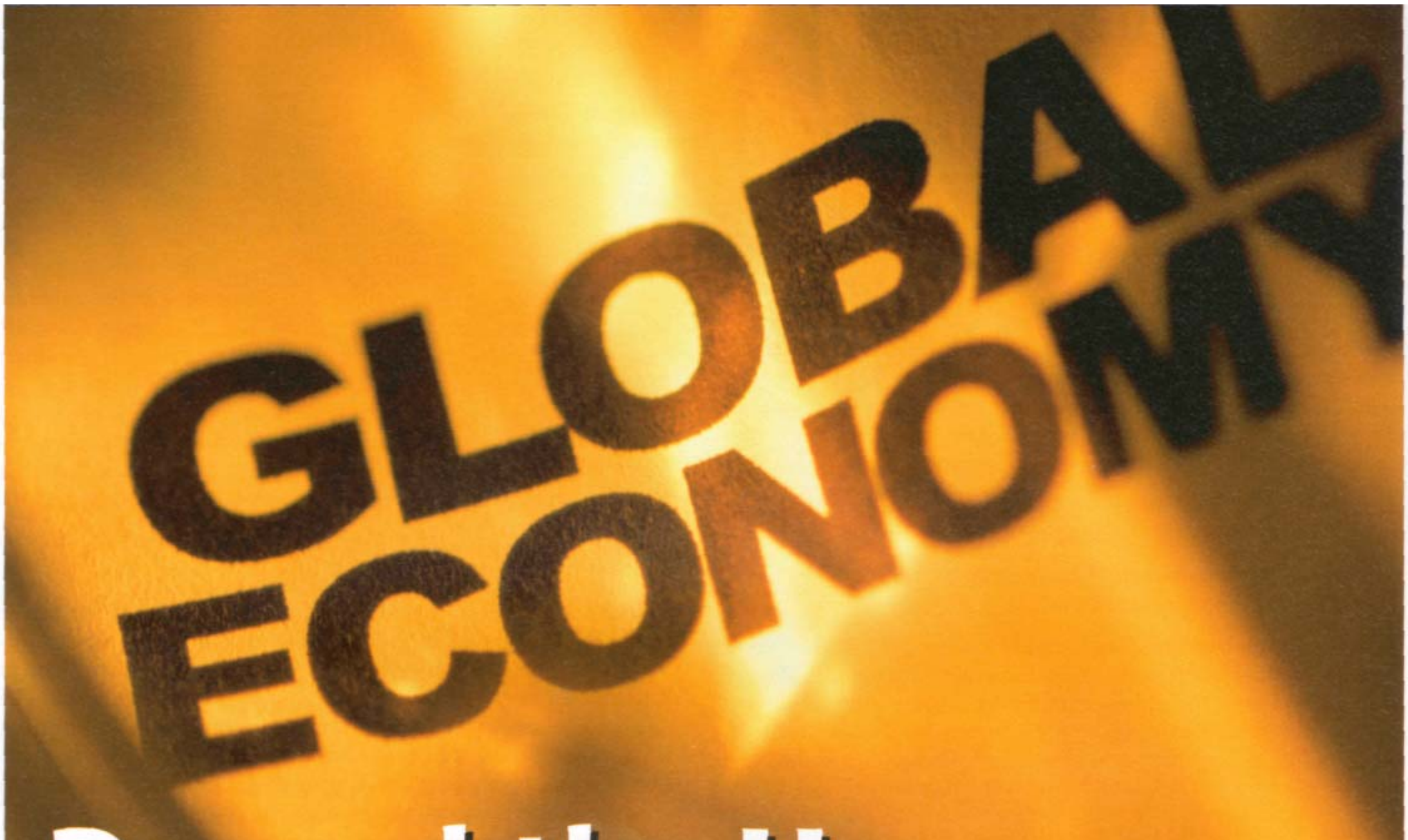


Beyond the Hype

by Connie Myerson

Anyone reading Mark Homnack's article "The Future of Globalization Technology: Is it the Graveyard?" in the December 2000 newsletter of the Localisation Industry Standards Association (www.lisa.org) might think that there is something rotten in the State of Denmark.

However, is there really a meltdown in the globalization services industry? Alternatively, are we more likely experiencing a long overdue "market correction" due to misunderstanding and overhype?

Impending Doom?

Homnack, as CEO of a globalization services vendor (SimulTrans), posits that a) many companies offering pure globalization-technology solutions will fail, and b) many traditional language-based players will follow them due to poor investments in globalization technology. The former will wilt due to their own smugness and overhype of their own technology, the latter because they are on a reckless spending and acquisitions spree. Currently, all these operations survive with a modicum of success due to unseasoned customers—but ultimately, few will last, all this according to Homnack.

Already, 90 percent of online advertising revenue budgets in the United States are allocated to the top 10 e-commerce Web sites, cutting off oxygen to the smaller ones. As a result, the industry might be more cautious of making statements about companies failing unless they globalize, the Internet changing the way we must all do global business, and all the other clichés that we have grown tired of hearing in the last 18 months.

A prediction that some business will fail and some will survive is not particularly insightful. Certainly the timing of this article is apt, given recent globalization industry events and the dot-com roller-coaster, which has affected a number of language-industry players:

- In November 2000 former industry darlings Lernout and Hauspie filed for Chapter 11 protection in US bankruptcy court as well as in Belgium. Within a firestorm of irregularities, there were reports of a significant cash shortfall on the balance sheet of a Korean subsidiary and alleged fraud of as much as $277 million. Shareholders brought complaints to court, and stock trading was halted on two exchanges. In December 2000, Lernout and Hauspie executives were blasted in an auditor's letter for allegedly conspiring to hide and falsify information, overstating operating results, and inflating Lernout and Hauspie's stock price for personal benefit. There were allegations of booking of revenue before contracts were signed, secret side letters, and wrongly booking barter deals in which no money was exchanged, according to the *Wall Street Journal*. In early January 2001, Lernout and Hauspie began to lay off some 1,200 employees within that quarter, including nearly 300 in Korea.

Alpnet at one point declared that "the company has transformed itself into a strategic leader," and that their vision was "to combine their state-of-the-art translation technology with a network of professional linguistic resources and dominate the translation market" (so spoke Alpnet CEO Jaap van der Meer). November 2000, we see this same CEO selling 150,000 shares of Alpnet stock to meet obligations under a margin lending arrangement, and then "moving" to a new position within the company. This was quickly followed by an announcement of cash-flow and profitability problems and a series of initiatives to address this. Alpnet strengthened its sales team to win new clients while slowing development and implementation of their touted AlpnetXchange globalization solution, and cutting other overhead.

Lionbridge Technologies announced in December 2000 that fourth-quarter revenues would be 15 percent lower than expected and revised estimates to about $28 million. This was due to "an increasing number of customer-initiated delays, as many of these customers focus on making their fourth quarter numbers through cost deferral (into 2001)" said Lionbridge CEO Rory Cowan. In late December 2000, both CIBC World Markets and Adam Harkness downgraded Lionbridge's stock.

In late December 2000, Reuters reported that Berlitz International was considering a buyout offer from Benesse Corporation and Benesse Holdings International to purchase all outstanding shares of common stock of Berlitz not held by Benesse. In January 2001, a class-action lawsuit on behalf of public shareholders of Berlitz was filed, which alleged that the proposed offer price was "grossly inadequate," that Berlitz's directors had been or would be unduly influenced by Benesse, and that these directors had breached their fiduciary duties. Berlitz also announced a restructuring that will reduce its fourth-quarter earnings by $20 million and lay off about 90 staff.

In the free market, buyers like to select competitively and are not as blindly addicted to wholesale outsourcing and multilingual vendor solutions as their sellers would like to believe (see David Brooks of Microsoft's recent case study in the collection of cases studies Translating Into Success). Do big hitters such as Microsoft, Sun, and Oracle really want all their project eggs in one basket? Hardly.

However, none of this can be blamed on a sudden lack of popularity for technological solutions or a sea change in the rationale for large-scale globalization. Homnack is hardly a harbinger of impending doom in the globalization services industry. A broader analysis is needed.

An Injection of Realism

You do not have to be an industry guru to realize that the market for globalization has been overhyped. Within the United States, much of this was an offshoot of the dot-com/IPO conceit, pumped up by Silicon Valley-centric media like *Red Herring* and the *Industry Standard*.

To be sure, some think the problem lies deeper. Alan Rugman, in the soon to be published *The End of Globalization: Why Global Strategy Is a Myth and How to Profit from the Realities of Regional Markets*, argues coherently that globalization is misunderstood, and that Internet technology and the media have played a central role in the deception, creating the illusion that it allows access to global markets.

Globalization does not, and never has, existed in terms of a single world market with free trade. For example, according to *Fortune*, 434 of the world's 500 largest multinational corporations (MNCs) operate only within a triad of the European Union, the United States, and Japan. These MNCs' business strategies are strictly regional, and not global. Further, national governments continue to strongly regulate service sectors, limiting free-market access and increasing the amount of regulation. In addition, although the Internet is an excellent medium for communications and entertainment for those who can afford it, it cannot bring people, goods, and services together physically.

This is a sensible analysis. Would globalization-services vendors argue that the telephone changes the way we do business? No. How then could globalization via the Web promise great riches? Many US-based Web solutions and e-commerce initiatives attempting a global presence fail on the grounds of sound business efficacy.

Being able to deliver Web content in a localized language is only one part of an overall international business equation, one that needs to be complemented by activities that are more mundane. For example, now that you have an Oracle database with plenty of globalized content, how about setting up product warehouses in Slovakia, training staff to demo the product in another language, managing complex delivery logistics abroad, learning the market geography, finding out how to provide customer support in a country with no free phone numbers, etc.? Do any globalization companies—SimulTrans, Idiom, Alpnet, or anyone else—tell you how to deliver a total solution? No. Delivery and management of globalized content or services is like opening an office or branch in another country.

Globalization Technology

Analysts and commentators need to adopt an approach to globalization technology that is all encompassing and not piecemeal. Why single out content management and workflow technology solutions, for example?

Everyone needs to accept that there can never be enough translators and project managers to meet the growing demand for content globalization. Technology and automation are the only scalable solution to the commonly repeated and boring production tasks, but there will always be a place for human intervention, dealing with exceptions, crises, new areas for evaluation, and so on. Predictions that pure technology suppliers will go out of business are naive given the misconception of the nature of globalization in the first place and the demand for any globalization services as a result.

More Consolidation

Buyers of globalization services have long regarded the widespread consolidation of vendors with dismay and questioned its value.

In the free market, buyers like to select competitively and are not as blindly addicted to wholesale outsourcing and multilingual vendor solutions as their sellers would like to believe (see David Brooks of Microsoft in the collection of case studies entitled *Translating Into Success*). Do big hitters such as Microsoft, Sun, and Oracle really want all their project eggs in one basket? Hardly. They evaluate solutions, and combine them, according to business needs. Although consolidation has been very much in vogue over the past few years, there are few tangible gains to be seen. It is likely that the trend of buyers combining best-of-breed in technology and language services between suppliers will increase (for example, open globalization technology APIs such as those offered by Idiom and SDL facilitate this). The current "turbulence" in the industry is leading to a well-needed sanity-check as to what the demand side of the industry really wants. Even the Lernout and Hauspie implosion holds promise for those of us who remember the excellent language services of Mendez before consolidation into Lernout and Hauspie, as they return to the market as a localization vendor in their own right.

Gloom and Doom?

There is constant change in every industry, but this needs to be analyzed within the context of a better understanding of global economic dynamics. True, there have been some very high-profile industry failures recently. Some are worth reflecting on if only to take stock of the "spin" put on them.

With profit warnings from just about everyone in the IT sector, it is not just globalization vendors who are under pressure. Despite all this bad news, will the real market for localization and internationalization services contract? Unlikely. Will the thrust of regionalized globalization stop? No. All the evidence suggests that there is, and will be, a market for globalization services, but it may not be quite as all-encompassing as its advocates predict. But on the whole, the near-term prospects are rosy in terms of demand for localized product. International Data Corporation (IDC) reports as follows:

- Over half of today's 147 million Internet users are non-English speakers. Within four years, they will be more than two thirds. Within two years, the non-US percentage of the e-commerce market will account for 46 percent of a $1.3 trillion market.
- The firm's Atlas II project predicts that within two years, over 50 percent of Web users in Europe, 75 percent in South America, and 80 percent in Japan will make native language sites their preference.
- Over half of US Web sites do not internationalize their content. Forrester Research says that US e-commerce sites have to discard over half the orders they receive because they originated abroad and they cannot process the foreign information or lack a supply-chain mechanism.

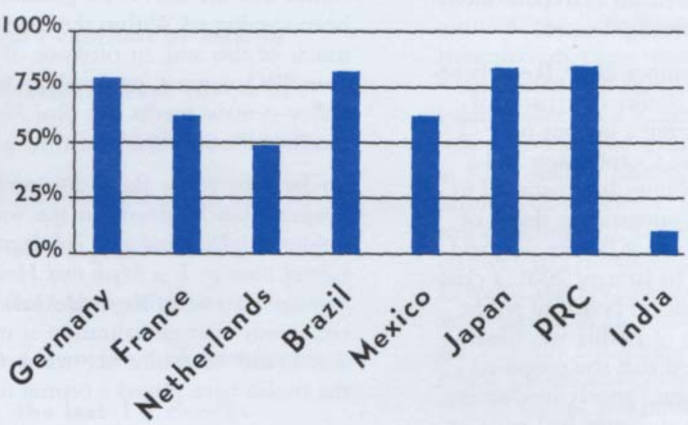
Against this backdrop, however, the latest research also reports that the dot-com culture is on the decline, with most of the current small-scale operations disappearing by late this year. Already, 90 percent of online advertising revenue budgets in the United States are allocated to the top 10 e-commerce Web sites, cutting off oxygen to the smaller ones. As a result, the industry might be more cautious of making statements about companies failing unless they globalize, the Internet changing the way we must all do global business, and all the other clichés that we have grown tired of hearing in the last 18 months.

Globalization has made some of the world seem a smaller place. However, it is now apparent that the impact of globalization and the opportunities for globalization vendor services are more restricted than many believed, and that the Internet has masked the true dynamic of what is occurring. A mask, it should be said, that was created in part by the hype of self-interested parties like the now suffering media and globalization service vendors themselves.

Connie Myerson is an independent globalization consultant. She works in the industry providing knowledge expertise to clients evaluating globalization-outsourcing solutions. Clients have included Starbucks, American Airlines, and McDonald's Europe.

People Prefer Their Local Language ...

% Preferring Native Language Sites



Source: IDC