

HOW EASTERN EUROPE FITS INTO THE EUROPEAN TRANSLATION MARKET

Our mission is to provide high quality innovative language solutions to our customers while being the best employer and most respected business partner in the localization industry.



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As the American CEO of one of the fastest growing localization companies in Eastern Europe, and having lived in the region for more than 13 years, you might expect a unique perspective. However, my observations will probably seem quite standard and actually apply to translation/localization companies all over the world. The arguments I present here are typical of discussions related to offshoring and basing production operations in low cost versus high cost countries. This article aims to address the state of the translation industry in Eastern Europe, so from here on in by high cost countries I mean those in Western Europe and the by low cost countries I mean those in Eastern Europe.

One disclaimer before I get rolling: There is a big market out there. Even if I suggest that some companies need to change if they are to survive, every well-run company, no matter where they are based, cannot just survive, but thrive.

OLD EUROPE IS CHANGING

Before we look at “New Europe” we need to see what’s been going on in the so called “Old Europe”. I often hear complaints from Western European companies like, “Prices are coming down...”, “Our clients are squeezing us all the time...”, or “Turnaround times are dropping...it’s tougher than it used to be...” Most good Western European translation companies are comfortable businesses. They are excellent companies providing very high quality services into a growing market. They have had a good 10–15 years of relatively high margins in high cost countries doing predominantly French, Italian, German, Spanish, as well as a handful of other languages. I think a change that is occurring though is that the market has become more competitive, there are more companies out there and many West European translation companies are not geared toward more aggressive sales and marketing. Added to this, due to the phenomena of offshoring translation work, prices are coming down and it’s harder to offer competitive pricing in high cost countries. Here, the issue of sales becomes important.

IT MUST BE ROCKET-SCIENCE

Sales is relatively simple in theory, but doing it is hard work. It’s not (and never was) just about putting an advertisement in a trade magazine or setting up a stand at an industry event and waiting for things to happen. It’s grunt work, it’s cold calling people systematically by the thousand, it’s doing niche market trade shows (well and thoroughly), it’s making lots of personal visits and tracking everything meticulously. It’s educating the market about why localization matters and not just selling to the converted. There has been a tendency in the translation industry for companies to rely too heavily on fat cats (big, rich localizers).

Many companies get one or two such clients, lock them in by deeply understanding their business and documentation processes and over time come to expect that they can live happily ever after off of such stable high price clients. Well folks, times have changed. The “New Europe” has arrived (and not only the New Europe, but the New China, the New and Improved Argentina, and developing countries everywhere). A more mature market with more competition is developing. The big localizers are the most mature purchasers of translation services, and often have global sales and need to localize into

developing countries' languages. They are among the first to move their business to low cost countries (it's already happening) when they realize they can get the same quality as in more developed countries. Often the sales/marketing angle among translation/localization companies is about how hard our job is, how very complicated and difficult it is. As much as everyone in our industry wants to make what we do look like rocket science, unfortunately it's not. Sure it's hard, but every business is hard these days. We need (like everyone else) to have the right processes in place and to ADD VALUE. This is where the real problem lies with Old Europe.

BEING A GOOD TRANSLATOR USED TO BE ENOUGH!

Every business needs to ask itself whether or not it is adding value through its processes. A business shouldn't exist if it doesn't add value. The value added in a translation business is first and foremost a proven business process to handle the complex task of multilingual translation or software localization. This translates into a need for excellent project management, top quality resource recruitment, and the technical skills of localization engineers and DTP experts who can work under pressure and excel at troubleshooting problems that occur in the process. The differentiator here is operational efficiency. The translation company that provides the well organized, efficient processes and the experienced resources at the lowest possible cost will prevail. The main problem that many Western European translation companies have to face now is the ability to offer their clients cost savings. The business process of providing high quality translation/localization services is quite simple (there are a lot more complicated business processes out there). This is not to say that it's easy. And yes, there are many, many companies out there that have bad processes in BOTH high cost and low cost countries. The bad news for high cost service providers is that an increasing number of companies do this well or very well in low cost countries and this number will grow. This is where the problem really lies for Western European translation/localization service providers and an important question arises from this difficulty.

WHAT DO I DO WHEN MY CLIENTS KEEP ASKING FOR COST SAVINGS?

Well here are some obvious choices for Western European translation companies:

- Reduce costs. Cut what I pay my vendors, hire cheaper employees and lower my infrastructure costs, but all this really does is lower quality. This is a recipe for disaster.
- Scream at my clients about the importance of quality, how much money it costs to guarantee it and the risk they are putting their businesses in when outsourcing their work to cheaper countries. This might work for a while, but sooner or later clients will wise up to the fact that cheaper does not necessarily mean lower quality.
- Shut down my Western European office and set up a new office in Eastern Europe. Why hire cheap labor in London when you can hire the top flight labor in Moscow? This is clearly the best of the 3 options. It's logical, it isn't easy, but it isn't impossible either. It will take a lot of work, which nobody really wants, and the truth for most translation owners is very simply, "I don't want to spend half my life in Moscow."

WHAT CAN WESTERN EUROPEAN COMPANIES DO?

In my opinion the only production facilities in Western Europe that can survive are the ones that process very high volumes of work. But even the larger players will have their production facilities in China and other low cost countries. Nobody needs to see the so-called back office and the major players can keep sales offices in all the strategic locations.

I believe there will always be room for smaller “boutiques” that specialize in niche sectors. Smaller projects in niche sectors can be less price sensitive and these local companies should thrive by offering high quality local customer service. This is exactly what I would do if I were running a translation company in Western Europe. I'd make sure I am not doing everything, I'd become highly specialized in a certain field, and focus all my sales and marketing energy on that. In addition I would try to service the smaller and medium size companies in my local market that are just starting to think about going global. Stick with local markets, where no one can talk to your neighbors as well as you can.

DOESN'T QUALITY MATTER AT ALL?

This may sound like I am arguing that all that matters is price, but that is not what I think. Quality is a default element that every company needs to provide in order to succeed. I am not even thinking about companies that do not offer a high quality translation service, on time and on budget. They are doomed. I am talking about a more troubling phenomena where really good companies, with excellent processes are having trouble competing due to their location and their cost structure.

SO WHAT'S SO GREAT ABOUT EASTERN EUROPE?

Many of these arguments apply just as well for China and Argentina as they do for any country here in Eastern Europe. So what are the main advantages of having your production facility in Eastern Europe, apart from price? Here are three important factors:

1. People. Eastern Europe is a hotbed of young talent.

These countries boast a highly qualified and well educated workforce that is both ambitious and fluent in foreign languages. We are in Europe and are used to dealing with European cultures. It is much easier to do business and create productive work environments when you don't have to tackle the issue of major cultural.

2. Location.

With the advent of low cost airlines (\$100 roundtrip to most major European cities), Eastern Europe is 1-2 hours away from a vast number of very attractive markets. The compactness of Europe (in comparison to the US) makes the client acquisition process much more efficient. We operate out of the same time zone as most of Europe and we can be there tomorrow (if not today). With the right organization in place a company can have a low cost production facility teamed with a Western European sales force. It's compelling, isn't it?

3. Technology.

Many people don't realize how technically advanced Eastern European countries are. Many Eastern European companies are more technically advanced than their Western European counterparts.

Eastern European countries leapfrogged with regards to technology, from having nothing to having the most modern IT infrastructure available. A big part of this is also psychological. The massive changes that have taken place in these countries may have some negative consequences from a sociological point of view, but the fact that people are generally willing to accept change is key when implementing new technology.

WHAT ARE THE CHALLENGES?

If I have made it sound like operating out of Eastern Europe is just plain wonderful, with only benefits, and no drawbacks. Here are some of the poison pills you'll have to swallow with your cake:

- **No local clients.** This is one of the main disadvantages to operating out of Eastern Europe. The local market for translation and localization services is just plain terrible. There is no culture of being ready to pay for high quality translation. Translation is looked upon as a secretarial task that anyone can do and the key is to choose the cheapest. I have been to many meetings with the Eastern European management of Global 100 companies and have felt about as important to their business as a garbage man (oops, politically correct, "waste disposal specialist"). This means that we have to sell abroad to make a living.
- **Some turnover of staff is inevitable.** It is just part of the game and you have to deal with it. The truth is there has been and will continue to be a large "brain drain" exodus of skilled workers to the West. We've lost some good people, but fortunately thanks to the job market we have had relatively little problem with staffing.
- **Try competing against Euro 0.03 per source word.** Think price competition is stiff in Western Europe. Check out what it's like here in Eastern Europe. You can't get quality for that price, but it is a market reality which means more money and effort to educate the local market if that is what you go after any local business.
- **Bureaucracy is a nightmare.** People all over the world complain about bureaucracy, but I can't imagine it gets much worse than Eastern Europe (maybe China, but I can't even imagine that).

There are so many crazy rules to run a company according to regulations. I can't speak for all Eastern European countries, but I can speak for Poland and say that the commercial code was written for manufacturing facilities, not office work. Can you imagine that we have to pay to have people train us on office safety and if we don't we can be fined or closed down. We are a translation company, not a factory and this is only one small example.

HOW ABOUT SOME COLD HARD FACTS

Ok, I understand that what this article clearly needs is a table or something really juicy and of enormous value. How much do things really cost in Eastern Europe?

The table below provides an estimate of the costs for a translation company in Eastern Europe. Please take this as no more than a very rough indicator; costs change from country to country, e.g., Slovene is far more expensive than Bulgarian. It is useful as a point of reference though. Most serious Eastern European service providers would probably agree with these figures.

If we look at these figures in Western European terms, Euro 0.05–0.06 for infrastructure and fixed costs is quite a bargain. It is important to be aware that some costs are the same in Western and Eastern Europe. You can't get legal Trados or SDLX licenses any cheaper in Poland or the Czech

Republic than in Western Europe. Every computer has to have an operating system and other basic software as well. Also linguistic costs tend to be the same for everyone. We may be able to negotiate a bit better being based in Eastern Europe, but the figure to focus on here is the cost of infrastructure per word.

Cost per Word in EURO	
Translation Company with a capacity of 4,000,000 words annually (PMs, engineers, rent, software, computers, etc.)	0.05-0.06
Linguistic Costs (Translation + Review, professional translators with TM experience, testing)	0.04-0.05
Total	0.09-0.11

A BOLD PREDICTION

The next big player will come from Eastern Europe and it will be Moravia in the Czech Republic. They are currently ranked 15th according to Common Sense Advisory's ranking of the top 20 translation companies in the world. I'd be willing to bet that Moravia moves into the top 5 within the next 5 years (providing they don't get bought out) and then who knows... Look out Lionbridge and SDL! I like their strategy and I like their approach to sales. Why would I be promoting a competitor? Well first of all I think it's good for Argos to draw attention to other successful organizations from our region of the world. Also, as I have already mentioned there is plenty of market out there for all of us to share.

I don't see anyone cornering the market in the translation industry, I just have a feeling that a much larger share of it will be located in Eastern Europe five years from now.

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