Can Translation Companies Survive the Current Economic Climate?

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Background

- LRC – The Localisation Research Centre
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The answer
Monthly LRC One-Question-Survey (18 October 2002)

Can translation companies and localisation service providers survive the current economic climate?

- Agree: 107
- Disagree: 11
- No answer: 4

Question: Replies: 122
Overview

• Economics of translation and localisation

• Current economic climate
  – Stock markets: NASDAQ, FTSE, Hang Seng, Nikkei
  – Clients: stock market performance and quarterly reports
  – Service providers: stock market performance and market capitalization
  – Analyst’s forecast
  – Summary: how badly has the economic climate affected the translation and localisation business?

• Strategies for survival
  – Economies of scale: mergers and acquisitions; consolidation
  – Concentrate on core competencies
  – Cooperation

• After the crisis is over – some urgent questions need to be answered
Economic characteristics

- Low-margin business, serious lack of profitability
- Little or no outside investment in the industry
- Stock market challenges
- Price wars and auction politics
- Too many (p)layers, too many duplicate roles
- Few economies of scale
- Young industry: few standards, no established industry associations, little research, emerging teaching and training sector

- Changing scenario
  - 90% of material in up to 5 million word projects is not translated anymore
  - (even for applications) there are no release dates anymore – most projects are developed and maintained like web sites
  - The unit translators have to handle is now smaller than a file (words, strings) – but there are many more units
2 - The current economic climate

NASDAQ, FTSE, Hang Seng, Nikkei
2 – The current economic climate

IBM, Microsoft, Oracle, SAP
For the first fiscal quarter ended September 30th, the world largest software company 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

_We’re not trying to say that we think the sales results of our first quarter will be sustainable. It is kind of a one-time anomaly._

Steve Ballmer, CEO Microsoft, Irish Times, 21 October 2002
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)

Source: Stockpoint, MarketGuide (multex.com) and private research
2 – The current economic climate

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
2 – The current economic climate

NASDAQ vs THEO, BNE, LIOX
2 – The current economic climate

Market forecast

Localisation/Translation/Interpretation Service
Market 2000-2005 ($B)

Year

2 – The current economic climate

Market forecast by segment

Revenue by Services Segment 2000-2005
(in US$m)

Summary: how badly has the economic climate affected the translation and localisation business?

- Downturn over the past two years
- Service providers under severe pressure
- Outlook is positive
- Conclusion: Over the past two years, the general economic climate has threatened the very existence of translation and localisation service providers. However, the worst seems to be over.

- But …
  - How are companies dealing with the current, difficult situation?
  - Is the economic climate the biggest threat to their translation and localisation business?
Strategies

• Consolidation
  – Mergers and acquisition
  – Global players: Bowne, SDL, Lionbridge
  – Total accumulated turnover of $200m approx.

• Concentrate on core competencies
  – Work with familiar client base
  – No aspiration to sell out
  – Control and direct financial benefits

• Cooperation (GALA)
  – Sharing of resources (tools and technologies)
  – Coordinated buying and tendering
  – Exchange intelligence
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
Summary

• Following the example of other industry sectors, significant players in the translation and localisation industry are trying to build ‘economies of scale’: “bigger is better”

• Single-language service provider continue with their business as usual: “if it ain’t broke, don’t fix it”

• 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: “together we are stronger”

Individual companies turn to a range of strategies to survive the current, difficult economic climate. However, they will still have to address the core questions their customers have been asking.
The core questions remain

• Why does
  – a client pay $0.24 per word translated?
  – a translator earn $0.08 per word translated?

• Why do we need
  – Individual translators?
  – General translation brokers (since 1950s and 1960s)?
  – Specialised, locally operating agencies (since 1980s)?
  – Globally operating, heavy-on-overheads, consolidated multi-language-vendors (since 1990s)?

• How can costs be kept to a minimum for a
  – Scalable and efficient,
  – High-quality and fast-turnaround service?
Cascaded supply chain

- Project Management
- Quality Assurance
- Procurement
- File Handling

MLV
SLV
Broker
Translator

Client

30%
10%
10%
10%

Answer: Workflow automation ...

- **Aims**
  - Eliminate ‘double charges’
  - Put clients and translators back onto the central stage

- **Current status: innovative, first user**
  - **Advantages**
    - Innovative: cut down on the number of actors with similar roles and overlapping tasks
  - **Disadvantage**
    - Proprietary: customers do not want to be locked into proprietary service environment

- **Next steps**
  - Involve central players, take up emerging technologies, develop common standards
  - Achieve interoperability in (1) content markup/capture of localisable data and (2) content transfer for localisation between and within different stages of the localisation process without loss
Standards, Localisation and the Web: Making the Global Connection

Objective: achieve interoperability in (1) content markup/capture loc. data and (2) content transfer for localisation between and within different stages of the localisation process without loss.

4 – After the crisis is over ….
Translation web services standards

• Cut out the middleman
  – Clients <-> automated management <-> translators

• TranslationDirect
  – Clients
    • Request services
  – Management
    • Automated, open infrastructure linking clients, translators, tools and resources
  – Service providers
    • Provide translation and localisation services
Conclusion

• Translation companies will survive the current economic crisis.
• The outlook for the translation, localisation and interpretation service providers is good.
• Clients will insist that the repetition of not directly translation-related tasks and the application of multiple charges in a cascaded supply chain together with the associated costs be eliminated.
• Translation web services will make this possible.
• This change will have a bigger impact on the industry than the current economic crisis, making TranslationsDirect viable and cutting out the middleman.

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