GLOBALIZATION · INTERNATIONALIZATION · LOCALIZATION · TRANSLATION

CLIENTSIDE NEWS

Intelligence for Global Business

industry focus

offshore outsourcing exposed

It's not what you think

Leonid Glazytchev

General Manager, Logrus International Corporation

Many people will argue that offshore outsourcing in localization has emerged together with the industry itself, because most of translation has always been outsourced. But I would not totally agree. While everybody will say that offshore outsourcing means doing something outside the country and, preferably, doing it cheaply, we sometimes tend to forget another important component: offshore outsourcing means not just doing, but moving something outside the country. We cannot truly move offshore something we cannot do ourselves.

For instance, bringing spices and oriental rugs from Asia long ago was not true offshore outsourcing. At that time, people could not grow such spices or manufacture such rugs in Europe. Today, however, no one will deny that manufacturing computers in Southeast Asia definitely means offshore outsourcing. The same conclusion applies to translation: in most cases, only in the target country or region where the language is native can you produce quality translation in large volumes. Translation is not so much offshore outsourcing as it is a regular import.

This does not mean, however, that localization does not involve offshore outsourcing. There are other aspects of localization besides translation. This brings us back to the question of when offshore outsourcing emerged in the localization industry: the short answer is, when all communications became wired and wireless; in other words, not so long ago.

Just several years ago, the number of tasks that could be outsourced offshore was severely limited. However, the growing level of connectivity in the world suddenly made two things possible: first, clients could start sending their faraway vendors more than just separate files. They could send whole environments on the fly. And secondly, online collaboration became viable, including very fast work turnaround. In a sense, vendors located offshore became closer.

Publishers now had a choice: they could either grasp the opportunities themselves, by outsourcing part of their localization work to their own subsidiaries—those located in areas with lower labor costs—or they could outsource work to the vendors, who suddenly started offering services such as project management, software engineering, testing, DTP, artwork, software development, etc.

Thus, the breakthrough in communications and connectivity created the real basis for offshore outsourcing.

Requirements for Offshore Outsourcing in Localization

One can't start outsourcing IT work to "Nowhereland" overnight. Any potential outsourcing candidate (in this case, a country/region) must meet certain requirements.

1. Attractive pricing: All clients are very keen on this. They need cheap labor. Still, pricing is not the only factor (regrettably), and not the only important one.

2. Easy availability of highly qualified resources: This does not simply mean a certain share of well-educated resources exists in the population; they must be available and qualified for the localization industry. Personally, I think this is one of the most important factors. It gives us perspective for the future. Without easy availability of qualified resources, prices may go north fast and spoil the picture.

3. To obtain high efficiency and productivity, one needs the employees at the vendor/subsidiary to understand assignments adequately and quickly enough. If you have to explain a task too many times, if you get too many (stupid) questions, and need to re-do everything several times from scratch, all pricing gains lose their value.

4. Local resources should understand all technical and cultural contexts involved. They should be well acquainted with the problems that arise from using various alphabets, codepages, standards, etc. I call it "techno-cultural affinity."

5. Adequate communications infrastructure: In the localization context, this means that all localization resources are able to get access to reliable, high-speed Internet.

6. Adequate general infrastructure: It should be relatively easy for local people to do business in the country, and for outsiders to do business with the country. Also, the government should not be too intrusive.

7. Well-organized localization businesses, including both small and medium ones, are present in the area. Otherwise, one has to build everything from scratch, which results in higher investment.

8. Last, but not least, it is helpful if local resources understand English well enough to communicate.

Accompanying these requirements are various challenges that vendors face. The challenges usually increase proportionately with the vendor's remoteness and are inversely proportionate to the prices. Here are just a few:

- Government bureaucracy and arbitrary rule: The government sometimes makes it hard to do business in the country, which creates additional overhead.

- Travel limitations (visa requirements): Numerous visa barriers still exist and are working both ways.

- Inefficient banking systems, non-convertible currency: In some countries, companies still cannot freely dispose of their hard-earned convertible currency.

- Electric power outages

- Difference in time zones

Offshore Preparedness Map

I humbly present my Offshore Preparedness Map for the Localization Industry. This map indicates how well localization companies in various parts of the world conform to the set of requirements presented earlier, as well as meet the challenges; that is, how attractive these areas are in terms of offshore outsourcing, and how they compare with each other. I also tried to forecast conceivable changes in this map within the next 5-10 years.

But first, a disclaimer:

1. The set of criteria, as well as all conclusions and data, are extremely subjective and are based on personal experience, conversations with other people, and press materials.

2. All ratings are presented for the localization industry only and may differ significantly for other industries.

3. Fine distinctions between countries within a specific area may be excluded. Too many details would require a serious independent analysis and much more time. Thus, in some cases, the picture presented may seem too general.

Ireland has been included as a separate entity because it's exactly the place where most offshore outsourcing started; as such, it is an excellent reference point. For all criteria, each area (region) is rated on a scale of 1 to 5, with 5 being the best rating. The ratings presented in the spreadsheet are discussed below. *See Figure 1*

Pricing

In terms of pricing, Ireland and Western Europe are the least attractive places, while China is the most attractive. The Non-EU part of Eastern Europe is slightly less expensive than the EU part.

Abundance of highly educated resources

This relates to the localization industry only. For instance, while there are many highly educated resources in Western Europe in general, the localization industry is neither the most popular nor the highest paying industry. Thus, recruiting good people on relatively short notice can be challenging. Eastern Europe is the obvious leader, with its centuries-old high standards of education and its abundance of well-educated resources.

Understanding Tasks & Assignments

Ratings in this category are based on my experiences in the various areas of the world. The criteria I used to determine the ratings in this category are simple: How well do people understand the gist of their assignment? How big are the delays caused by long discussions and query chains? How different is the end result from what you expected?

Concerning the low ratings for Southeast Asia: people in the East tend to have their own ways -- not better, not worse, just different, and this is sometimes underestimated or perceived improperly. For instance, I remember sending a translation for review to Taiwan, and asking the vendor to provide not only the error list, but also a general quality overview (terminology, style, etc.). Most CSN readers would likely have returned a couple of paragraphs with their impressions and critical comments. However, what I received was a single word: "correct." In other words, the translation was correct. This overview was in no way close to my expectations, but it reflected the cultural ethical approach of the locale.

Figure 1

Area/Category	Pricing	Abundance of Resources	Understanding & Creativity	Cultural Affinity	Communication Infrastructure	General Infrastructure	Localization Business Maturity	Understanding of English	TOTAL
Eastern Europe (EU)	3	5	5	4	4	4	3	3	**3.9**
Eastern Europe (NON-EU)	4	5	5	4	4	3	3	3	**4.0**
Ireland	1	4	4	5	5	5	5	5	**4.0**
Western Europe	1	3	3	5	5	5	5	4	**3.6**
Southeast Asia (excl. China)	4	3	2	3	4	3	2	3	**3.1**
China	5	4	2	2	3	3	2	2	**3.1**
Latin America	4	4	4	4	4	4	3	4	**3.9**
India	4	4	4	4	4	4	3	4	**3.9**
Middle East & Transcaucasia	3	2	4	3	3	3	3	3	**3.0**
Weight	**1.5**	**1.3**	**1**	**1**	**0.8**	**0.8**	**0.8**	**0.8**	

Techno-cultural Affinity

People around the world are not always aware of the latest developments in the US and Europe, which makes it harder for local resources to grasp the technical and cultural context involved. One should not underestimate this factor: most products and content that the localization industry deals with are directly related to cutting edge technologies.

For instance, living in Russia 10 years ago, I didn't quite understand how calling cards worked. None existed in Russia at the time. The Flash button on your phone is absolutely irrelevant for pulse dialing, and for telephone networks lacking the proper technology. The same can be said about various other pieces of modern technology or approaches or traditions that are characteristic of the Western world only. This is why Ireland and Western Europe are obvious leaders here.

Communication Infrastructure

Even if 90% of the people living in a country do not have access to the Internet, it doesn't matter in terms of outsourcing localization offshore. The real question is, how fast and reliable is the access for those remaining 10%? Nowadays, it is good or satisfactory almost everywhere.

General Infrastructure

How many obstacles must local companies or people overcome to start working as offshore vendors? How bad are the government bodies' influences? How hard is it for foreign companies to deal with in-country vendors? I must say that various people rate it differently. For example, one of our clients who has moved testing to Russia from another country said that he was robbed by the customs officer at the airport in the other country. That would never happen in Moscow, but our Georgian translators were complaining about power outages. Every country has its infrastructure issues.

Localization Business Maturity

Starting from scratch means higher investment and delays. Local localization agencies may prove to be valuable partners here. But do they exist, and how established are they? Western Europe and Ireland are again the leaders here.

Understanding of English

The Irish are lucky: English is their native tongue. People in Western Europe, India, and Latin America are also frequently fluent in English.

Weights

While all criteria listed above are important, they are not equally important. I have considered that "Pricing" and "Abundance of Resources" are crucial categories, followed by "Understanding Tasks and Assignments" and "Techno-cultural Affinity." Weights have been normalized (their total equals the number of criteria). While these weights are extremely subjective, I did find that varying them within reasonable limits did not produce dramatically different results.

Map Summary

I will reiterate that all of the data presented here result from a very rough generalization. Particular countries or vendors may stand out from the crowd both ways. Nevertheless, one can make several conclusions, even on this level.

The most striking and conspicuous conclusion is as follows: there is no distinct leader. While Eastern Europe (NON-EU) and Ireland (despite the pricing) seem to be a little bit more attractive, three other areas follow closely: Eastern Europe (EU), Latin America, and India. The difference is well within the error margin.

Each of the areas has its own strengths: Ireland has an unrivaled localization infrastructure (nonexistent 15 years ago and created by significant investment in the area). Eastern Europe can offer good pricing and is famous for its abundance of qualified resources. Latin America and India display consistently strong results across the whole spectrum of criteria.

Pricing is definitely important, but it doesn't seem to be the decisive factor. Despite China's and Southeast Asia's high ratings in pricing, their overall ratings are among the lowest.

Forecast

In my view, the localization industry differs from both manufacturing and relatively simple services (such as call and support centers) because our industry requires highly qualified resources capable of doing a variety of tasks—as opposed to large numbers of resources doing simple, repetitive tasks. While it takes just a couple of months, even in the least prepared areas, to train people to assemble electronic equipment or answer calls, it takes much more time to train good localization specialists. Compared to assembly workers and the like, the number of localizers needed worldwide is low.

Given this, I doubt the need really exists to create new localization facilities in today's "price havens." New facilities involve serious investments and long learning curves. Cheaper alternatives will likely appear naturally.

Still, an investment-driven revolution could happen. Something like the Irish localization phenomenon, which was mostly the result of purposeful investment, could be recreated in, say, China. The only question that remains is this: given the time and money it takes, the limited localization needs, and the inevitable growth in prices, is it really worth doing? Consider that prices for programming and services in India have grown considerably since the time it has been re-discovered as an outsourcing haven.

Trying to forecast what the industry will look like in 5-10 years, it is reasonable to suppose that changes will mostly occur in two areas: First, rates will generally go higher, especially in Latin America, which is reviving after the crisis. (I do not believe in long-lasting after-crisis bonus prices, as I have seen them miraculously return to original levels in a mere four years after the Russian crisis of 1998.) And secondly, localization maturity and communications will improve, while most other factors will remain on the same level (China is the exception here). Changed values are highlighted in the second table, *figure 2*.

Unless the investment revolution happens, my guess is that the countries most attractive for offshore localization outsourcing will remain the same, even though the gap between leaders and the rest of the crowd will start closing.

Summary

Will offshore outsourcing create a new world order? This new order has already been created, and offshore localization is already a part of everyday life. Massive offshore movement began 10 to 15 years ago, and the best proof is what we currently see in Ireland.

Is the old world of localization doomed? I doubt it. In my view, the changes in the world distribution of work that have already happened during the last 10-15 years are much bigger than the ones we are facing. We already went from virtually no outsourcing to well-organized and structured offshore outsourcing. I do not see serious new players (for example, from Africa) emerging on the world offshore localization map. It takes decades to breed and educate needed resources, so it's more relevant to talk about some further re-distribution of work. The fact that Ireland will remain relatively attractive based on all the efforts and investment already made, the industry is looking forward to evolution rather than revolutions.

Does it mean that existing companies can sit and do nothing? No way! Dinosaurs became extinct because they were not flexible enough. Understand that the industry is moving from outsourcing languages to outsourcing tasks. Companies concerned about surviving should take care to invent an ecological niche under the new circumstances. So the current slogan is: Stand out from the crowd and be special!

Acknowledgements

I am grateful to Teddy Bengtsson, IFL CEO, for going through my figures and providing valuable feedback.

Figure 2

Area/Category	Pricing	Abundance of Resources	Understanding & Creativity	Cultural Affinity	Communication Infrastructure	General Infrastructure	Localization Business Maturity	Understanding of English	TOTAL
Eastern Europe (EU)	2	5	5	4	5	4	4	3	3.9
Eastern Europe (NON-EU)	3	5	5	4	5	4	4	3	4.1
Ireland	1	4	4	5	5	5	5	5	4.0
Western Europe	1	3	3	5	5	5	5	4	3.6
South-East Asia (excl. China)	3	3	2	3	5	4	3	3	3.2
China	4	4	2	3	4	4	3	2	3.3
Latin America	3	4	4	4	5	4	4	4	3.9
India	3	4	4	4	5	4	4	4	3.9
Middle East & Transcaucasia	2	2	4	3	4	4	4	3	3.1