



ARGOS COMPANY LTD.

That Dirty Little Four-Letter Word

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That Dirty Little Four-Letter Word

No, it doesn't start with an „S“ or an „F“ and there is no „Q“ in it. This word in our industry is cena and it is the Polish word for „price.“ Price is usually, as anyone and everyone knows, the defining factor for customers on whether to purchase, and the defining factor for producers on how to target their products to the client base.

What horrible secrets about Eastern European pricing will be revealed in this article? Probably nothing too revolutionary. Hopefully this article will expose some common sense responses to issues with pricing, and probably address several universal problems shared by all translation and localization companies in the rest of the world.

There is plenty of talk about localization ROI and how it affects pricing. The decision of whether it pays to localize something before you decide to enter a market sounds obvious. Why then do we see companies complaining about localization costs in the context of their ROI?

The underlying issue here is that companies are complaining about their products' lack of competitiveness. It happens, there's no shame in that. No matter how you slice it, it comes down to money. And if there is not enough demand backed by money for a product, then localization, in the eyes of management, doesn't seem to pay off. If an application is designed for Eastern European end users, then it either has to be relatively inexpensive or should be tailored to a specific niche market where lower sales volumes give an acceptable return. The Eastern European software market will not usually generate huge sales based on its size alone anyway.

Talking from experience, Kevin Fountoukidis discusses and explains the reasons behind low localization prices in Eastern Europe.

1. ROI – ‘Don’t bother localizing if you can’t make a profit’

As such, localization decisions are often put on a back burner, and investment decisions are based on poor information about the market. The result - a company finds itself in Eastern Europe before it has properly estimated sales potential. Then, normal business processes come into play; managers are pressed to make a profit, and we see the localization problem handed over to the local distributor.

All of a sudden, a company that specializes in software distribution is responsible for the software publisher's image and quality in the local market. Local distributors are often very small, with little infrastructure, inadequate resources and small translation budgets (coming out of their own small pockets). Nonetheless, localization responsibility for the product is suddenly literally dumped upon them. This imposes additional problems on the distributors not only associated with added incurred costs, but also the problem with answering questions such as: 'how to localize', 'what agency to hire', 'how to go about adapting the product to this region'...

It all boils down to one simple fact, distributors usually lack the experience in localization, and that lack of experience will further result in declining sales numbers and added costs.

Software publishers fool themselves into thinking that it is so much in the distributor's interest to do a great job localizing the product (ergo, the distributor will have an easier time selling the product) that they, themselves, don't need to worry about it. However, distributors usually don't understand the complex issues connected with localization. Even if a distributor does recognize what's involved, the „simple, low-value added service“ attitude toward localization prevails. The real world consequences are poor-quality localization and serious harm to the software publisher's image and brand.

What are the organizational structures of larger buyers of localization services, and how do they affect the price of translation? It seems as if Microsoft is getting its act together by limiting the number of vendors and giving the remaining more work. IBM and Oracle also seem to be well-organized in this respect. Unfortunately, there are other large buyers of translation and localization services that have not addressed the issue of centralizing or streamlining costs.

It is quite remarkable how some large buyers deal with this problem. Our translation company, Argos, works with one particular client directly through two different offices and indirectly through three other localization companies. Of course, we are paid different rates, negotiated completely independently with each of these channels. And now the punch line: the rates we receive working through one localization company are 50% higher than what we receive working directly for the client. So where are the client savings? Where is the streamlining? What about consistent terminology? The value of working through a limited number of MLVs is understandable, but what is the point of doing it a little this way and a little that way?

How the biggest clients deal with their translation and localization is only one issue. Another question is how far these companies are willing to go to lower localization costs. Last year, our company was in negotiations with a very large global company to take over a large portion of their Slovak localization work. I am not going to name any names here, but suffice it to say that this is one of the elite, with over \$50 billion in annual global sales. Since this was a large, long-term client, and there were significant volumes involved (mostly documentation), we decided to quote this client the extraordinary attractive price (at that time) of Euro 0.12 per source word.

The company got back in touch with us to tell us that they really liked our experience and wanted to choose us, but they had an issue: price. We asked whether it was a question of 1 or 2 Euro cents, and they made it clear that the price would have to be „significantly“ lower. It was obvious that we weren't even close to their price expectations. They were looking for Euro 0.07-0.08! How is it possible that the rates being paid by this particular global giant were so low? How does this reflect upon our industry? The only answer I can offer is that such clients receive low prices at the expense of similarly low level of quality that they obtain.

2. *What's going on among the bigger buyers of translation/localization services?*

3. *Quality: does anybody really care?*

I was recently dozing through a translation conference as one of the speakers, a professor of linguistics, was discussing the ethical importance of a high-quality translation. I was suddenly jolted awake by a statement he made along the lines of „it is the translation vendor’s ethical responsibility to ensure the highest-quality translation.“ When question time arrived, I duly asked what we should do if our client does not give us enough time to do the job in an „ethically responsible“ manner. The gentleman told me that it was our moral responsibility to ask for more time.

As good and applicable as his reasoning is, unfortunately it almost never applies in the real world. I tried to imagine the response that I’d receive if I were to call my client and suggest, „Listen, I know this is a 1.2 million-word project, but you really should have met your development schedule. And I know that your priority was to ship FIGS first, but this was delayed. And now, on top of all that, you want us to use this outdated TM software because this is what your previous version was in, yet the TM database we have received is full of inconsistencies that need to be removed before we start translating the new version. What it really comes down to is that we are only going to have time to do the translation and have it reviewed independently TWICE. This won’t be enough to maintain our ethical language standards.“

Unfortunately, the truth is (maybe I shouldn’t be saying this too loudly) that our business is full of concessions. It is a humorous concept, really, when you take into consideration that we are supposed to offer incredibly high-quality, incredibly fast turnaround times at incredibly low rates. Obviously, something has to give here, and I believe that the way localization companies handle this contradiction is by diminishing the definition of excellence in our industry.

The best companies in our industry are the ones that have the best systems in place to provide the highest quality possible while trying to maintain costs at a level that does not hinder such quality, according to „real world“ business conditions. Otherwise, we’re all familiar with the concept of ‘garbage in, garbage out’. It is that simple, really.

Well, simple logic follows that the software publishers and the larger buyers of translation and localization services are in control of the prices themselves. They will define the prices simply by deciding what level of quality they are willing to accept and pay for. Unfortunately, this sets up an inverse relationship between price and quality. In the end, though you can find a wide range of prices, the choice which localization company you go with will be your own. And even though price might be the defining factor, just remember, you get what you pay for.

The table below provides a rough estimate of the costs for a translation company in Eastern Europe. Please take this as no more than a rough indicator; the costs change from country to country, e.g., Slovene is far more expensive than Bulgarian. It is useful as a benchmark though, and I am convinced that most serious Eastern European service providers would agree with these figures.

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

4. *So, how does all of this affect price?*

5. *The truth about Eastern Europe*

What About Profit?

Just because a company is based in Eastern Europe doesn't mean that it doesn't have serious costs. We all know that you can't get Trados or SDLX any cheaper in Poland or the Czech Republic than in the West. Every computer has to have an operating system and other basic software as well, all of that costs too. The top staff needed to run a professional localization company doesn't come that cheaply either.

If we look at these figures in Western European terms, Euro 0.05-0.06 for infrastructure and fixed costs is quite a bargain, but that is still far from zero, as some requests for quotes would seem to imply. If we add to this the linguistic costs, which include professionally trained and tested translators, reviewers and specialists/consultants, the cost per word for translation goes up to between Euro 0.09-0.11. Remember that this is the COST to the company.

These rates are fine if we assume that professional localization companies will continue to operate in this industry without making any real money. However, let's not kid ourselves. Neither are we, nor our clients, nor our clients' clients, in business to come out even. Unfortunately, the prices for Eastern European translations generally hover around the level of Euro 0.09-0.11 (when working directly with Eastern European companies). The truth is that nobody is operating a business with the intention of losing money, so something has to give, and something does give.

So, taking the above into effect, how do all these translation/localization agencies stay in business, stay profitable and make money? There are two routes to making a profit at these price levels in the short term:

1. El Cheapo: Of course you can get the one-off translation that is good and cheap, but try getting it day-in, day-out. If you were to come to a country such as Poland and open the phone book, you would find that companies are charging as little as Euro 0.03 per word for translation. These are real companies, and they are somehow operating, paying rent . . . even advertising in the telephone book. I invite all the skeptics to see for themselves. This is real. Agencies such as these will find the rates mentioned above to be extremely profitable. I am not going to even start to discourage anyone to use such services. However, I will continue to stand by my prior statement, i.e., „you get what you pay for.“
2. Higher volumes: This is the model we follow, and we are profitable. You need to have a high enough volume to lower your fixed costs. With higher volumes, you can

hire better people full-time, including very high-quality, in-house translators, and you can offer better customer service. However, you must have the work day-in day-out, that is the key. Of course, the profitability will not be as high as with the „El Cheapo“ model, but at least the business makes sense. It keeps running. Most importantly, it doesn't cut down on quality.

„Dumping“ is actually not the right word here since it implies that a company might be acting strategically to drive other companies out of the market. This is not the case with the Eastern European translation market. The reason why companies find it economically viable to offer such cheap translation services is that there is a market for it. The market is internal, and it is a result of the attitude toward translation in these countries.

We joke that we are „garbage men“ (to be politically correct we should say „waste disposal specialists“). But we really are treated as such. This is a non-value added service that almost 'anyone can do'. Most people, when choosing their garbage company, base their decision on? All together now: price. Same case applies here. „Make my problem go away, and the cheaper the better. „

The prices that are paid in public tenders are a good indicator of the state of the market in Eastern Europe. We don't compete for public tenders at all because the prices are just ridiculous. I was reviewing the results of such tenders in Poland in 2002, and the price that won on average was Euro 0.03 per source word. This is often for tens of thousands of pages of work. Companies work at these rates and neglect the concept of quality and standards altogether.

„You get what you pay for.“

6. *Price dumping: a reality in Eastern Europe*

7. *The light at the end of the tunnel*

There may be some individuals who will not be pleased that I have revealed our „dirty little secret“ here in Eastern Europe regarding the true prices available on the market. Possibly, there will be some readers who are encouraged by the news that you can get „even cheaper“ translation services. I am totally confident that this will change in the future. The numbers are real, but they can't last forever. Something has to give, and quality standards will be victorious in the end.

We are still in a period of transition in Eastern Europe, so it will just be a matter of time before the market sets itself straight. No company is going to stay in business by offering low-quality services over a long period of time. The time of quick and easy money in this business is coming to an end. The more fingers that are burned with these ultra-cheap translations, the faster the market will get to where it should be.

Prices in Eastern Europe will eventually increase. Prices in some higher cost countries will fall. It is just a matter of time before the prices all over the world will even out, and agencies will have to turn to their abandoned competitive advantage: quality. Once Western companies understand that Eastern European companies can offer the same level of service, or better, than their EU and US counterparts, we will see a real level playing field when it comes to pricing.

Consequently, until the four-letter word of pricing is addressed, though, there will be a number of other four-letter words that may be applied to the quality of localizations being done, such as, „This localization is a load of XXXX, what a XXXX up!“

Kevin Fountoukidis was born in New York City. He received his undergraduate degree from the University of Wisconsin-Madison. Immediately upon graduation in 1992, in search of new experiences he moved to Eastern Europe. He soon founded **Argos Company Ltd.** in 1996 and presently is its managing director and the company's largest shareholder. The company has become one of the market leaders in providing Eastern European translation and localization services, all in the short span of just six years. Kevin has resided permanently in Poland since 1993. He can be reached through sales@argostranslations.com.

MEMBERSHIPS



- ISO 9001: 2000 certified (BVQI)



- GALA (Globalization and Localization Association)



- Argos is an approved EU translation vendor



- LISA (Localization Industry Standards Association)



The American Translators Association

- ATA (American Translators Association)

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