

Can Translation Companies Survive the Current Economic Climate?

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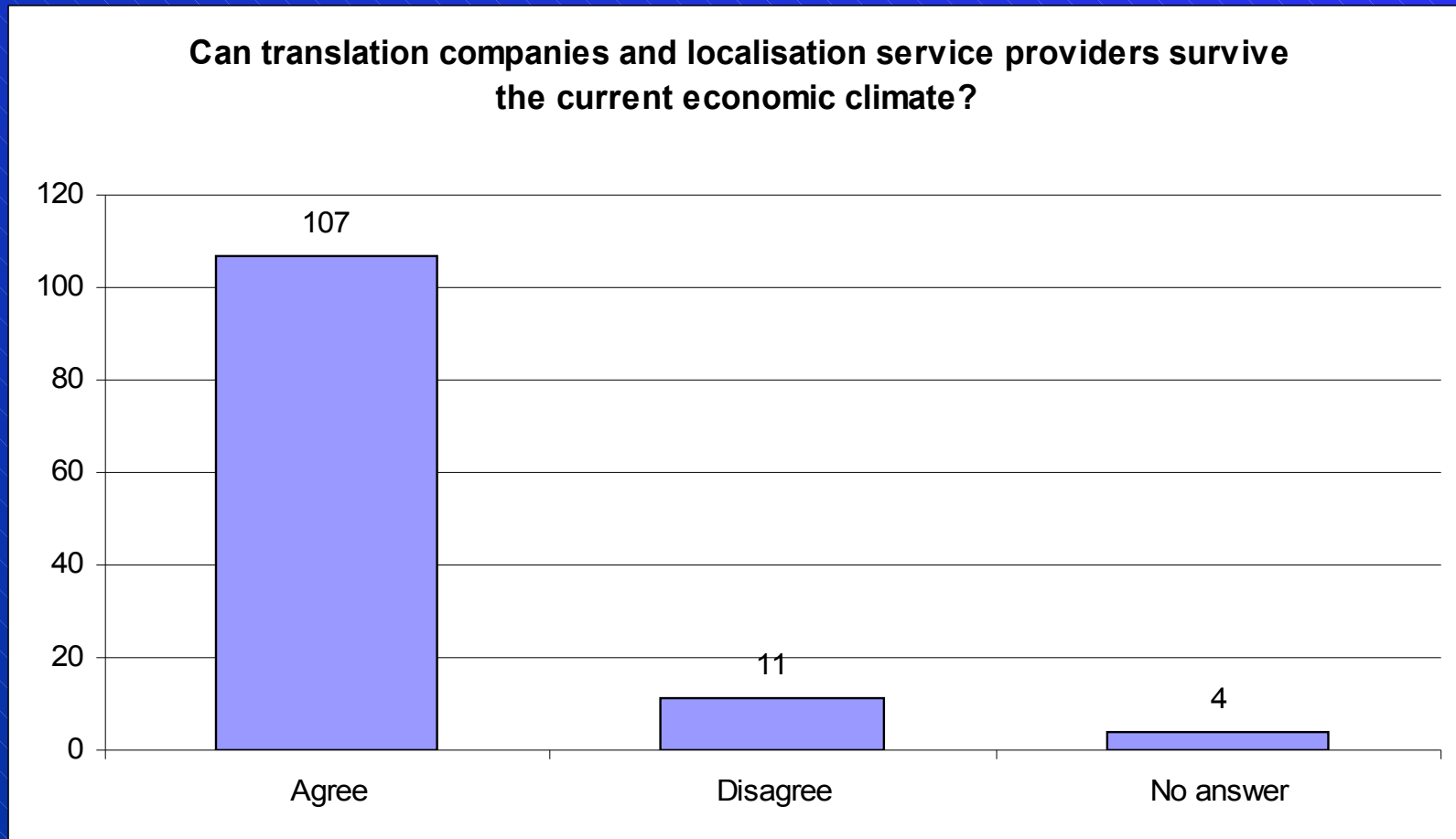


Background

- LRC – The Localisation Research Centre
 - www.localisation.ie
 - LRC@ul.ie
- TILP – The Institute of Localisation Professionals
 - www.tilponline.org
 - Info@tilponline.org

The answer

Monthly LRC One-Question-Survey (18 October 2002)



Question: Replies: 122

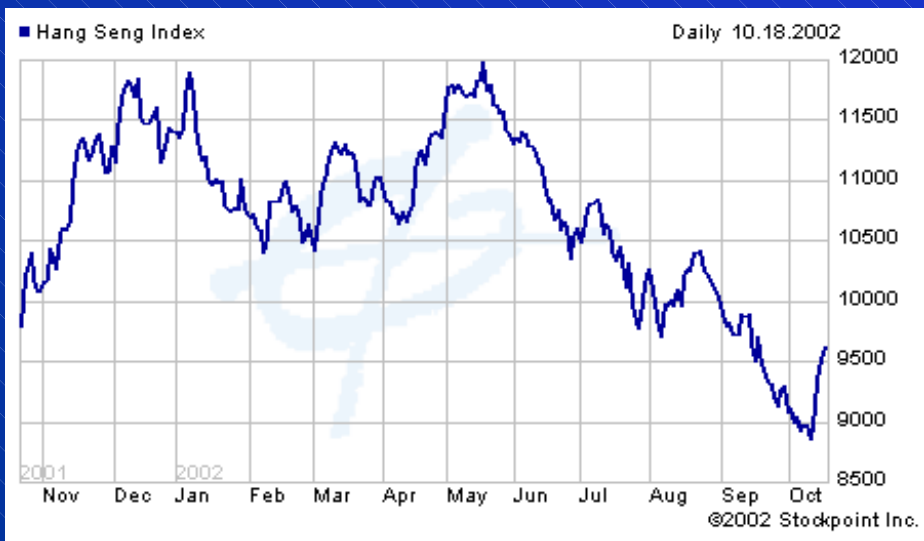
Overview

- 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

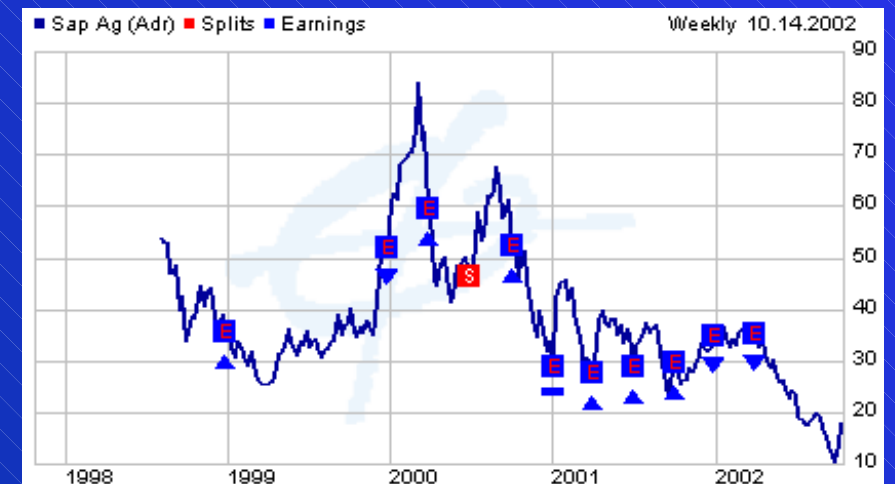
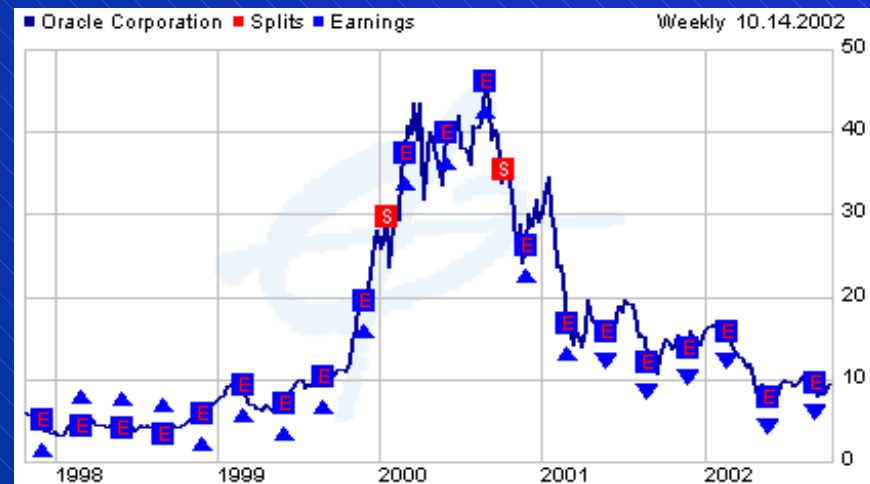
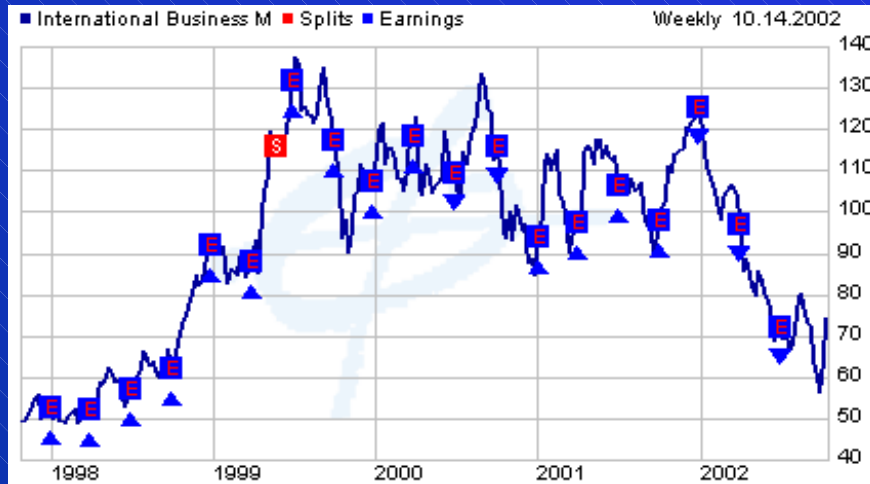
Economic characteristics

- 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

NASDAQ, FTSE, Hang Seng, Nikkei



IBM, Microsoft, Oracle, SAP



The world's largest software developer

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\$)

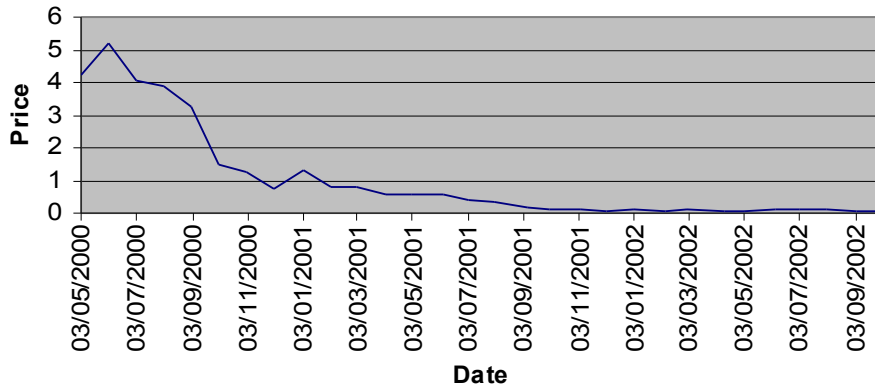
- ALPNET (AILP.OB)
 - 02 April 2001: 19.8m
 - 10 Sept 2001: delisted Nasdaq small cap market
 - 16 Oct 2001: 6.8m
 - 31 Dec 2001: sold to SDL for 6.7m US\$
- BOWNE (BNE)
 - 02 April 2001: 360m
 - 16 Oct 2001: 354m
 - 17 Oct 2002: 342m
- BERLITZ GLOBALNET (BTZ)
 - 02 April 2001: 126.41m
 - 16 Oct 2001: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

Stock Market Performance

to 02 October 2002

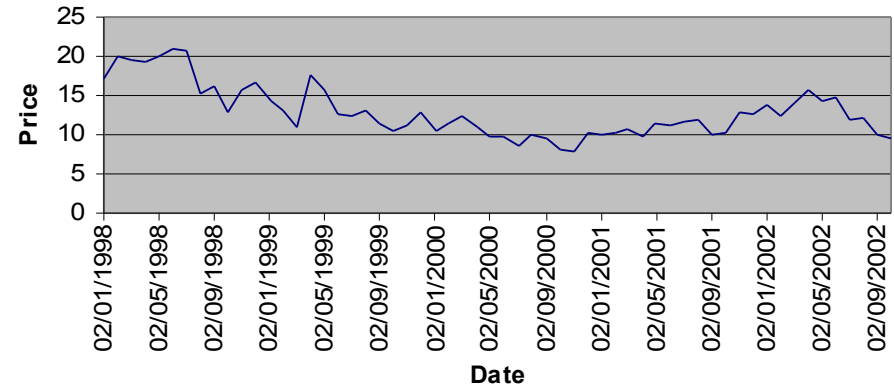
The Translation Group (THEO)

<http://www.ttgl.com/>



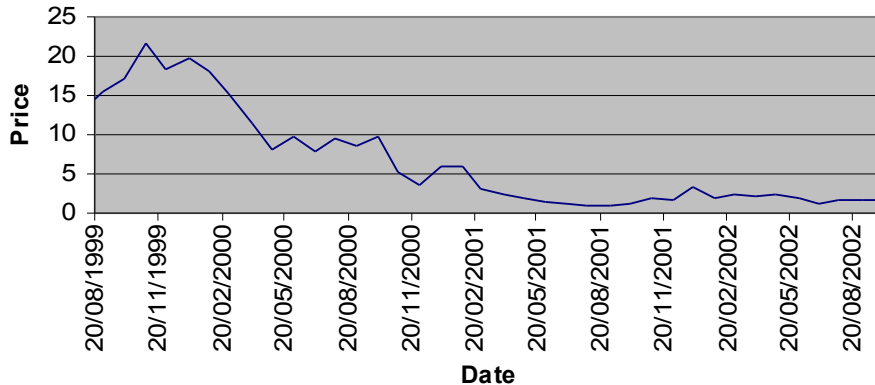
Bowne & Co. (BNE)

<http://www.bowneglobal.com>



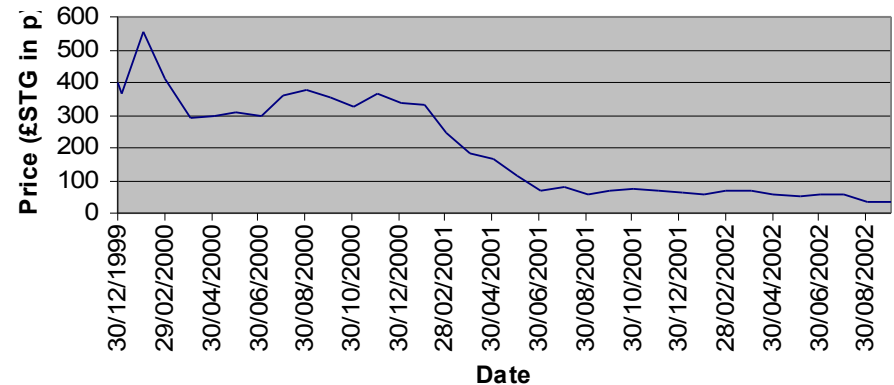
Lionbridge Technologies (LIOX)

<http://www.lionbridge.com>

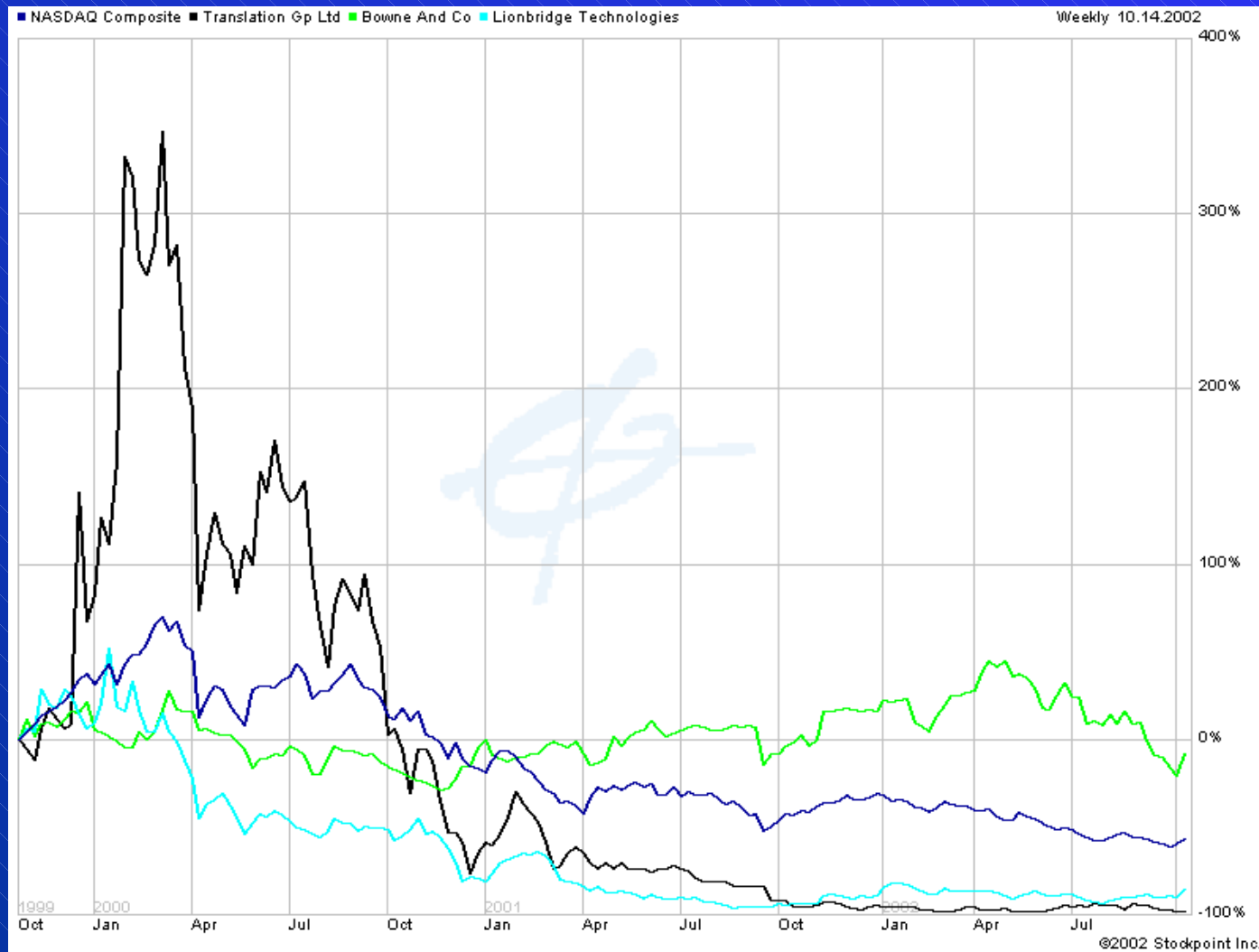


SDL International (SDL.L)

<http://www.sdlintl.com>

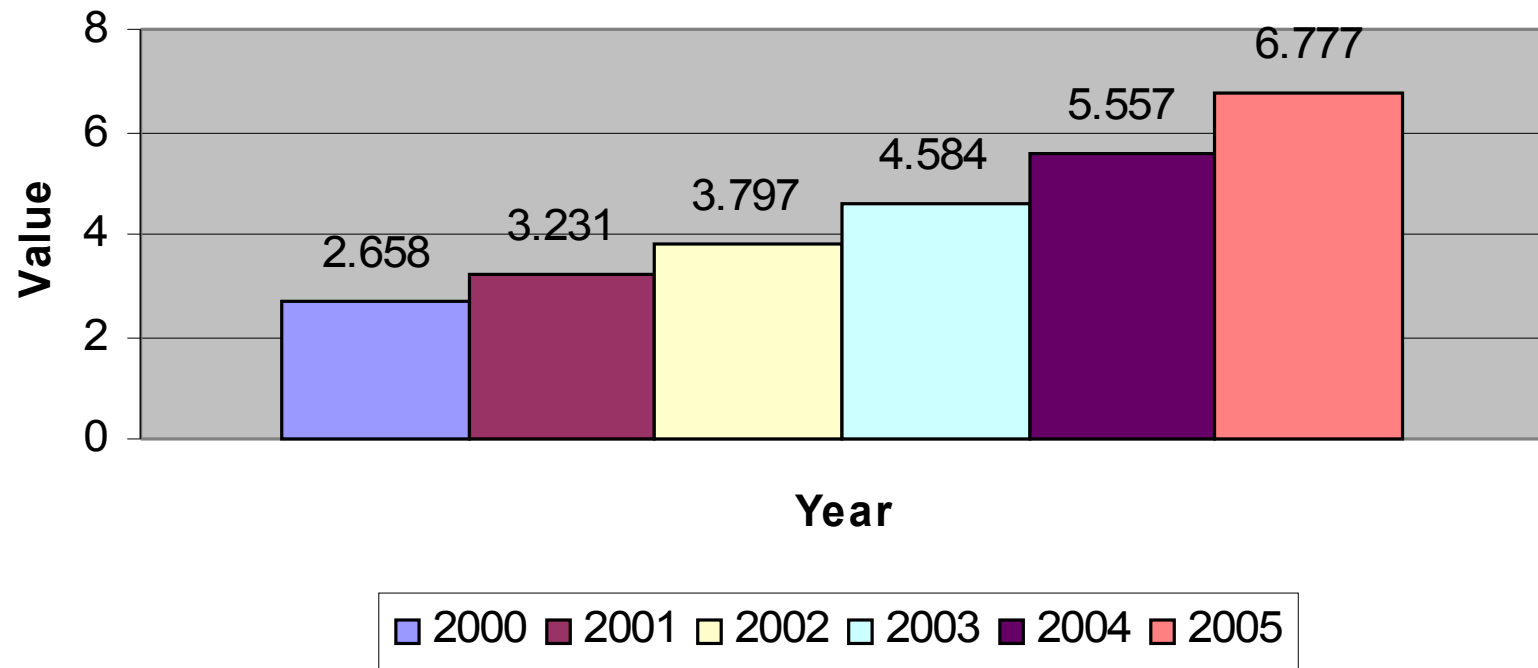


NASDAQ vs THEO, BNE, LIOX



Market forecast

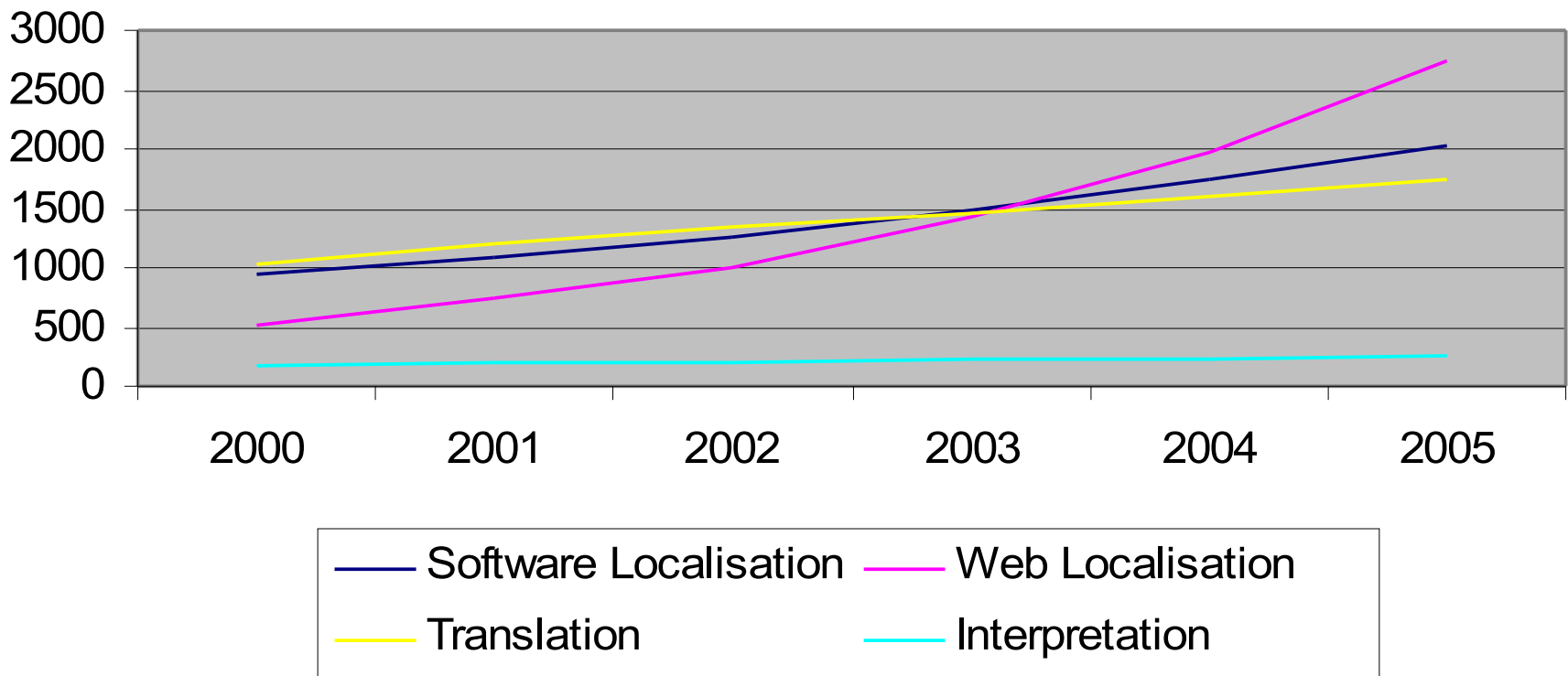
**Localisation/Translation/Interpretation Service
Market 2000-2005 (\$B)**



Source: IDC, Worldwide Globalization and Localization Services Market Forecast and Analysis, 2000-2005, 2001, www.idc.com

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 providers 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

30%

Client

MLV

SLV

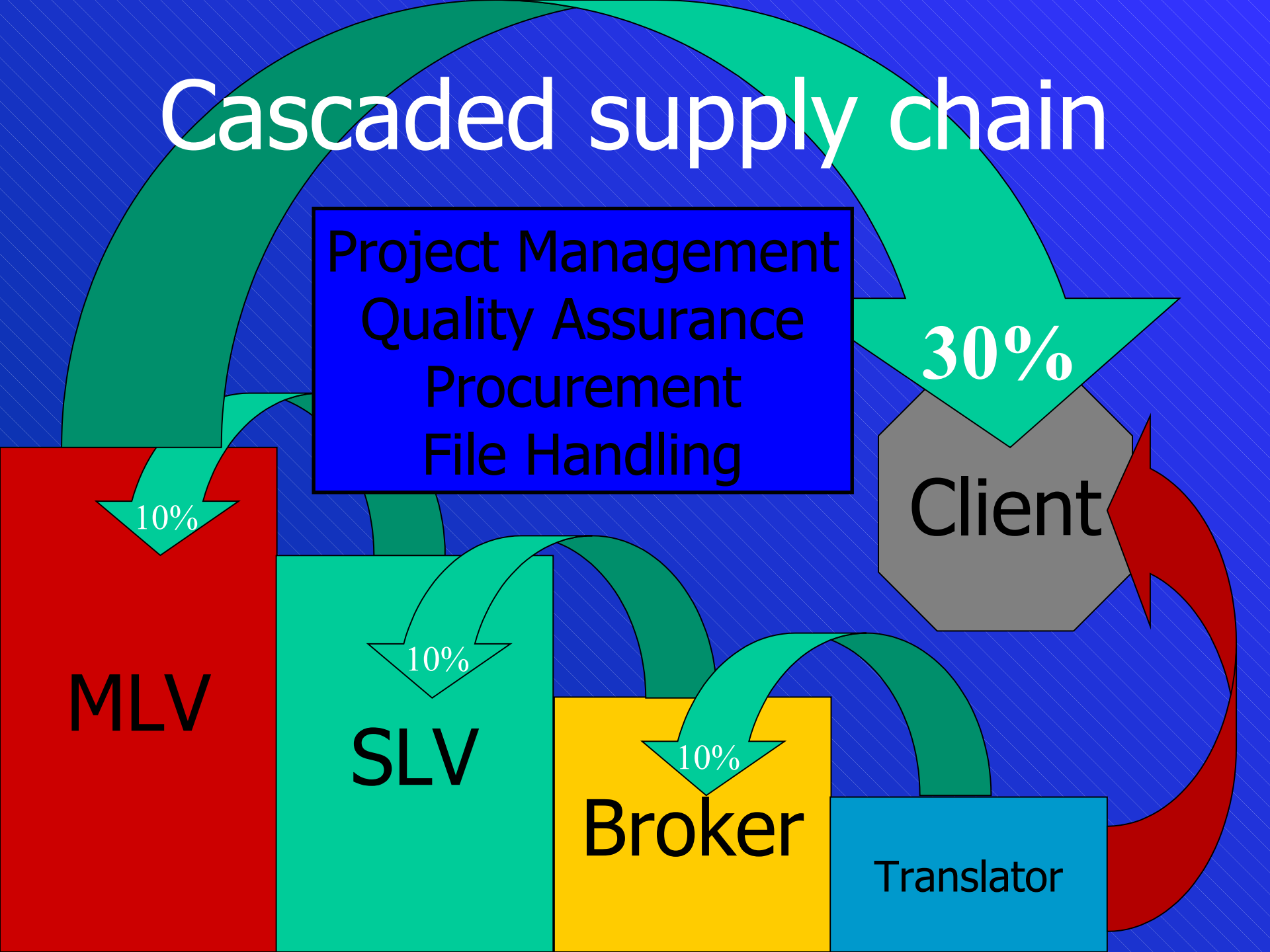
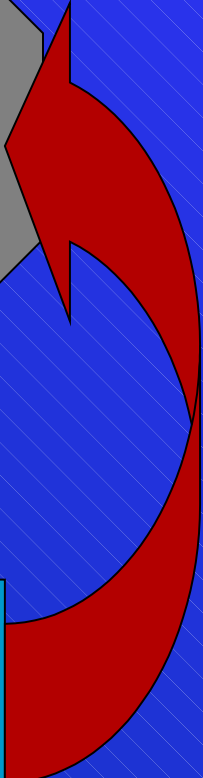
Broker

Translator

10%

10%

10%



Answer: Workflow automation ...

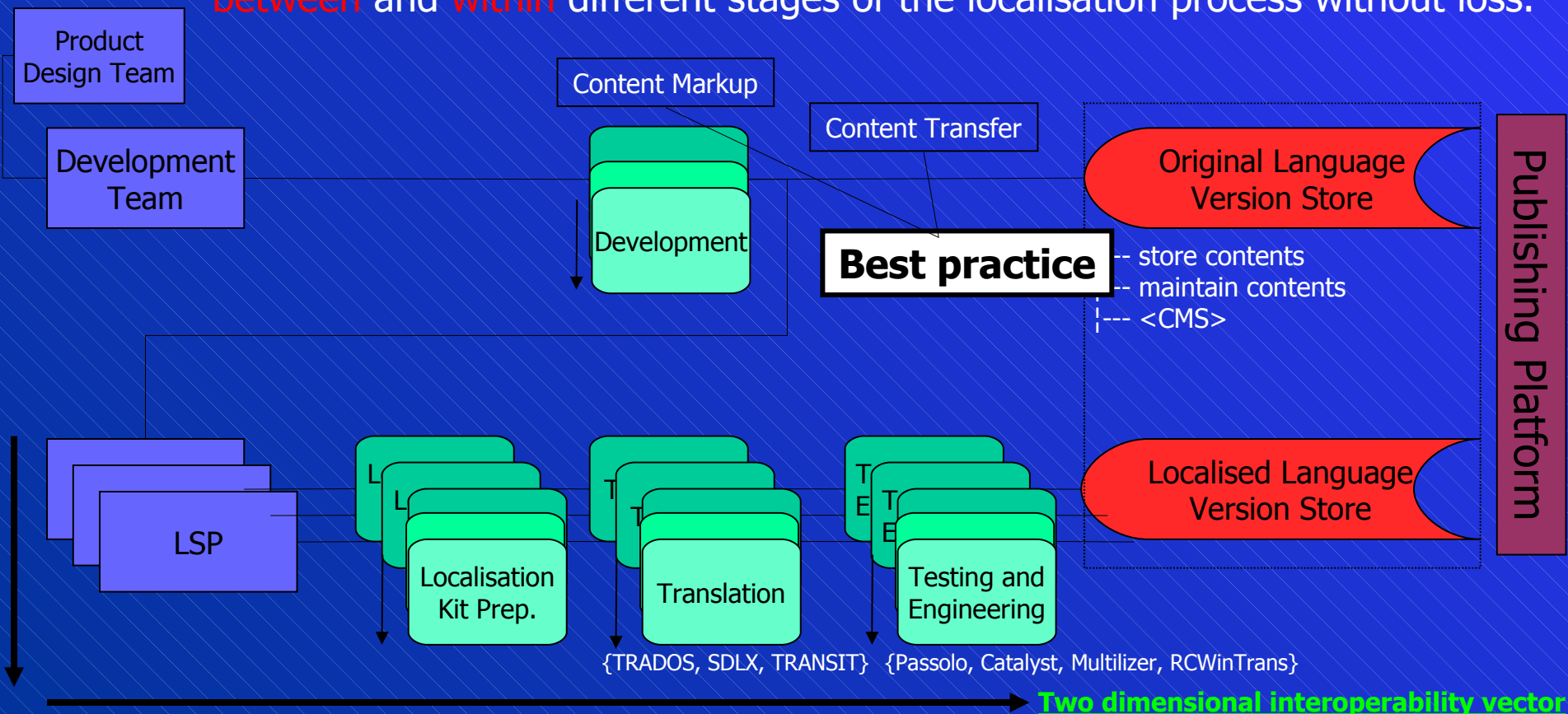
- Aims
 - Eliminate 'double charges'
 - Put clients and translators back onto the central stage
- Current status: innovative, first user
 - Advantages
 - Innovative: cut down on the number of actors with similar roles and overlapping tasks
 - Disadvantage
 - Proprietary: customers do not want to be locked 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

4 – After the crisis is over

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.



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.