients can license any aspect of our global network and proprietary applications. While the revenue from these offerings is small relative to our consolidated revenue, we believe it will continue to grow as these services become more widely adopted by our clients. We aim to further improve our competitive position by investing in a growing suite of new and innovative customer experience solutions across our targeted industries.

We believe that technological innovation, best operating practices and innovative human capital strategies that can scale globally are key elements to our continued industry leadership.

Technological Innovation

We have measurably transformed our technology platform by moving to a secure, private, 100% internet protocol (IP) based infrastructure. This transformation has enabled us to centralize and standardize our worldwide delivery capabilities resulting in improved quality of delivery for our clients along with lower capital and information technology (IT) operating costs.

The foundation of this platform is our four IP hosting centers known as TeleTech GigaPOPs®, which are located on three continents. These centers provide a fully integrated suite of voice and data routing, workforce management, quality monitoring, business analytic and storage capabilities. This enables anywhere to anywhere, real-time processing of our clients' business needs from any location around the globe. This hub and spoke model enables us to provide our services at the lowest cost while increasing scalability, reliability, redundancy, asset utilization and the diversity of our service offerings.

To ensure high end-to-end security and reliability of this critical infrastructure, we monitor and manage the TeleTech GigaPOPs® 24 x 7, 365 days per year from several strategically located state-of-the-art global command centers as well as providing redundant, fail-over capabilities for each GigaPOP.

This platform is the foundation for new, innovative offerings including TeleTech OnDemand™, TeleTech@Home and our suite of human capital solutions.

Our technology innovations have resulted in the filing of more than 20 intellectual property patent applications.

Globally Deployed Best Operating Practices

Globally deployed best operating practices assure that we can deliver a consistent, scalable, high-quality experience to our clients' customers from any of our 58 delivery centers or work from home associates around the world. Standardized processes include our approach to attracting, screening, hiring, training, scheduling, evaluating, coaching and maximizing associate performance to meet our clients' needs. We provide real-time reporting on performance across the globe to ensure consistency of delivery. In addition, this information provides valuable insight into what is driving customer inquiries, enabling us to proactively recommend process changes to our clients to optimize their customers' experience.

With delivery centers in 17 countries, we believe this makes us one of the largest and most geographically diverse providers of customer experience solutions. We plan to selectively expand into other attractive delivery markets over time.

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Of the 17 countries from which we provide customer experience solutions, 12 provide services for onshore clients including the U.S., Australia, Brazil, China, England, Germany, Ghana, New Zealand, Northern Ireland, Scotland, South Africa and Spain. The total number of workstations in these countries is 9,500, or 30% of our total delivery capacity.

The other five countries provide services, partially or entirely, for offshore clients including Argentina, Canada, Costa Rica, Mexico and the Philippines. The total number of workstations in these countries is 22,300, or 70% of our total delivery capacity.

Innovative Human Capital Strategies

To effectively manage and leverage our human capital requirements, we have developed a proprietary suite of business processes, software tools and client engagement guidelines that work together to improve performance for our clients while enabling us to reduce time to hire, decrease employee turnover and improve time to service and quality of performance.

The three primary components of our human capital platform – Talent Acquisition, Learning Innovation Services and Performance Optimization – combine to form a powerful and flexible management system to streamline and standardize operations across our global delivery centers. These three components work together to allow us to make better hires, improve training quality and provide real-time feedback and incentives for performance.

Our Historical Financial Performance

Due to the global economic slowdown that began in late 2008, our revenue declined from \$1.4 billion in 2008 to \$1.2 billion in 2011 primarily as a result of:

- lower client volumes;
- elongated sales cycles;
- the strengthening of the U.S. dollar relative to other currencies from which we derive revenue;
- an increased pace of clients migrating certain work from onshore delivery centers to offshore delivery centers; and
- our decision to proactively rationalize certain underperforming businesses and geographies out of our portfolio.

Despite this revenue decrease, we were able to maintain our operating margin from 7.8% in 2008 to 7.9% in 2011. This was achieved primarily as a result of:

- our revenue diversification efforts into greater professional and technology-based services that have a higher margin;
- aligning our capacity and workforce with the current business needs;
- increased utilization of our delivery centers across a 24-hour period;

- leveraging our global purchasing power; and
- continued expansion of services provided from our geographically diverse delivery centers.

Our Future Growth Goals and Strategy

Our business strategy to grow and diversify our revenue, increase profitability and strengthen our industry position includes the following elements:

- Capitalize on the favorable trends in the global outsourcing environment, which we believe will include more companies that want to:
 - Modify their approach to outsourcing based on total value delivered versus the lowest priced provider;
 - Seek a partner that can deliver strategic consulting and operational execution around customer-centric strategies;
 - Focus on partners who can offer fully integrated revenue generation solutions;
 - Address the growing complexity of managing multiple customer communication channels including voice, self service, email, chat and text;
 - Take advantage of cost efficiencies through the adoption of cloud-based or managed technology solutions: and
 - Consolidate outsourcing partners with those that have a solid financial position, adequate capital resources to sustain a long-term relationship and globally diverse delivery capabilities across a broad range of solutions;

- Deepen and broaden existing client relationships;
- Continue to diversify revenue into higher-margin offerings such as professional services, talent acquisition, learning innovation services and our managed technology offerings;
- Win business with new clients and focus on end-to-end offerings in targeted industries, such as healthcare, retail and financial services, where we expect accelerating adoption of customer experience management;
- Continue to invest in innovative proprietary technology and new business offerings;
- Improve our operating margins through selected profit improvement initiatives;
- Increase asset utilization of our globally diverse delivery centers