If it makes sense to consolidate in the localization industry, what should we be consolidating?

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Technology, maturing skills, global business and the bottom line have gradually erased the old strategic differences in a stratified industry. Leonid Glazytchev pronounces the death of the 'LV' paradigm and argues that what ultimately distinguishes vendors today is their knowledge capital.

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While it has always been important on a personal level to achieve self-actualization and single yourself out in the crowd, especially if you're educated, history shows that mankind as a whole has been zealously obsessed with concentration. Most of us have being trying hard to live and work as close to others as possible. Maybe we just need a crowd to stand out from.

The localization industry has not been spared by this tendency to concentrate, which began as soon as the industry started maturing. The question is, where is this concentration going, and does the direction it is taking make any sense? Is the paradigm of SLVs (Single Language Vendors) vs. MLVs (Multiple Language Vendors) evolving into something new, and if so, what are the ramifications? And if concentration will occur anyway, what exactly should be concentrated? This article offers a provocative response to these questions.

For the last five years, the industry has been witnessing strong corporate growth, accompanied by numerous mergers and acquisitions, and has seemingly ignored the recent bearish trend in the markets. Plenty of names that were easily recognized just five years ago are no longer members of the club, having joined forces with others.

Life in the aquarium

I clearly remember a particular moment at the LISA Forum in Mainz in 1997. A representative from Mendez (or was it Berlitz?) was quite seriously talking about the imminent extinction of SLVs. Their presentation even used the metaphor of an aquarium full of sharks (MLVs) gobbling up smaller prey in a 'natural' way. Well, both of those names have now become history (consumed by an even bigger shark), and SLVs are still around, even though they, like MLVs, have evolved into a new species. A basic understanding of ecosystem biology would have suggested this outcome right from the start.

While companies were merging into ever bigger organizations, lots of other things were happening in the industry. It's worth comparing the current situation to that of the early to mid-nineties, to grasp what the real issues are.

I don't know how many people remember this, but early versions of Windows 95 included an MSN client. What's really important is that MSN vintage 1995 was neither an ISP, nor an Internet portal - it was a separate service provider that was supposed to become an alternative to the Internet. I was already working in the localization industry at that time, and was not sure what the outcome would be. In my view (and I was not alone), MSN could easily have beat the Internet in some areas, and grown into the No. 1 service for connecting people. I was totally wrong, but felt fine belonging to the big team.

This is simply an illustration of how *unconnected* the world was, not so long ago. MLVs were very important players because they were scalable and could translate content into several languages. And for localization customers, there was very little choice. Either they built a large localization department that sought out vendors in each geographical market of interest (which many companies did), or they went to an MLV, who did it all for them.

Finding local partners, let alone testing their capacity and credibility, was not easy. The industry was immature; small companies could not afford to spend much on advertising, so their overall visibility was minimal. Information about these local players spread partly by rumor and partly by "natural migration" as employees moved from one client company to another, taking their contact lists with them. Building an effective supplier network was a challenging task, and only the big and powerful MLVs succeeded.

It was a bit like the geographical expansion of trade in medieval times. Each trading expedition was a heavy undertaking: the preparations and the journey itself took months, and many merchant venturers died on the way from illness or violence. It was hard enough simply finding your way. At that time, goods were more mobile than services, which mostly took the "export" form of traveling musicians, artists, and architects.

Not so long ago, localization companies exchanged files on floppies (CD units cost a small fortune and only became widespread after 1995) or through proprietary communication systems such as Sprint or AOL. Leased lines were still only transferring a few megabytes of data an hour, and often both parties had to subscribe to the same service to communicate. Many smaller companies were still using dial-up access.

You've got a mailbox

For years now, I have been visualizing large "classic" MLVs as mailboxes. Clients 'posted' files to them, which were then forwarded to local offices or to subcontracted local vendors (SLVs) and then posted back. As the MLV was hardly doing any other kind of work, Project Managers proved unable to answer the really technical questions. This typically caused a lot of frustration among local vendors, who were, on the other hand, usually small, dedicated and competent, but totally lacking in scalability.

This MLV-SLV cooperation worked well on relatively simple projects, such as the localization of printer manuals, but frequently failed miserably on more sophisticated projects in which intellectual and technical support were crucial. Since they were unable to answer questions, MLVs simply forwarded them to the client and back, and the information gradually grew more and more distorted as communications - and delays - increased.

Although this is an oversimplification, I am sure many people will recognize this impressionist account of the past. SLVs were longing to work directly with the clients, MLVs were netting their well-deserved share of the market, and clients were continually cycling through various localization strategies, from SLVs to MLVs to "Combo Platter" and round again. The ecosystem appeared to be in equilibrium, the localization industry was maturing, and many of us could only see mergers and acquisitions on the horizon. At that stage, the more languages you covered, the better you were positioned. Concentration was all about getting bigger.

From SLV to SOV…

The brave new world of the Internet has emerged so fast that some phenomena literally started jumping out of the book directly into our offices. While all of us immediately embraced the idea of fast file exchange and advertising on the web, and started bragging about our cool new websites and began developing CRM systems, the advent of the Net basically meant two things:

- All localization companies have suddenly gone global, irrespective of our particular policies, desires or readiness.

- SLVs have finally become extinct but, ironically, have taken MLVs with them. The new platform instantaneously created new entities that require new abbreviations. Let's call these new entities SOVs, DOVs, MOVs, etc. (Single-, Double-, and Multi-Office Vendors).

To prove my point, let me start with a new take on the concept of globalization. These days, people are quick to talk about going global, making products global and building a global presence. I would argue, on the contrary, that a company is as global as its potential market. All the other features (global presence, global products, etc.) are simply a measure of that company's performance and coverage.

A local garage is not really global, even if it has a website allowing you to make an appointment online. Its potential market is limited by driving range and time. Creating a nice web site may boost business, but a particular garage will not really be competing with another one located 100 km or so away. In the same way, a national newspaper can only count on a limited readership outside the country, however fancy its website may be.

But there is absolutely no local flavor to the localization business except in the languages themselves, and these have to do with local human resources, not clients. A localization company can hardly count on a significant share of truly local business, more or less protected from outside competitors. I have never heard of companies making much money from simply translating diplomas and marriage certificates for people walking in off the street…

The new paradigm

In the past, the task of running a medium- to large-sized multilingual project was not viable for a small company with a single office. You could safely ignore the task of localizing for Antarctica, reasoning that it would be hard to find freelancers there, that penguins were too conservative and couldn't sign contracts without you being present in person, and that there was absolutely no way of finding competent reviewers for their language, etc. Small companies were simply *not* truly global. But the situation has changed:

- Finding a local company or a freelancer who can do the job, as well as a reviewer, is just a matter of days for most countries/languages that have embraced the Internet.
- With affordable cable, DSL and other kinds of broadband Internet access spreading rapidly, genuine teletranslation is already a reality in many countries and will be available everywhere else very soon.
- The localization industry has matured, and local companies, though sometimes small, have become better established, more competent in terms of business processes and are easier for clients to deal with.

These improved opportunities for working with freelance resources, together with the streamlined process of finding partners in other countries, have eradicated two traditional SLV weaknesses/MLV advantages, i.e., multi-lingual coverage and scalability. "Pure" services (the ones not involving material components) have become even more mobile than goods due to lack of customs regulations and instantaneous delivery. This factor has become the major cause of nightmares among company managers. At the same time, it has changed the whole system drastically.

Former single-language vendors have suddenly become much more scalable, and they can easily find partners in other countries and complete large multilingual projects as well as MLVs, but frequently at a lower cost. Obviously, this is not true for very large or very specific projects, but generally, any SLV willing to do so can immediately become an MLV, especially since communications have made the management of multilingual projects a piece of cake. The potential market even for a small company is now limited only by the size of planet Earth.

This means that the whole SLV-MLV paradigm is no longer valid. In theory, all localization companies compete with (or complement) each other in the global marketplace. While the traditional concept of company development relied on concentrating more languages and more resources under one roof, this first goal (more languages) has lost its attraction, while the second (more resources) simply means higher fixed costs. It doesn't really matter for the client whether any specific part of the job is done by an in-country subsidiary or by an established independent partner.

Existing MLVs, of course, have more managerial resources, but this is no longer a critical advantage, and may easily disappear. There are very few projects on the radar screen nowadays that can't be handled by a medium-sized localization vendor. Certainly, small companies with a single office are not likely to compete for a straightforward translation project into multiple languages because the marginal profit doesn't justify the headache, but in most other areas of the business they can give things a try.

Now that the traditional borderline between MLVs and SLVs is vanishing, it makes sense to proclaim both categories dead and start classifying companies by the way they are organized/doing business. Which is why I consider it reasonable to call companies concentrating all their activities within one place, SOVs (single-office vendors), and companies distributing tasks among multiple offices, MOVs.

So if concentrating languages doesn't build much value any more, and bigger no longer means better, what can the new goals for concentration be? The only crystal ball available is also, regrettably, the bathroom faucet handle, so I won't pretend I know the correct answer (or answers) to this question, but at least I have one for myself.

Shopping for boutiques

There was one thing at the LISA Forum in Heidelberg in November 2002 that made me believe that an old ghost was wandering in the crowd repeating its favorite line. Almost everybody I talked to among localization vendors was saying something like, "In general, we are all doing the same thing..." Another popular buzz phrase referred to the impression that, during these hard times, the only companies doing relatively well were the so-called "boutique vendors," the ones offering a customized set of services to several large, stable clients. Mmm, I thought.

Reminiscing about his father, Bill Bryson vividly described how the man explained the world to his kids. Among other things, they learnt that an "à la carte menu" means "expensive." And I know that this is exactly the first connotation for the word "boutique." However, I would argue that we should pay more attention to the root of the notion: it does not necessarily mean expensive, but it does means 'different,' i.e., offering something that others do not have. And "regular" boutiques are doing quite well, even in today's troubled economy.

I partially concur with the ghost's opinion: we are no longer different just because we operate in Vulgaria or cover 10+ languages, including Penguin Pidgin. And 'chopsticks' translation is simply not businesslike. Being different does not guarantee success, but it does give you a better chance and also makes your life more entertaining. We strongly believe in this approach at Logrus, and after some consideration, have made efforts to position the company not as an umpteenth plain vanilla localization vendor, but as a company seriously focused on problem-solving, complex technical tasks and other challenges. There are many ways for companies to make themselves different utilizing their existing experience and access to local resources with particular strengths. While it's always hard to foretell how a particular innovation will develop in the market, I am absolutely sure that this is exactly what mature and demanding customers expect from mature vendors. Recent events point in this direction.

Making the difference

Due to natural space limitations (and some near-sightedness), I am not capable of describing my vision of the "New Age" localization boutiques in minute details, but I imagine them being similar to the medieval apothecaries on display at the marvelous German Museum of Pharmacy at the Heidelberg Castle. Just like an apothecary, a localization boutique must be both awe-inspiring (competence and knowledge sparkling in large glass jars) and capable of doing the real job (helping clients). The key factors here are customized prescription drugs (i.e., tailored localization solutions) and a customer-focused approach. Both are unattainable when you deal with the regular drug industry and large pharmacies.

In my view, the list of must-have items in a localization boutique includes:

- Turnkey solutions. Customers strongly dislike shopping for various services in a thousand different places, and this tendency will dominate. I do not see a real future for very special services such as DTP, artwork preparation or type-setting, unless they are complemented by other popular offerings. Similarly, I do not see a bright future for plain and simple translation services.

- Hi-tech services. A significant part of services should be concentrated in the hi-tech area, where customers are unlikely to have a sufficient number of qualified personnel of their own and will have a natural inclination to outsource. These services can cover a wide area, from voice-overs to sophisticated software engineering, from building & debugging exotic platforms to custom-made tools and utilities, and even automatic dictation transcripts. If one of these services is unique to the company, or at least the company is famous for quality or innovation in a particular area, then this surely adds to the company's appeal. And in any case, it is always good to have a cool gadget on display.
- Personal touch. In some sense, this is opposite to CRM. While CRM software makes it possible to service multiple requests efficiently, it also empties communication of any of that essential "touchy-feeliness." I tend to think that the attentive but unobtrusive personal approach, that is slowly disappearing from our lives, only regains importance in the modern world of sophisticated tasks and alienated people.
- Crystal-clear positioning. Prospective clients should have a good reason to enter your store. Shopworn clichés describing the company as "the biggest, the best, the most attentive," etc. will gradually become less and less effective.

Also, I suspect this century will start a new round of specialization. If the company has multiple offices, each of them should specialize in something besides language. Otherwise, subcontracting will in many cases seem easier and more efficient.

- Reasonable scalability should not be displayed, but implied!

All of this makes me want to grab the Jolly Roger and inscribe "Concentrate Knowledge!!!" on it. It's interesting to note that Francis Bacon understood his famous "Knowledge is Power" slogan, not in a figurative sense, but rather in a very straightforward manner, i.e., knowledge gives you power over your neighbors (to dupe and dispossess them). So perhaps this is the right time to bring self-actualization to the company level and substitute the old slogan, "Knowledge of All Languages" with a new one, "Knowledge Ahead of Languages." Long live Francis Bacon and localization boutiques!

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