Can Translation Companies
Survive the Current Economic Climate?

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1   Abstract

The question *Can translation companies survive the current economic climate?* implies that the very existence of localisation/translation/interpretation companies is under threat because of the current economic climate.

In this article, I will *firstly* discuss some of the characteristics of the business that these companies are in (concentrating on the translation and localisation business).

Secondly, I will describe the current economic climate concentrating on the performance of stock markets around the world in general, and the performance of the IT and the translation and localisation service sectors in particular. What the future holds for these sectors in terms of revenues will be discussed with reference to well respected analysts' reports.

How translation and localisation service providers themselves have reacted to this challenging economic climate will be covered in the *third* section of this article, as well as strategies recommended by industry experts.

Finally, I will return to the initial question and consider other factors which threaten the very existence of at least large sectors of the translation and localisation industry.

2   Background

2.1 The Localisation Research Centre (LRC)

The LRC was established at University College Dublin (UCD) in 1995 with financial support from the Irish Government. In 1999, it moved from UCD to the University of Limerick (UL). The LRC a research centre of UL and fully owned by the university. The LRC's mission is to provide the localisation community with a focus point and a research and educational centre.

The LRC
- participates in international research projects, among them
    ELECT - The European Localisation Exchange Centre
    Transrouter - Automated project analysis tool
    WebIT - IT Terminology Online
- organizes an annual conference
- holds an annual International Localisation Summer School
- runs regular professional development courses

- assists in the running of UL's Graduate Diploma/MSc in Software Localisation
- publishes Localisation Focus, the International Journal for Localisation

2.2 The Institute of Localisation Professionals (TILP)

TILP was established in March 2001 as a not-for-profit organization by internationally respected members of the localisation community. It is the primary goal of TILP to develop professional practices in localisation globally.

TILP aims to
- provide professional certification
- be the representative body of the localisation professionals
- be the reference point at global level for the localisation industry and those requiring information about it
- promote the industry through a variety of publications and activities
- provide the infrastructure for a range of activities supporting the development of the industry
- maintain direct and regular contact with localisation companies, government departments and agencies, researchers and students, and the media and international consultancy firms

3 Characteristics of the translation and localisation business

The translation and localisation business has a number of distinguishing characteristics, which have an impact on the viability of individual players but also on that of the industry as a whole. These will be outlined briefly in this chapter.

To date, there has been little or no successful outside investment in the localisation industry. The investment by printing company Bowne & Co. in the establishment and growth of its subsidiary Bowne Global Solutions is the exception rather than the rule.

Those translation and localisation service providers who went to the stock market to raise capital in the late 1990s are now feeling the downturn in this market. Some are facing serious difficulties, others have been de-listed.

A misperception of the translation and localisation market as one dealing with commodities has led to a serious lack of profitability, price wars, and a sell-out approach, where deals are made in an environment similar to an auction room.

It has been recognised for some time now that a further reason for the lack of profitability is the existence of too many layers, too many duplicate job roles and a high turnover of staff.

Whether the lack of 'economies of scale', the lack of seriously large players in the translation and localisation services industry, is contributing to the problems of profitability in the sector has been discussed, but not been proven.

It could well be that the route to scalability and efficiency is not through mergers and acquisitions (as it is perhaps the case in other industries), but through a transformation of the established supply chains through technology.

4 Economic climate and performance indicators

4.1 Stock market performance

Before we look at the performance of some of the individual players and their clients on the stock markets, just a short reminder of the general sense of crisis on stock markets in the US, Europe and Asia since the beginning of this decade.

The following graphs show the performance of some of the world's most important stock market performance indicators:
- NASDAQ (New York)
- FTSE (London)
- Hang Seng (Hongkong)
- Nikkei (Tokyo)
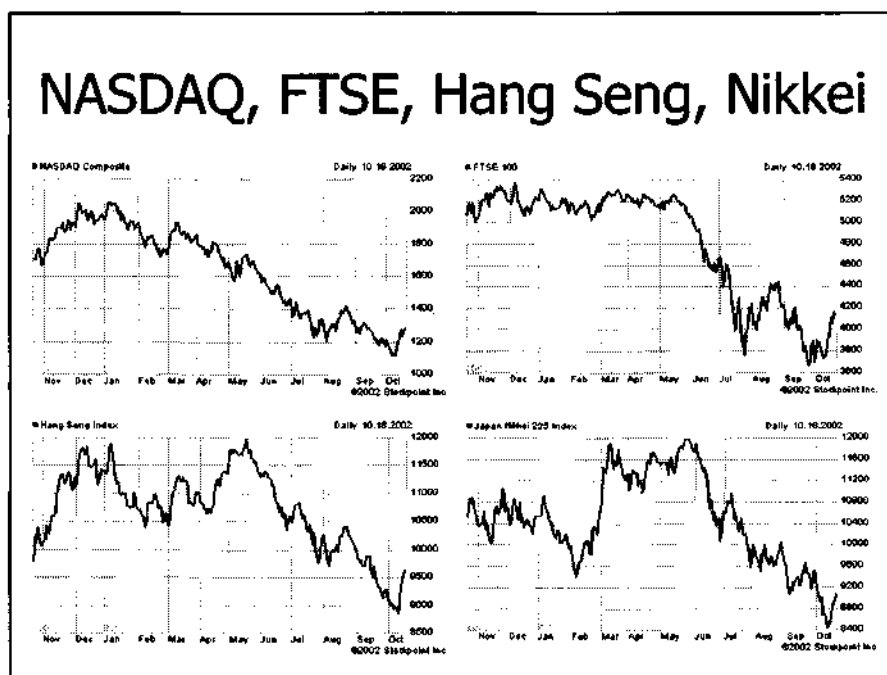
In line with the general performance of the stock markets, some of the largest clients of the translation and localisation service providers have had a rough time since the turn of the century.

The next set of graphs shows the performance of four of the world's largest software publishers:

- IBM
- Microsoft
- Oracle and
- SAP

between 1998 and 2002, over a period of five years.

These graphs provide more than enough reason for concern - not just to the stockholders of these particular companies, but also to the stockholders of the companies providing services to these global giants and the translation and localisation sector in general.
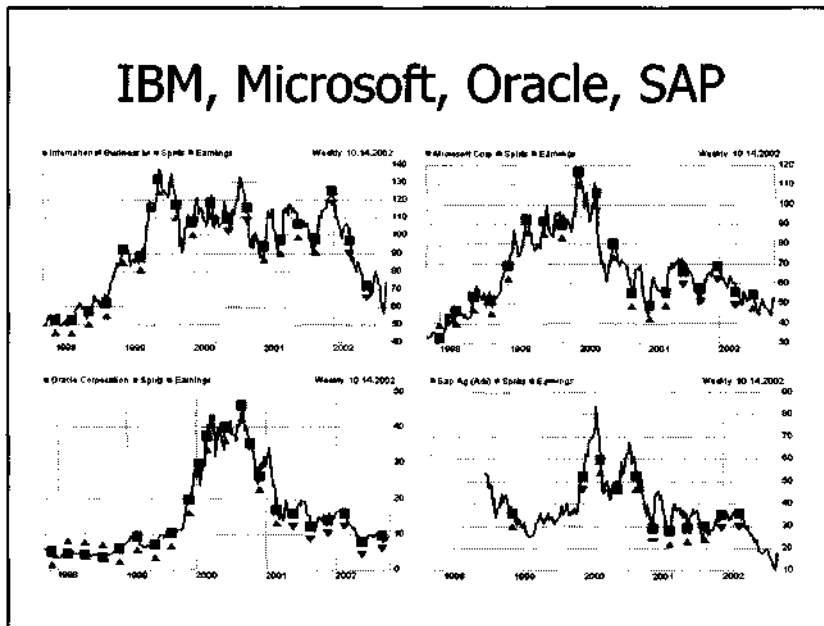
However, recent signs seem to indicate that the crisis is finally coming to an end.

For the first fiscal quarter ended September 30th, the world largest software company, Microsoft, said its net profit was $2.73 billion, or 50 cents per share, up from $1.28 billion, or 23 cents per share a year earlier.

Revenue was $7.75 billion, better than Microsoft's own expectations for between $7.0 billion and $7.1 billion and compared with $6.13 billion a year earlier. (Source: Irish Times and Reuters, 18 Oct 2002)

The most recent quarterly report from the world's largest software publisher released in October 2001 is sending out all the right signals to those depending on the large volumes of material to be translated and published into dozens of different languages. In this particular case, revenues and net profits exceeded even the expectations of the company itself.

However, only a few days after the announcement of these exceptional results, on 20 October 2002, Steve Balmer, Chief Executive of Microsoft, told Australia's Nine Network that the results were a *one-time* anomaly. He said *we are still seeing business as being reasonably tough, at least compared to, let's say, the good old days, reasonably tough around the globe.* (Source: Irish Times, 21 October 2002)

4.2 Market capitalization

Another indicator of the effect of the current economic situation on translation and localisation companies is their market capitalization (in the case of companies quoted on the stock exchange).[1]

- Alpnet (to December 2001)
- Bowne & Co.
- Berlitz GlobalNet (to 2001)
- Lionbridge
- SDL International

Alpnet, one - if not the 'original' - localisation service provider, was worth almost 20 million US$ in early 2001. In September of 2001, it was delisted from the NASDAQ and sold a few months later for less than $7 million to its former competitor, SDL.

Bowne & Co. are the owners of Bowne Global Solutions. They are mainly involved in the printing business and are only partially dependent on the performance of their subsidiary. Bowne & Co has a long and proud history as one of America's oldest printing companies. The company managed to survive the current turmoils relatively unscathed.

Berlitz GlobalNet, originally Softrans-International, Ireland's first localisation service provider, was first privatised and then bought by Bowne Global Solutions in October 2002. The selling price was just about half of its stock value just 12 months previous to the sale.

Lionbridge, one of the translation and localisation giants emerging from the industry's consolidation process, has recovered its market capitalization after a sharp dip towards the end of 2001.

SDL's market capitalization, meanwhile, is now less than a third of what it was in the second quarter of 2001.

Market Capitalization (in US$)

- ALPNET (AILP.OB)
  - 02 April 2001: 19.8m
  - 10 Sept 2001: delisted Nasdaq small cap market
  - 16 Oct 2001: 6.8m
  - 31 Dec 2001: sold to SDL for 6.7m US$
- BOWNE (BNE)
  - 02 April 2001: 360m
  - 16 Oct 2001: 354m
  - 17 Oct 2002: 342m
- BERLITZ GLOBALNET (BTZ)
  - 02 April 2001: 126.41m
  - 16 Oct 2001: private
  - Sold to Bowne Oct 2002(60m net cost)

- LIONBRIDGE (LIOX)
  - 02 April 2001: 78.6m
  - 16 Oct 2001: 28.7m
  - 17 Oct 2002: 80.70m
- SDL plc
  - 02 April 2001: 69.43m
  - 16 Oct 2001: 23.61m
  - 17 Oct 2002
    - 20.96 (SDL.L – LSE)
    - n/a (SDLLF.PK – OTC))

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[1] Market capitalization is the market price of an entire company, calculated by multiplying the number of shares outstanding by the price per share, here **also called** market cap or market capitalization.

4.3 Stock market performance

A third indicator for the performance of the translation and localisation companies is their share price on the stock market.

Stock of the following companies is currently traded on the US and UK markets:

- Translation Group
- Bowne & Co.
- Lionbridge
- SDL International

The Translation Group owns the 'Gedanken'-automated translation and localisation system and WordHouse in the Netherlands. The Translation Group is currently involved in a number of legal disputes as outlined in a letter to its shareholders from the CEO of September 2002. This is obviously an important factor when examining the company's recent performance on the stock market.

Bowne & Co., the company that provides transactional financial, corporate reporting and commercial printing, document management solutions for the legal and financial communities, and globalization services and Internet consulting & development through its subsidiary Bowne Global Solutions is performing relatively well, most likely due to the variety of businesses the company is involved in. For the 6 months ended 6/30/02, its revenues fell 5% to $553 million. Net income from continuous operations totalled $14.6 million, up from $4.7 million. These results reflect a fall in financial printing, offset by the absence of $8.2 million restructuring cost.
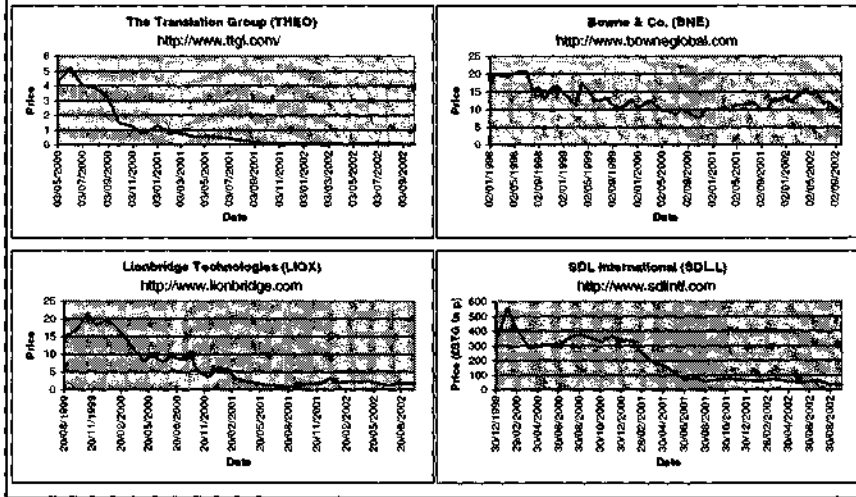
Lionbridge, the provider of globalization services to technology companies worldwide, creates multilingual versions of clients' software & hardware, web-based technical support, training materials and marketing information. For the 6 months ended 6/30/02, revenues rose 9% to $54.4 million. Net loss decreased 76% to $3.2 million. These results reflect the acquisition of Data Dimensions Inc. and the absence of $2.2 million merger and restructuring charges.

SDL International is a leading globalization company, providing product and service solutions to companies who need to translate their products into local language markets. According to the analyst Collins Stewart Ltd., SDL's acquisition of Alpnet Inc. was agreed in January 2002. The group has paid $7 million for the entire issued share capital of Alpnet, together with $12 million of debt. SDL has paid this $19 million for approximately $45 million in sales, giving combined group revenues of approximately £65 million. Collins Stewart believe that the acquisition of Alpnet consolidates SDL's position as one of the four largest players in the localisation market, and the only significant service company with a leading product solution[2].

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[2] Collins Stewart Limited, report issued 16 January 2002 - http://www.sdlintl.com/investors-analyst-report-collins Stewart 020116.pdf

Stock Market Performance
to 02 October 2002

The Translation Group (THEO)
http://www.ttgl.com/

Bowne & Co. (BNE)
http://www.bowneglobal.com

Lionbridge Technologies (LIOX)
http://www.lionbridge.com

SDL International (SDL.L)
http://www.sdlintl.com

When compared against one of the main stock market indexes, the NASDAQ, the performance of the stock of the translation and localisation companies is surprisingly positive.

The following graph shows the performance on the stock market of the Translation Group, Bowne & Co. and Lionbridge relative to the NASDAQ index.

In general, translation and localisation service providers outperformed the index.

## NASDAQ vs THEO, BNE, LIOX
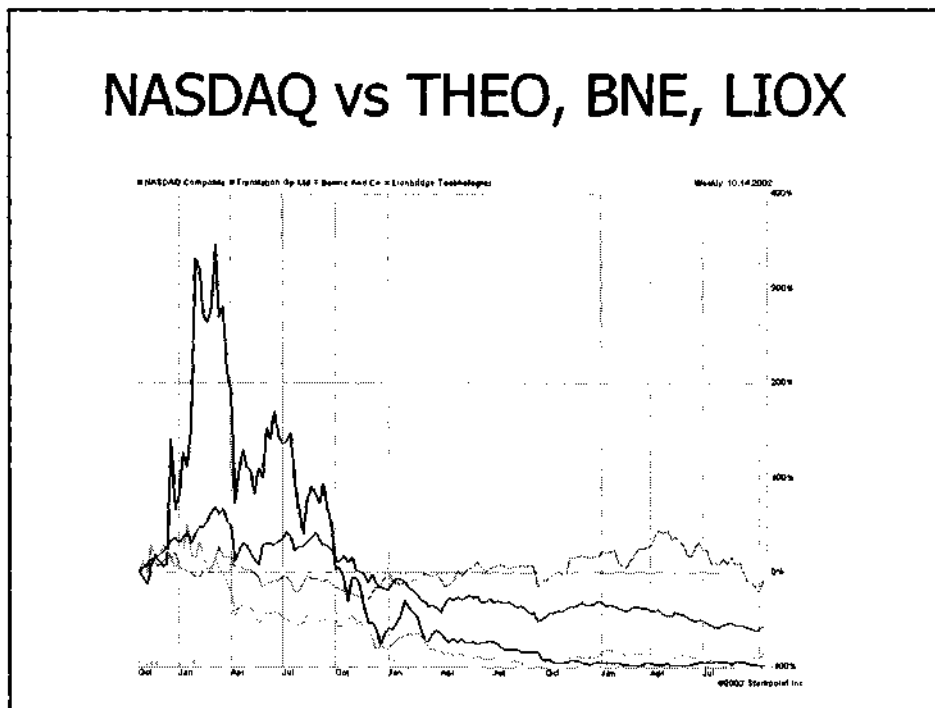
4.4 Forecast

IDC is a US-based consultancy firm specialising in the IT market. The firm regularly publishes analyses and forecasts relevant to the translation and localisation market. Allied Business Intelligence (ABI), is the other large consultancy firm that publishes regular reports and forecasts for the translation and localisation sector.

According to IDC's 2001 *Worldwide globalization and localization services market forecast and analysis, 2000-2005,* the industry has every reason to be optimistic - despite the current economic crisis.

IDC forecast the market for localisation, translation and interpretation services to grow from $2.6 billion in 2000 to $6.7 billion in 2005.
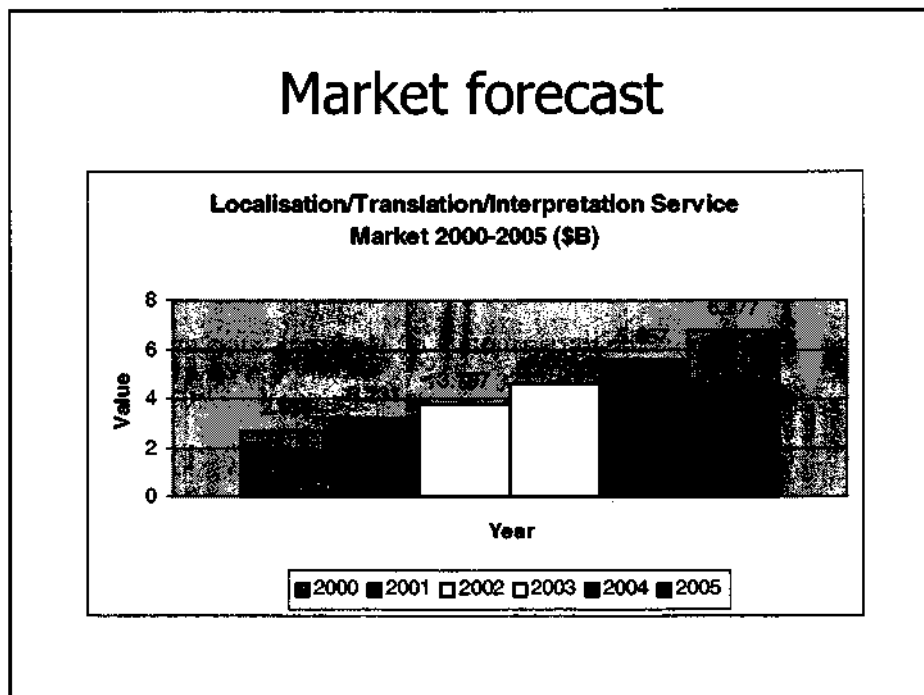

IDC forecast a general growth of 21.6% for the sector between 2000 and 2001, and an overall growth of 21.6% between 2000-2001

By 2005, the worldwide market for localisation, translation, and interpretation services will be worth $6.8 billion, according to the analysts.

One of the most interesting details of this forecast is that web localisation will grow at around 40% over this period (against an average growth rate of around 20%) and *outgrow* traditional localisation services in 2003/2004.

Market forecast by segment

Revenue by Services Segment 2000-2005 (in US$m)
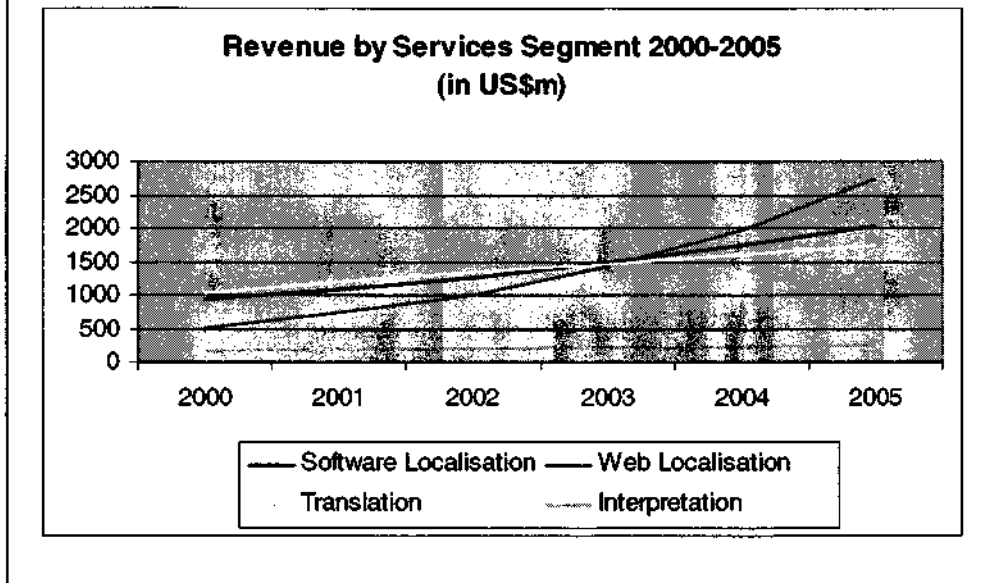
4.5 Economic climate - conclusions

The general negative economic climate, especially since 2000, had its obvious effects on the translation and localisation business.

The general market valuation and the stock price of companies traded on the major stock exchanges collapsed and are only slowly recovering.

However, it seems that the worst is over. The markets and quarterly results reported by some of the major client companies show clear signs of recovery.

However, service providers are still under severe pressure to react appropriately to the general downturn and to review their internal structures and business strategies. New business models are required and most analysts are still expressing the need for a substantial consolidation of the sector, which is still seen as extremely fragmented.

On the basis of recent reports and stock market performance, and taking into account the forecast from leading analysts, the general outlook for the future of the translation and localisation business is positive.

5 Survival strategies

Having analysed the financial performance of some of the sector's most important players, we will now examine the strategies which have been adapted by translation and localisation companies to survive in the current difficult market situation.

5.1 Consolidation

Consolidation through a radical process of mergers and acquisitions should eventually lead to what has been called *economies of scale* in the translation and localisation industry.

This is the process favoured by most analysts.

Consolidation

- 1997
  - IDOC, GECAP, Pacifictech, ME&TA and I&G form Bowne Global Solutions
- 1998
  - IC and ILE form Intl.com
- 1998
  - Berlitz buys LMI Asia and LMI Brazil
  - SDL buys ITP
  - Mendez buys Clockworks
- 1999
  - L&H buy Mendez
- 2000
  - Lionbridge buys Intl.com
- 2001
  - Bowne buys spun-off L&H (Mendez)
  - SDL buys Alpnet
- 2002
  - Bowne buys Berlitz GlobalNet

The table above shows some example of mergers and acquisitions between 1997 and 2002.

It should be noted that this is only an extract of the overall consolidation process initiated in the 1990s.

One of the outstanding performers in the merger contest has been Bowne Global Solutions. The company itself emerged as the result of a merger of five individual serviced providers. It surprised the industry and analysts when it bought Mendez, despite the fact that Lionbridge had announced that it had (almost) concluded the deal to buy that company. Only one year later Bowne acquired Berlitz GlobalNet, making it by far the industry's largest company with revenues a turnover as large as that of its nearest competitors combined.

5.2 Three approaches

Analysts predict that consolidation creates better-equipped solution providers and argue that the merger trend offers better value for customers as the new companies

can offer a total globalisation package. (Allied Business Intelligence, September 2002). This seems to encourage the process of *consolidation.*
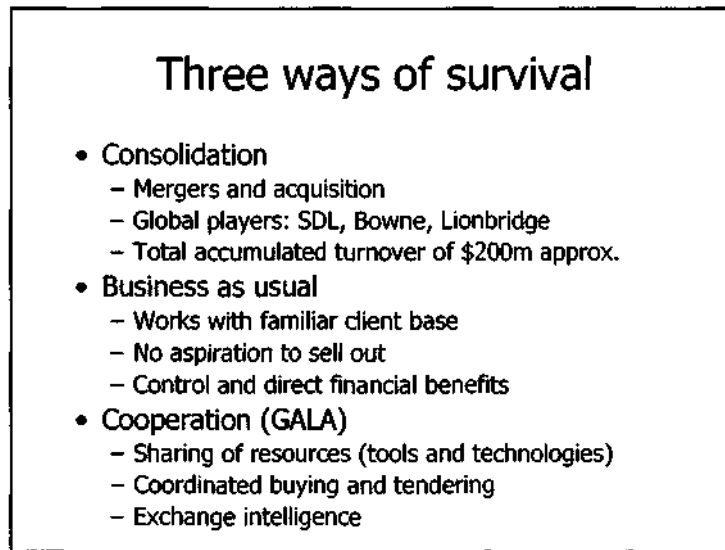
However, other models are possible and seem to be viable. For example, the model followed by the typical *family firm,* a Single Language Vendor (SLV), with no interest in selling out to a larger, global player. This type of company provides the essential, basic translation and localisation service.

The third way, a mixture between consolidation and business-as-usual, is the formation of *networks and interest groups* that provide all the benefits of the globally operating player to individual, smaller companies.

Examples of two different types of such networks are the European Economic Interest Group (EEIG) coordinated by the German service provider Locatech or the larger, newly formed Globalisation and Localisation Association, GALA.[3]

5.3   Summary - survival strategies

We have discussed three survival strategies. They can be summarized under the following headings:

- Bigger is better
- If it ain't broke, don't fix it
- Together we are stronger

5.4   Bigger is better

Following the example of other industries, e.g. the Big Five consultancy firms, significant players in the translation and localisation industry are trying to build 'economies of scale'. They believe that the only structure suitable to service large global clients of translation and localisation services is one that is itself global.

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[3] Aidan Collins, an industry veteran, discusses these and similar models in his recent article: *Cooperation as an Alternative to Mergers and Acquisitions — A Look at Business Models for Small and Medium-Sized Localisation Firms,* in: Multilingual Computing and Technology, Vol 13, Issue 8. November 2002.

They also believe that this structure can only be provided by one, or a reduced number of, translation and localisation service providers.

5.5 If it ain't broke, don't fix it

The old reliable agency model, providing services for one single-language market is still the one that many smaller players with no ambition to service the whole wide world are supporting.

These are the agencies working closely with their translators. They understand their markets and the requirements of their customers. They are the most highly valued assets in the supply chain, apart from the translators themselves.

Their only deficiency is that for large, multi-language projects, working with these providers means working with a large number of providers which, in turn and especially in systems which are still largely manually controlled, increases management overheads.

5.6 Together we are stronger

Consortia and interest groups are being formed to collectively address the requirements of the global players without compromising the identity and strengths of the individual players.

The idea of these groups and consortia is that through networking and the sharing of resources, individual players can overcome the restrictions, which prevent them from dealing with large, multi-national clients.

6 Outlook: after the crisis

Now, that at least some of the financial indicators seem to augur well for an end to the current economic crisis, it is probably the right time to consider its fallout.

There is no doubt that business models that up to now were considered to be viable and sound will have to be re-examined as customers are becoming more demanding.

However, the jury is still out on the question of whether the right way to develop the industry leads through an accelerated consolidation process which eventually will eliminate what many still consider to be essentially a cottage industry.

6.1 Need for re-examination of business models

Although the outlook for the translation and localisation service sector is positive and many companies are adopting strategies to effectively deal with current problems, there will still be a need for corrective and forward looking action on behalf of the translation and localisation service providers.

- Business models will have to be re-examined.
- Customers are looking for better value for their money.
- The question of consolidation versus cottage industry has to be addressed.
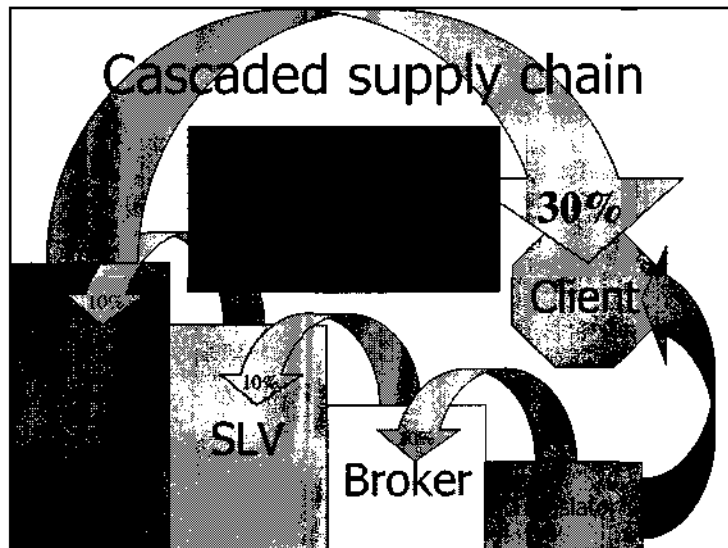
Some of the core concerns of customers and the questions asked by them also remain to be answered. These include the following:

    (1) Why does a client pay $0.24 per word translated when a translator earns $0.08 per word translated?

    (2) Why do we need globally operating, heavy-on-the-overhead, consolidated multi-language-vendors (since 1990s); specialised, locally operating agencies (sine 1980s); general translation brokers (since 1950s and 1960s); and, last but by no means least, individual translators?

    (3) How can costs be kept to a minimum for a scalable and efficient, yet high-quality and fast-turnaround service?

Broadly speaking, these questions give an indication of the deep concern about a pricing policy that is far from transparent and that seems wholly unjustifiable. They indicate a concern about the many costly layers involved in the translation and localisation process that are not easily justified. They show a concern about the general question of how to secure access to a scalable and efficient translation and localisation service which does not have to be provided through the system of multiple sub-agencies currently in place.[4]

6.2 Workflow automation

Workflow automation and the development of supply chain and customer portals can provide an answer to the questions asked by the clients of translation and localisation service providers.

They have the potential to offer scalable and efficient services without the need for consolidation and without overpriced management layers.

Currently, these systems are at the 'first user' stage. They have been implemented by service providers on a one-by-one basis with existing clients. In these controlled

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[4] These questions have been discussed recently by Jaap van der Meer in his article *Impact of translation web services* in: Localisation Focus, Localisation Research Centre (LRC), September 2002.

scenarios these systems have both shown their advantages (reduction of overheads and overlapping tasks) and their disadvantages (lack of flexibility and ability to link into existing systems and technologies).

Customers have also send out the clear message that they do not want to be locked into a proprietary service environment.

Therefore, the next step in the development of these systems must be the involvement of a larger number of service providers and clients and the development of standard interfaces to existing technologies.

In particular, what is needed is interoperability in:

(1) the content markup and the capture of localisable data and
(2) the transfer of content for localisation between and within different stages of the localisation process without loss

Developed to their full potential, workflow automation and supply chain and customer portals will satisfy these two objectives.
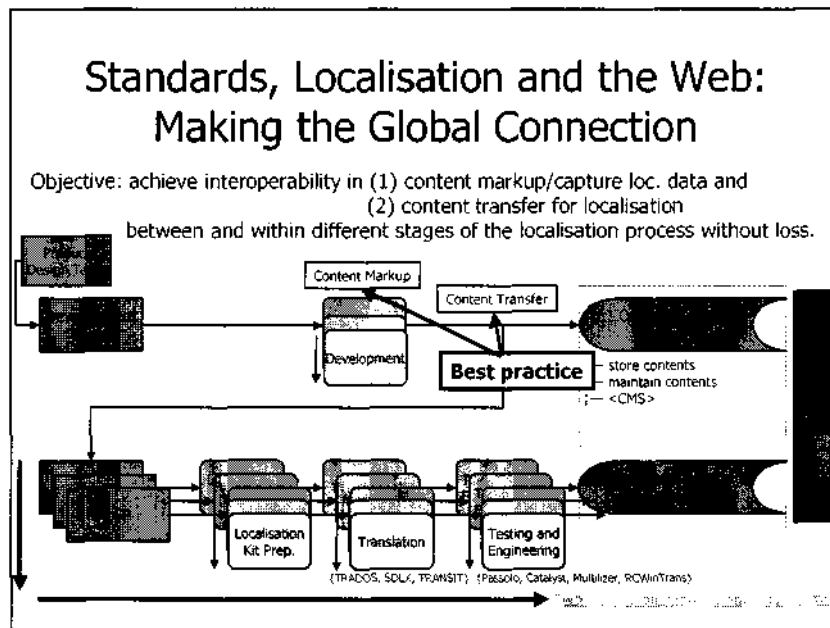
In order to realize these objectives, standards will have to be developed to identify localisable data throughout the design, development and production processes and to allow clients and vendors to automatically transfer and process this data.

These standards will have to cover:

(1) the tagging of localisable data and supporting data during the design, development, production and localisation process
(2) a standard for the implementation of translation vendor web services

The development of (1) is well under way and is being driven by the XLIFF Technical Committee (XLIFF = XML-based Localisation Interchange File Format) within the OASIS consortium.

The development of (2) has been initiated under the umbrella of the LRC over the past months.[5]

Translation vendor web services will return the translation and localisation process to where it originated, i.e. it will, again, directly connect clients with their service providers and content developers with translators. Web services will make the automation of the project management process possible to a degree where the middleman can safely be disposed of.

Jaap van der Meer, in his recent article in Localisation Focus predicts that translation vendor web services will have a much greater impact on the translation and localisation market than any other previous development - including that of the consolidation process of the 1990s which resulted in the emergence of the large, globally operating Multi-language Vendors (MLVs) - an assessment that can only be supported.

7   Conclusion

The answer to the initial question *Can translation companies survive the current economic climate?* is a clear and unequivocal 'yes'.

Having examined a number of different economic indicators and recent reports by industry analysts, there seems to be no doubt that the worst is over for translation and localisation service providers.

A closer examination of the response to the current crisis by the industry seems to indicate that it is following the advice of analysts advocating major consolidation efforts through mergers and acquisitions.

However, this trend seems to run contrary to the requirements of the clients who are looking for scalable, efficient and affordable services. To date, all the indicators are that the consolidation process has introduced a cascading supply chain model with an increasing number of actors carrying out the same amount of tasks. Overlaps in responsibilities and increased costs are some of the side effects of this development.

On occasion and especially in large, multi-language projects, it seems that the two most important actors in the translation and localisation business, i.e. the client an the translator, are almost sidelined with the process being dominated by a variety of costly management layers and an unnecessary duplication of roles.

Web services, if implemented in a co-ordinated and industry-wide agreed way, offer an opportunity to automate repetitive, overlapping and costly management and

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[5] see: Bill Looby, *Translation vendor web services - the future of localisation?,* in: Localisation Focus, Localisation Research Centre (LRC), June 2002, www.localisation.ie

technical tasks. They offer an opportunity to cut out the middleman and put the clients and translators back to where they belong, at the centre of the translation and localisation activities.

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