

TELETECH HOLDINGS INC
Form 10-K
March 09, 2015
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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, 2014

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)

Registrant's telephone number, including area code:

(303) 397-8100

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

Title of each class
Common Stock, \$0.01 par value

Name of each exchange on which registered
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

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

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 No

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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 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.

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

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

Smaller reporting company

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, 2014, the last business day of the registrant's most recently completed second fiscal quarter, there were 48,732,502 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 \$495,904,505 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 28, 2015, there were 48,307,893 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 2015 annual meeting of stockholders.

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TELETECH HOLDINGS, INC. AND SUBSIDIARIES

DECEMBER 31, 2014 FORM 10-K

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CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995, relating to our operations, expected financial position, results of operation, and other business matters that are based on our current expectations, assumptions, and projections with respect to the future, and are not a guarantee of performance. In this report, when we use words such as may, believe, plan, will, anticipate, estimate, expect, intend, project, would, could, target, or so when we discuss our strategy, plans, goals, initiatives, or objectives, we are making forward-looking statements.

We caution you not to rely unduly on any forward-looking statements. Actual results may differ materially from what is expressed in the forward-looking statements, and you should review and consider carefully the risks, uncertainties and other factors that affect our business and may cause such differences as outlined but are not limited to factors discussed in the section of this report entitled Risk Factors. Our forward looking statements speak only as of the date that this report is filed with the United States Securities and Exchange Commission (SEC) and we undertake no obligation to update them, except as may be required by applicable laws.

AVAILABILITY OF INFORMATION

TeleTech Holdings, Inc. 's principal executive offices are located at 9197 South Peoria Street, Englewood, Colorado 80112. Electronic copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and any amendments to these reports are available free of charge by (i) visiting our website at <http://www.teletech.com/investors/sec-filings/> or (ii) sending a written request to Investor Relations at our corporate headquarters or to investor.relations@teletech.com. TeleTech 's SEC filings are posted on our corporate website as soon as reasonably practical after we electronically file such materials with, or furnish them to, the SEC. Information on our website is not incorporated by reference into this report.

You may also access any materials that we file with the SEC at the SEC 's Public Reference Room at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549 (telephone number 1-800-SEC-0330); or via the SEC 's public website at www.sec.gov.

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PART I

ITEM 1. BUSINESS

Our Business

TeleTech Holdings, Inc. (TeleTech , the Company , we , our or us) is a customer engagement management service provider that delivers integrated consulting, technology, growth and customer care solutions on a global scale. Our suite of product and service capabilities allows us to design and deliver enhanced, value-driven customer experiences across numerous communication channels. Our solutions are supported by 46,000 employees delivering services in 24 countries from 59 delivery centers on six continents. Our revenue for fiscal 2014 was \$1,242 million.

Since our establishment as a Delaware corporation in 1982, we have helped clients strengthen their customer relationships, brand recognition and loyalty through customer engagement solutions. We deliver thought leadership, technology and innovation that create customer strategies designed to differentiate our clients from their competition; data analytics that personalize interactions and increase customer value; and integration services that connect clients' customer relationship management (CRM) system to a cloud-based collaboration platform, leading to customer interactions that are seamless and relevant.

Our services are value-oriented, outcome-based, and delivered on a global scale across all of our business segments: Customer Management Services (CMS), Customer Growth Services (CGS), Customer Technology Services (CTS) and Customer Strategy Services (CSS). Our integrated customer experience platform differentiates the Company by combining strategic consulting, data analytics, process optimization, system design and integration, operational excellence, and technology solutions and services.

We have developed tailored expertise in the automotive, communications, financial services, government, healthcare, logistics, media and entertainment, retail, technology, travel and transportation industries. We target customer-focused industry leaders in the Global 1000 and serve more than 250 global clients.

To improve our competitive position in a rapidly changing market and stay strategically relevant to our clients, we continue to invest in innovation and growth businesses, diversifying our traditional business process outsourcing services of our CMS segment into higher-value consulting, data analytics, digital marketing and technology-enabled services. Of the \$1,242 million in revenue we reported in 2014, approximately 26% or \$318 million came from the CGS, CTS and CSS segments (our Emerging Segments), focused on customer-centric strategy, growth or technology-based services, with the remainder of our revenue coming from the traditional business process outsourcing focused CMS segment.

Consistent with our growth and diversification strategy, we continue to invest in technology differentiation, analytics, cloud computing and digital marketing. We also invest in businesses that accelerate our strategy: in 2014, we acquired Sofica Group, a Bulgarian customer management services company which provides our clients with the capabilities of 18 additional languages

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while contributing to the geographic and time zone diversity of our footprint; and rogenSi, a global leadership, change management and sales consulting company that further diversifies our consulting offerings.

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Our business is structured and reported in the following four segments:

Operating Segments and Industry Verticals

CMS	CGS	CTS	CSS
Automotive	Automotive	Communication	Automotive
Communication	Communication	Financial Services	Communication
Financial Services	Financial Services	Government	Financial Services
Government	Healthcare	Healthcare	Healthcare
Healthcare	Logistics	Media and Entertainment	Media and Entertainment
Media and Entertainment	Media and Entertainment	Retail	Technology
Retail	Technology	Technology	
Travel and Transportation			
Technology			

Our strong balance sheet, cash flows from operations and access to debt and capital markets provide us the financial flexibility to effectively fund our organic growth, capital expenditures, strategic acquisitions and incremental investments. Additionally, we continue to return capital to our shareholders via an ongoing stock repurchase program. As of December 31, 2014, our cumulative authorized repurchase allowance was \$637.3 million, of which we repurchased 42.1 million shares for \$625.5 million. For the period from January 1, 2015 through February 28, 2015, we purchased 212,100 additional shares at a cost of \$4.7 million. The stock repurchase program does not have an expiration date. Effective February 24, 2015, the Board of Directors authorized an additional \$25 million for stock repurchases.

On February 24, 2015, our Board of Directors adopted a dividend policy, with the intent to distribute a periodic cash dividend to stockholders of our common stock, after consideration of, among other things, TeleTech's performance, cash flows, capital needs and liquidity factors. Given our cash flow generation and balance sheet strength, we believe cash dividends and early returns to shareholders through share repurchases, in balance with our investments in innovation and strategic acquisitions, align shareholder interests with the needs of the Company. The initial dividend of \$0.18 per common share will be paid on March 16, 2015 to shareholders of record as of March 6, 2015.

Our Market Opportunity

We believe that exceptional customer engagement creates sustainable economic value for our clients and our market opportunities are defined by the following trends:

- *Increasing focus on customer engagement to sustain competitive advantage.* Our ability to sustain a competitive advantage based on price or product differentiation has significantly narrowed given the speed of technological innovation. As customers become more connected and widely broadcast their experiences across a variety of social networking channels, the quality of the experience has a profound impact on brand loyalty and business performance. We believe

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customers are increasingly shaping their attitudes, behaviors and willingness to recommend or stay with a brand on the totality of their experience, including not only the superiority of the product or service but more importantly on the quality of their ongoing service interactions. Given the strong correlation between high customer satisfaction and improved profitability, we believe more companies are increasingly focused on selecting third-party partners, such as TeleTech, who can deliver an analytic-driven, integrated solution that increases the lifetime value of each customer relationship versus merely reducing costs.

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- *Increasing percentage of companies consolidating their customer engagement requirements with the few select partners who can deliver measurable business outcomes by offering an integrated, technology-rich solution.* The proliferation of mobile communication technologies and devices along with customers' increased access to information and heightened expectations are driving the need for companies to implement enabling technologies that ensure customers have the best experience across all devices and channels. These two-way interactions need to be received or delivered seamlessly via the customer channel of choice and include voice, email, chat, SMS text, intelligent self serve, virtual agents and the social network. We believe companies will continue to consolidate to third-party partners, like TeleTech, who have demonstrated expertise in increasing brand value by delivering a holistic, integrated customer-centric solution that spans strategy to execution versus the time, expense and often failed returns resulting from linking together a series of point solutions from different providers.
- *Focus on speed-to-market by companies launching new products or entering new geographic locations.* As companies broaden their product offerings and enter new markets, they are looking for partners that can provide speed-to-market while reducing their capital and operating risk. To achieve these benefits, companies select us because of our extensive operating track record, established global footprint, financial strength, commitment to innovation, and our ability to quickly scale infrastructure and complex business processes around the globe in a short period of time while assuring a high-quality experience for their customers.

Our Strategy

We aim to grow our revenue and profitability by focusing on higher margin, data and technology-enabled services that drive a superior customer experience and engagement. To that end we plan to continue:

- Building deeper, more strategic relationships with existing global clients to drive enduring, transformational change within their organizations;
- Pursuing new clients who lead their respective industries and who are committed to the customer engagement as a differentiator;
- Continued Investment in our Global Markets and Industries sales leadership team;
- Executing strategic acquisitions that further complement and expand our integrated solution; and
- Investing in innovative technology-enabled platforms and innovating through proprietary technology advancements, broader and globally protected intellectual property, and process optimization.

Our Integrated Service Offerings and Business Segments

We operate our business utilizing four operating and reportable segments, which provide an integrated set of services offering through design, technology enablement, management and growth:

Customer Strategy Services

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We typically begin by engaging our clients at a strategic level. Through our strategy, change management and analytics-driven consulting expertise, we help our clients design, build and execute their customer engagement strategies. We help our clients to better understand and predict their customers' behaviors and preferences along with their current and future economic value. Using proprietary analytic models, we provide the insight clients need to build the business case for customer centricity, to better optimize their marketing spend and then work alongside them to help implement our recommendations. A key component of this segment involves instilling a high performance culture through management and leadership alignment and process optimization.

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Customer Technology Services

Once the design of the customer engagement is completed, our ability to architect, deploy and host or manage the client's customer management environments becomes a key enabler to achieving and sustaining the client's customer engagement vision. Given the proliferation of mobile communication technologies and devices, we enable our clients' operations to interact with their customers across the growing array of channels including email, social networks, mobile, web, SMS text, voice and chat. We design, implement and manage cloud, on-premise or hybrid customer management environments to deliver a consistent and superior experience across all touch points on a global scale that we believe result in higher quality, lower costs and reduced risk for our clients. Through our proprietary Humanify technology, we also provide data-driven context aware SaaS-based solutions that link customers seamlessly and directly to appropriate resources, any time and across any channel.

Customer Management Services

We design and manage clients' front-to-back office processes to deliver just-in-time, personalized, multi-channel interactions. Our front-office solutions seamlessly integrate voice, chat, email, e-commerce and social media to optimize the customer experience for our clients. In addition, we manage certain client back-office processes to enhance their customer-centric view of relationships and maximize operating efficiencies. Our delivery of integrated business processes via our onshore, offshore or work-from-home associates reduces operating costs and allows customer needs to be met more quickly and efficiently, resulting in higher satisfaction, brand loyalty and a stronger competitive position for our clients.

Customer Growth Services

We offer integrated sales and marketing solutions to help our clients boost revenue in new, fragmented or underpenetrated business-to-consumer or business-to-business markets. We deliver approximately \$1 billion in client revenue annually via the acquisition, growth and retention of customers through a combination of our highly trained, client-dedicated sales professionals and our proprietary Revana Analytic Multichannel Platform™. This platform continuously aggregates individual customer information across all channels into one holistic view so as to ensure more relevant and personalized communications. As a result of our acquisition of the digital agency Web Metro, we have developed an integrated marketing-to-sales platform that links online searches to live sales through a closed loop, multichannel interface. This platform uses proprietary tools and methodology to capture and use more than 400 marketing and sales data points to engage with customers in relevant conversations.

Based on our clients' requirements, we provide our services on an integrated cross-business segment and on a discrete basis.

Additional information with respect to our segments and geographic footprint is contained in Part II, Item 8. Financial Statements and Supplementary Data, Note 3 to the Consolidated Financial Statements.

Our Competitive Strengths

We believe our integrated suite of services and holistic approach to customer engagement is an industry differentiator. Our end-to-end capabilities, from customer strategy and technology services to customer management and growth services, improve customer outcomes, increase satisfaction and loyalty, strengthen operating effectiveness and efficiencies, and drive long-term growth and profitability for our clients. We also believe that our technological solutions, innovative human capital strategies and globally scaled and deployed best practices are key elements to our continued industry leadership.

As the complexity and pace of technological change required to deliver a multi-channel customer engagement increases, the successful execution of our principal corporate strategies is based on our competitive strengths, which are briefly described below:

- Our industry reputation and leadership position with over three decades of expertise delivering integrated customer engagement solutions provides our clients with the ability to enable, manage and grow the value of every customer relationship;

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- Multi-channel, multi-modal solutions that meet the rapidly changing profile of the customer and their heightened expectations;
- Scalable technology and human capital infrastructure using globally deployed best practices to ensure a consistent, high-quality service;
- Tailored and optimized customer care delivery through the use of proprietary workforce hiring, training and performance optimization methodology and tools; and
- Commitment to continued product and services innovation that enhances the strategic capabilities of our clients.

Technological Excellence

Our technology platform is based on a secure, private, 100% internet protocol based infrastructure. This architecture enables us to centralize and standardize our worldwide delivery capabilities resulting in improved scalability and quality of delivery for our clients, as well as lower capital, and lower 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. Our GigaPOPs® provide a fully integrated suite of voice and data routing, workforce management, quality monitoring, business analytic and storage capabilities, enabling seamless operations 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, asset utilization and the diversity of our service offerings. It also provides an effective redundancy to address ordinary course system interruptions and outages due to natural disasters and other force majeure conditions.

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 global command centers as well as providing redundant, fail-over capabilities for each GigaPOP® to address ordinary course system interruptions and outages due to natural disasters and other force majeure conditions.

Importantly, this platform has become the foundation for new, innovative offerings including TeleTech's cloud-based offerings, TeleTech@Home and our suite of human capital solutions.

Innovative Human Capital Strategies

Our globally located, highly trained employees are a crucial component of the success of our business. We have made significant investments in proprietary technologies, management tools, methodologies and training processes in the areas of talent acquisition, learning services, knowledge management, workforce collaboration and performance optimization. These capabilities are the culmination of more than three decades of experience in managing large, global workforces combined with the latest technology, innovation and strategy in the field of human capital management. This capability has enabled us to deliver a consistent, scalable and flexible workforce that is highly engaged in achieving or exceeding our clients' business objectives.

Globally Deployed Best Operating Practices

Globally deployed best operating practices assure that we deliver a consistent, scalable, high-quality experience to our clients customers from any of our 59 delivery centers and 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.

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Our global operating model includes delivery centers in 14 countries on six continents that operate 24 hours a day, 365 days a year. New delivery centers are established and existing centers are expanded or scaled down to accommodate anticipated business demands or specific client needs. We continue to expand our capacity in the Philippines and Latin America to leverage demand and favorable cost efficiencies, and are exploring opportunities in Central Europe and Africa to augment our multi-lingual service offerings and continue to diversify our footprint.

Of the 14 countries from which we provide customer management solutions, nine provide services for onshore clients including the U.S., Australia, Brazil, Germany, Ireland, Macedonia, New Zealand, South Africa, and the United Kingdom. The total number of workstations in these countries is 11,300, or 36% of our total delivery capacity. The other five countries provide services, partially or entirely, for offshore clients including Bulgaria, Canada, Costa Rica, Mexico and the Philippines. The total number of workstations in these countries is 19,900, or 64% of our total delivery capacity.

See Item 1A. Risk Factors for a description of the risks associated with our foreign operations.

Clients