Are CEE LSPs ready for the expectations of global business?

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Mergers and acquisitions (M&As) are on the rise in our industry. Bigger guys are buying smaller guys and becoming even bigger, and it's a trend that seems to be accelerating in the last half of 2018.

Market consolidation is in full swing across the industry. One indication of how the market views Central and Eastern Europe (CEE) companies is how interested bigger companies are in buying companies from that region. So far, the interest is mild to moderate.

However, CEE companies are — in some cases — not only being acquired, but they are buying serious players. A great example here is Argos, which bought SH3 and its portfolio of clients, and then last year bought ENLASO.

M&A rationale

Among the first reasons public relations departments offer for an M&A is "we do it to better serve our clients." Not long after, the companies publish financial results with triple-figure growth rates and everyone in the industry has something to talk about.

Better service for clients is one of the most legitimate of reasons, no doubt. But better in what respect specifically? Expertise in a vertical? Perhaps. Geography? Maybe. But when you think about it, what's the bonus for a multilanguage vendor from the United States in buying a company from CEE, for example?

Lower cost of labor might be an obvious answer, but today's market reality is not the same as it was ten years ago. Some of the bigger translation businesses, for instance, closed their Polish operations not long after they moved them from Slovakia. If you take a look at localization M&As, CEE companies do not appear as forcefully as companies from some other regions. Unless it's Moravia, but that's a different story. But wait — is it really?

Why can Moravia be successful and be perceived as fit for servicing global customers and thus become a subject of the hottest M&A in our industry in recent years, and many of the other language service providers (LSPs) from this region are not, at least not yet? If you think about this in terms of how we are fit to meet the needs of different clients, from different verticals, from different parts of the world, is location the deciding factor in evaluating our capabilities?

Maybe. It appears that others sometimes see us as great subcontractors, not yet on the expected level when it comes to managing the localization needs of the bigger and smaller players in the global business.

The allure of locale

Translation companies all over the world used to boast of the number of offices they had in different major spots of the globe. New York, Tokyo, London. Having all these locales, even if there was one sales person there and no one else, meant prestige and meant they were theoretically ready to serve global businesses around the clock. In this respect, we were no different than any other business in the world. In fact, there are still companies out there, especially those starting up, that consider showing they are operating from three, five or ten locations as one of the most important elements in their initial marketing efforts. However, times have changed and the issues generated by time zone differences have been drastically minimized. This aspect of LSP organization still seems to be the factor of huge importance to potential customers, though. But this is not necessarily an essential factor. It is highly unlikely that your single business development person in Los Angeles will wake up 20 translators in Warsaw or Prague in the middle of the night so that the project gets done quicker. Even if this were attempted, the most likely scenario would be that the next day their vendor manager would have to deal with a few "please remove me from your database" requests.

There are other simpler and more efficient methods of dealing with this that make the whole time-zone problem irrelevant. But in the end, this might not matter.

As a CEE company, we have had several instances of investing quite heavily in a presence at various trade shows around the world, talking to the right people and getting nowhere. Although, yeah, "I've had a great conversation" means that most probably the deal goes to someone else, not yourself.

What happened? I'm thinking of one scenario where we were known to be experts in the niche. We even created a micro brand for this specific vertical and had been working for several years on being recognized in the industry, and pretty much succeeded in the end. However, the company from Tokyo went with a "we-do-it-all" LSP from Tokyo. This seemed strange to me, as I could not recall any Asian language among the 18 languages they needed, so there didn't seem to be a distinct location advantage there.

Another potential customer from London "went with a translation agency around the corner." A German company that worked with us on CEE content for their manuals also worked with a German company for all other languages, although that LSP did not specialize in the field at all.

I might think that being an expert in a vertical is far more important than location, but it looks like the reality is the other way around for buyers. It seems like the closer an agency is to a customer, the safer the customer feels. The location becomes a currency of trust. And let me make this clear: I don't think physical location is efficient or highly relevant in this respect. But I appreciate the fact of its being a nice remnant of doing business the old-school way, where a handshake mattered more than pages and pages of service level agreements and nondisclosure agreements. It is indeed soothing in a way, if you think about it.

CEE realistically

The truth is that things are not all bad for companies from CEE, not at all. It's quite the opposite, in fact. There are great success stories that show that yes, we are fit for servicing global business on the same highest level as companies based in Berlin, Beijing, Washington, Stockholm and all other corners of the globe. Many of us are single-language vendors or regional players acting as subcontractors for multilanguage vendors from all around the world. We work with LSPs from the US, China, Northern Europe, Eastern Europe and some of us work with clients from Australia. Oh, Australia — this one seems the hardest case to manage, yes? Not necessarily. We have a customer based in Portland, while their headquarters is in fact in Sydney, so the time zone-related matters might be the biggest challenge in this relationship. And guess what? It's all OK. It's all manageable. Everything works smoothly. It's just a matter of good organization, discussing certain potential pain points at the start, and off we go. And the truth is that if we can make this customer happy, we can make any customer in the world happy.

Our location in CEE is not really an issue. In fact, if we are able to accommodate the needs of multilanguage vendors — often huge companies that require extremely demanding management, turnaround and quality, and whose size often matches or exceeds the size of global businesses from other industries, whose organizational structure and culture is often the same as at any Fortune 500 business — then we are able to serve any business anywhere in the world. We can do this right from where we are located and provide the same level of service as any LSP in any traditional world business hub like New York City or London. After all, we are in a business worth roughly $45 billion annually, right?

If you look closer, a CEE location can be an advantage. Look at this past June's LocWorld conference — for the first time in its history, it took place in this part of the world, in Warsaw. Eastern Europe is becoming more and more visible on the localization map. It's actually become a localization hub, and for a reason. We are no longer more or less nameless providers in a big company's vendor pool. We are partners. Reliable, predictable, delivering on time, on spec and on budget. Just like our colleagues from the North or West. And we are fully capable of delivering what's required. We add value. Out of the box. Right now.

So, going back to Moravia — are we capable of being equally successful? Two years ago at the ELIA for Executives conference, Arturo Quintero discussed how the company started as a single-language vendor, going through the regional stage up to becoming a global multilanguage vendor worth hundreds of millions. I thought, "Hey, so it is really possible!"

We can build the value of our businesses so that they are considered worthy targets for acquisitions that substantially enrich any aspect of the leading organizations in the language industry. So that we are the go-to location for any business in the world that wants to grow. Without changing physical location. Without pretending we are something that we are not — I'm still confused when I see a Polish company pretending to be an American company or a Bulgarian company pretending to be a British company. Does it work at all in terms of growing your business? If anyone knows, let me know. Meanwhile, I'll be in CEE, continuing to ready the market. **[M]**