

Trailing baron Munchausen, or the crises that stimulate us

This paper is a story of a localization company, Logrus International, fighting for survival amidst a severe economic crisis. While I sincerely wish that your companies (and countries) never find themselves facing an onrushing steamroller, in the real world, such words as recession, slowdown, market volatility etc. are always wandering somewhere on Internet homepages and in newspaper headlines, with no sign of disappearing. Moreover, the more global the world becomes, the less we can ignore what's happening in the other parts of it. You can find this tale everything between true-life and simply amusing. Let's hope for the latter ☺

This article has been inspired by the crisis that hit South-East Asia and certain other parts of the world, including Russia and other ex-USSR states, several years ago, and also by the co-editor of *Language International*, Mr. Robert Clark, who kindly suggested that I share some hands-on experience of living through the time of changes. The name of baron Munchausen, an exuberant and sanguine character with enormous stamina and introduced by Rudolphe Erich Raspl in the 18th century, has been mentioned in the title, not just to attract the attention of the reader, but to also serve as a direct comparison. All through these years it rather served us as a beacon and a rare example of resourcefulness and the ability to find ingenious solutions (along with a tendency to mild exaggeration so dear to all company and sales managers).

Logrus was founded in Russia in 1993, only several months after Russia proclaimed independence from the USSR, and private property was recognized by the state for the first time in over eighty years. It became the first privately owned and independent localization company in the country at a time when Russian software localization was just gaining initial momentum. And I wouldn't say that life has been boring since then.

In a mere nine months the notorious attempt at a Communist coup d'etat took place in September 1993. At that time Logrus had received its first serious projects from Microsoft and Lotus and, while a significant part of the world (myself included) was watching the developments in the center of Moscow live on CNN, we were getting numerous calls from both clients. They were trying to find out: a) if we were still alive, b) if the office was in the combat zone, and c) if we were working according to the schedule. At the end of the day when government tanks were approaching the Russian White House (the communist citadel), I started calling local computer stores trying to find one that was open despite the fight. We managed to buy a computer for our new translator precisely at the moment when the coup ringleaders were arrested. And it proved to be the right moment: communism had been defeated, along with the local currency! The ruble was depreciated by 20% the next morning...

In the course of the next several years the ruble had suffered several more instantaneous depreciations, but the situation in general could be considered more or less stable, especially taking recent history into account. And while most prices on imported consumer goods (as well as salaries) were still recalculated using the US dollar scale, price tags in the stores started changing. In 1993-1996 these price tags were mostly marked in US dollars (to be recalculated into rubles according to the current exchange rate), but since 1997 hard currency prices have gradually given way to the ruble.

Software sales in Russia were growing strongly, by approximately 100% each year, and topped \$100 million in 1997. This could not but stimulate the nascent localization market, and Logrus was growing together with this market, offering software localization and technical translation into Russian. By 1998 the company had gained the reputation of a reliable single-language vendor (SLV) with above-the-average technical skills and was working with a relatively wide variety of clients, including three large accounts.

Nowadays many authors assert that the events of August 1998 in Russia were predictable, with a lot of indicators pointing to the impending crisis for months before it actually happened, but for the lion's share of the population, including most business owners, the events of August 16, 1998 came like a bolt from the blue. As for the speed at which the economy started falling apart and the scale of its collapse, it was the deepest shock ever, even considering the turbulent history of the previous decade.

By coincidence, just a day before the events, I had left for Dublin together with a team of other Logrus employees to attend a Microsoft Office localization kick-off. Next day we heard a piece of rather vague news on the radio about Russia defaulting on international debts and devaluing the ruble. On the practical side of it, VISA cards issued by Russian banks ceased to function within a day after the events... My next stop was a LISA conference in Madrid. At that time there was no shortage of bloodcurdling news in the newspapers and on the TV, and both Logrus founders had a hard time pretending that everything was fine and promoting the company as usual. To the credit of the localization industry, most people were both supportive and reassuring, alluding to the fact that such things happen everywhere.

Back in Moscow the situation was completely different from the one two weeks ago. All ATMs had been closed due to the lack of cash, and I found my checking card useless. Prices were raised daily together with the dollar exchange rate, and people were busily running from one store to another, sweeping away all the goods with the "old" price tags. On the global level several of the largest banks simply suspended all transactions, effectively freezing the accounts of hundreds of thousands of enterprises and millions of people. Our own bank warned us over the phone that we must dispose of the money in the company's checking account within a week, because they were also going to close. (This was a sign of special courtesy, not everybody was that lucky!) Approximately 30% of all businesses in Russia closed within two months from the August crisis. Others survived just because they were mainly using cash.

But most terrifying of all was the drastic disillusionment among the most energetic part of the population. It may seem strange, but poor people working at state enterprises didn't suffer to such an extent: they didn't have any bank accounts or credit cards anyhow, their meager salaries were indexed from time to time, and they got used to substandard living and hardships in exchange for their own inactivity. While the ones who started their own businesses or simply working seventy hours a week in the private sector, the people who had already grasped the feeling of independence and relative welfare, often lost everything or nearly everything due to the collapse of the financial system and quadruple ruble depreciation.

When both company owners returned to Moscow at the end of August, 1998 it was absolutely obvious that the time had come for swift and resolute decisions. Grim faces all over the place were closely watching us as we were going to an extraordinary session of the board of directors. We quickly decided to avoid abrupt moves, such as lay-offs, until we got a clearer view of the situation, and started by cutting all salaries by 30%, dropping the freelancers, and reducing overhead expenses to a minimum. (This implied discontinuing free lunches at the workplace and certain other benefits.) I've never seen an expression of such a deep relief on the faces of people having just lost 30% of their income! They had witnessed so many of their friends and relatives lose their jobs in the past two weeks that they were dreading the worst.

We also prepared a statement about the current situation in Russia and in Logrus and immediately sent it out to all our clients. It basically said that, despite the crisis, Logrus was operating normally and had no problem completing all the projects that we were working on or in accommodating new ones. We were also disproving some extremes being shown on worldwide TV. For instance, CNN was showing bread queues in Moscow. This was a ridiculous exaggeration! Life was by no means easy, but there were no food shortages. Since then I started suspecting that from time to time they use old footage instead of less dramatic facts in order to build up tension.

But this was just the beginning. What we really needed was a global analysis of the situation and a new strategy for the future. These were the positive aspects at the time:

- Being well aware of the need to ensure the safety of the company's finances, we had been dexterous enough to open a repoffice in the USA in 1994 to preserve certain financial assets from volatility of the Russian market. It meant that we still had access to the bulk of our funds.
- We always tried to operate with a "safety cushion" in the account. This reserve fund could sustain the company for three months in a row and eliminate any need for hasty and premature decisions.
- The company did not have any debts to be serviced on a regular basis.
- With many clients located in the USA or in Europe, Logrus was mainly earning hard currency, not devalued rubles.
- We had competent and hard-working employees ready to help us overcome the circumstances.

But these were the negative aspects:

- While translation and localization seem to be an export-oriented activity, because most of your clients are located abroad, it is, in fact, servicing the import chain. All translations into Russian are related to imported products and services. And this was the area hardest hit by the falling ruble exchange rate.
- The number of new small-to-medium projects had decreased considerably in the course of several weeks. In the short term, the company was facing insufficient workload.
- Many foreign companies were pulling out of Russia and closing their subsidiaries. Others were cutting down their local staff drastically. That could only result in a dwindling flow of translation work.

Our general forecast based on the circumstances had been moderately optimistic. We did not think that large software publishers were going to withdraw from the potentially vast market due to the crisis alone, unless the government did something outrageously stupid on a political level. It was much more probable that they would simply reduce the number of localized products for a while, leaving only the major ones (that proved true). As for smaller clients, they were leaving in a hurry but also returning quickly, and, in the normal course of events, they were expected to be back within a reasonable amount of time. So, in theory, one could simply lie low for some time, cutting costs to a minimum and waiting for better times to come. But this approach, apart from being extremely unappealing emotionally, didn't solve the major global problem. The crisis had revealed how thoroughly dependent Logrus was on the state of a single (in this case Russian) economy. Given that this market was both relatively small and far from being mature, hence more volatile, this narrow "market base" was the main factor of potential instability for the company.

The second consideration was of a different nature. Having watched Russia's and other markets' evolution for several years we arrived at a simple, though unexpected, conclusion. Software sales might grow, but that does not necessarily lead to the growth of the localization market! For developing economies, the localized product line is comprised of a limited number of signature products, because the market is not large enough to justify localization on a broader scale. Medium and small publishers often ignore such a market completely due to financial limitations and relatively low expected sales volumes, or apply a different model, such as licensing. And this situation does not change until a certain threshold is reached, when one can localize and sell a product for the narrow vertical market, or a product that is simply not a "Top Ten" hit, still retaining profitability. The market for Russian localizations was not growing as fast as software

sales for the year prior to the crisis. So, even if the economy were to rebound soon afterwards, we could not expect significant localization market growth until the economy reached a new level.

All these conclusions called for extending the services offered by the company in a new direction. The list of basic requirements for the optimal solution was short enough. This new activity should be truly export-oriented, not thoroughly dependent on the popularity of a particular language, and should extend beyond the boundaries of a single market. It should not diverge too far from the existing business, so that we could maintain integrity and not exceed our competence. We needed to clearly position the new activity to avoid competition with “garage” teams offering basic services at marginally low prices. This new activity should require limited investment, as we neither had the funds nor the time to check out too many options. It would help a lot if our existing clients needed these new services. It would be great to exploit both existing know-how, the advantage of an established localization company, and the distinctive features of the current situation. This last statement sounded fine but definitely required certain details to be provided. Trying to be as systematic as possible, I then broke it down into answers to three basic questions:

1) What are the strong points of the Russian IT industry as a whole? First of all, it is the abundance of highly qualified resources with profound technical background, explained by historical reasons. For years, the goal proclaimed by the authorities was to outstrip both Europe and the USA in the field of technical progress, however funny it may now sound. Together with a robust centralized system of compulsory education and the striving of decent individuals to avoid politics, it has given birth to generations of well-educated engineers with deep and extensive knowledge of both theoretical disciplines and programming. For years these people were compensating for backward technology and obsolete computers with their inventiveness. They make great programmers and software engineers and their average skill level usually exceeds that of their colleagues both in Europe and in the US. (In some respects they are simply “overqualified”, performing engineering duties rather than carrying out scientific research.) Hence the high technical reputation of Russian localization companies. The second strong point of the Russian IT industry is the cost of engineering work. Despite extremely high taxes, it is still lower than in Europe or the US. Although the earnings of people in the IT industry itself are relatively high, many potential programmers and engineers still work at the state research institutions where salaries are dismal and compensate by taking all kinds of odd jobs. In addition, due to the abundance of programmers, the average hourly rate of a programmer is more or less the same as that of a translator or desktop publishing expert, while, elsewhere, the picture is absolutely different, with software engineers being the most expensive kind of resources.

2) What had changed in the Russian IT industry as of late? The main change was directly interconnected with the 1998 collapse in the banking sphere. It turned out that Russia had too many banks and financial companies for a relatively small economy, and all of these banks, including their numerous subsidiaries, employed many programmers and software engineers. Many of those highly qualified people immediately found themselves in the street. (This was not so true for other IT sectors where companies were trying to preserve their resources.) Previously they were getting generous salaries (by Russian standards), but had gradually become less demanding. And what was really important was that most of these people preferred to stay in the IT industry rather than change their specialty. This led to an oversupply of affordable, highly qualified, and experienced resources. (This employers’ heaven did not last forever and the IT labor market is much less tight in 2001 than it was in 1998.)

3) What are the strong points of an established localization company? Most of these are well known, and it makes sense to enumerate them without going into too much detail. A good localization company means well-trained personnel, well-defined processes, and thorough expertise in all aspects of localization, including support for multiple platforms, software engineering, artwork, desktop publishing, etc. It also means a well-prepared, up-to-date

infrastructure with modern computers, a reliable network, and adequate communication facilities. All these things are important, but the cornerstone of success is competent project management. And here, localization companies in Russia are in a much better position than others because they have a much better understanding of requirements and approaches accepted in the developed countries. They can be far from perfect, but are still far ahead of the companies working mostly on the internal market where poor work organization and communication is a common thing, if not admired, then at least widely accepted.

With goals set, requirements formulated, and entry conditions analyzed, we were almost there! The most trivial potential solutions included strengthening multimedia localization and publishing (we had been licensing and localizing computer games since 1997), becoming an MLV, or going into software development. The first one did not qualify, as it targeted the same market. Nor did we feel like creating yet one more half-baked semi-MLV with no clear positioning, let alone the starting costs. As for programming, it is a popular occupation in the developing world that is easily outsourced, but the initial stage requires a lot of time for market studies and marketing. It is not tightly connected to localization and requires different types of resources. Moreover, we could not immediately and clearly distinguish ourselves from dozens of other already existing companies. So we had to look for something else.

We finally chose offshore software engineering and testing. Having done this for Russian localization projects, and employing a lot of brilliant engineers, we could not fail with other languages! It's hard to guess why it didn't occur to me earlier. Probably crises stimulate our brainwork. Certainly, we are not the only ones who have chosen this path, so we didn't invent something brand new, but it has been a perfect match! This new activity satisfied all the conditions. It was in no way limited to the Russian market, could be based on the existing structure and personnel, did not require high investment, and it positioned the company in an area out of reach of the "garage" teams. We could easily re-use our vast existing engineering experience, rely on the company's "technical" reputation, offer attractive rates to our clients, and expand the team in no time! And that's exactly what we did. Instead of temporarily laying off part of the employees and lying low, we decided to reorient and retrain some of the people, improve internal processes and make them more transparent, and diligently promote the new services.

It's hard to say if it was the only solution at the time, but now, two and a half years later, Logrus gets 30% of its revenue from multilingual engineering and testing. We are very enthusiastic about these services and are looking forward to expanding them further. There is a scene in the Russian screen version of *The Adventures Of Baron Munchausen* that I admire most. The baron is telling his companion hunters how, having fallen into a deep swamp and drowning there with no chance of help arriving, he has concentrated all his strength and pulled the pigtail of his wig up, thus getting himself out of the bog. The hunters are laughing in disbelief, and, finally, one of them asks, "My dear baron, but how can you PROVE this???" "Well, I'm alive!"

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