

## An insider's guide to sourcing translation services

Hints and tips from a procurement professional on how to avoid common pitfalls and reduce hidden costs

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## 1.0 Introduction

### Why produce this white paper about procuring translation services?

If you are a procurement professional leading or supporting a translation sourcing project, I hope you will find this white paper invaluable. It's packed with hints, tips and lessons that I have learned the hard way – by leading a global translation sourcing project as a Category Leader for a FTSE100 global pharmaceuticals company that we'll call ACME Pharma for the benefit of this white paper.

### Who am I?

My name is **Armand Brevig**. I'm the Managing Director of [Procurement Cube](#), a specialist procurement consultancy firm. I have worked in the procurement profession for more than 20 years. I am also a key contributor to the **Slator Pro Guide: Translation Pricing and Procurement**.



## An insider's guide to sourcing translation services

The hints and tips in this document are based on the lessons I learned on the project for ACME Pharma. The project consolidated 150 Language Services Providers (LSPs), saved a significant sum in operational costs, and achieved better commercial terms.

In terms of cost reduction, the real benefit came from being able to initially remove 20% of costs by optimizing processes – mostly by leveraging technology.

We also achieved almost 0% deal leakage by taking the stakeholders with us on the journey and carefully managing the transition – according to one study, deal leakage can be as high as 40% across industries<sup>1</sup>.

My intention is to give you actionable ideas on how you can maximize value and avoid some common, and very expensive, pitfalls when sourcing language translation services. This is, in effect, an extensive 'cheat sheet' that will save you a lot of time and help you get things right first time.

“**The real benefit came from being able to initially remove 20% of costs by optimizing processes – mostly by leveraging technology**”

Creation of this white paper has been made possible through collaboration with RWS, a leading supplier of translation services and the largest LSP in the industry. RWS has authored Annex A, which describes the RWS Content Supply Chain Advisory audit and optimization service.

Chapters 1-8 of the white paper are authored by me.

There are three aspects that I think you will find particularly helpful:

- 1. Understanding the translation industry**  
How the translation industry works has already been analyzed for you in Chapter 2. Key trends are highlighted and I've used PEST and Porter's 5 Forces to suggest what macro trends and industry dynamics might mean for your sourcing project. I also explain this paradox: "The more the translation industry consolidates, the more it fragments."
- 2. Maximizing value and mitigating risk**  
Chapters 3, 4 and 6 address mitigating your number one risk to a successful project outcome – lack of stakeholder buy-in – which leads to deal leakage and ultimately wastes your time. I've outlined what I did to get stakeholders on board from the very start and achieve near zero deal leakage.
- 3. Shortlisting the right suppliers**  
In Chapter 5 I share hints and tips on how to fairly evaluate LSPs to help you shortlist the ones with the capabilities that are right for your organization. I've also completed a Kraljic analysis. It explains my view of the type of relationship to build with LSPs.

Therefore, the views and opinions expressed are my own and may not necessarily be those of RWS.

I wish you all the best with the implementation of your translation sourcing project.

**Armand Brevig, Managing Director**



<sup>1</sup> [s3.eu-central-1.amazonaws.com/iaccportal/resources/files/10151\\_iaccm-elevatewebinar-leak-proofingyourcontractprocesses-8may18.pdf](https://s3.eu-central-1.amazonaws.com/iaccportal/resources/files/10151_iaccm-elevatewebinar-leak-proofingyourcontractprocesses-8may18.pdf)

## 2.0 Market intelligence on translation supply

In this Chapter I will share my observations, views and analyses on the language services industry.



### 2.1 Trends

Language translation services represent a spend area that more and more procurement professionals will become familiar with as the sector is set to see substantial growth. But growth in the translation sector is nothing new. Between 2010 and 2020, the industry grew by 42% – and long-term annual growth beyond 2022 is expected to be 7%.

There are a number of factors driving that growth:

- 2.5 quintillion (that's  $2.5 \times 10^{18}$ ) bytes of data and information are generated around the world every single day. A lot of it is text, audio or video content – much of which needs to be translated.
- Proportionally, very few people in the world speak English. In fact only 17%. And the world population is still growing, so the need for translation is also growing.
- Technology is increasingly being leveraged in the translation process, helping to drive down costs and making it feasible to translate content that it would previously have been uneconomic to translate. That, in turn, drives further growth.



### 2.2 How technology is driving down costs

Machine Translation has improved a great deal over recent years and combined with Artificial Intelligence (AI) it is good enough for many purposes – depending on the scale of the translation task, the standard of translation quality required, and the timescales available for translation itself.



#### Technology is increasingly being leveraged in the translation process

But the use of MT is not a binary decision and it is often used as a first stage along with a 'Post Edit' stage – where it is determined that a human translator is needed to review, edit and amend the MT output, or where specific parts of a translation project are deemed to need traditional translation techniques.

For low-risk content, where speed is more important than quality, the best machine translation can do the work end-to-end. But it's important to remember that despite improvements in technology, human language is so complex that we are still far away from machines replacing human translators across the board.

That's why one of the most common uses of technology in the translation industry is to help human translators become more productive.



#### The translation industry grew 42% between 2010 and 2020



#### Full automation of translation is appropriate only in very low risk areas, where quality is less important

Computer Assisted Translation (CAT) tools that automate the reuse of prior translation work have been used by professional translators for decades.

Translation Memories (TMs) and Term Bases (sometimes referred to as 'Terminology') are the most prominent types of CAT tools. Both are databases, but they serve different purposes.

TMs are systems that learn from translations as they are performed in real time. Based on that learning, the TM suggests translations for segments that have previously been translated. The human translator then typically uses a suggestion 'as is', if it's an 'exact match', or may choose to modify the suggestion if it's a 'fuzzy match'.

### “When quality matters, the role of technology is to make human translators more productive

While a TM speeds up the translation process, it does not guarantee the consistent use of terminology across content. A Term Base is required to do that. Unlike the database behind a TM, the Term Base has to be created manually. A Term Base for any given language pair typically contains:

- Words that are not to be translated, such as brand names
- Terminology (e.g. technical, industry specific, product specific)
- Grammar information
- Definitions

More recently, Translation Management Systems (TMS) help larger organizations automate translation workflows across their 'Content Supply Chain' to also drive down costs (see 3.3 Quality versus price for a definition of the Content Supply Chain).

A significant portion of the 20% cost reduction on the ACME Pharma project mentioned in the Introduction was achieved by optimizing the use of Term Bases and TMs. By dramatically reducing the number of suppliers, we were able to leverage these technologies in ways that had not previously been possible.

For example, TMs were able to learn across a much larger universe of source texts and thereby eliminate previously duplicated translation efforts.



### 2.3 Translation services aren't commodities – they just look like they are

At first glance translation services appear to be commodities. But when you look closer, you soon see that's not the case.

Let me start by explaining why the industry appears to be commoditized.

One factor is that the industry uses the per-word rate when presenting its services. The per-word rate is a practical way of relating volume to overall cost. But when buyers assume that the rate can be used to compare suppliers like for like, the wheels start to come off. That's because when viewed in isolation, the per-word rate is fairly meaningless.



### “Viewed in isolation, the per-word rate is fairly meaningless

## An insider's guide to sourcing translation services

When I led the large translation sourcing project at ACME Pharma, I quickly found out that the per-word rate bore little to no resemblance to what I would actually end up paying. Discovering that early on saved me a lot of headaches. The per-word rate is only a part of the total picture. There are a host of other charges to be paid – many of which will be triggered by the behaviour of your stakeholders (see 5.4 How to compare prices). Also, the per-word rate doesn't factor in all the costs hidden in the wider Content Supply Chain (see 3.3 Quality versus price).

Another reason translation looks like a commodity to those outside the industry is the way the dynamics of the industry work. Anyone with the ability to translate and with access to a network of other freelance translators can start a translation agency on a shoe string. So, the industry is very fragmented with lots of suppliers, which is something you often see in commoditized markets. One way of describing this is that there are a small number of large suppliers and a large number of small suppliers.

“**Paradox: the more the translation industry consolidates, the more it fragments**

Then there is the very strange phenomenon that more industry consolidation drives further fragmentation. That sounds like a nonsensical contradiction, so let me explain.

When translation agencies merge someone always ends up unhappy. Perhaps they didn't get the position in the merged entity they had hoped for or just don't agree with the direction of the new company. So, because the barriers to setting up a new company are so low, some of the unhappy employees set up their own agencies. Thus, an additional number of new players are created for each merger. This, of course, makes the industry look even more commoditized. Finally, as a buyer, it can be very challenging to spot any real differentiators when you first look at the offering and the capabilities of translation agencies. It requires some digging to get to the truth.

So, despite the way things look, why are translation services not commodities?

“**Translation requirements are likely to vary significantly across your organization**

When I spoke to the stakeholders of my translation sourcing project, it became clear that everyone seemed to want something different from their translation vendors – such as different add-on services, competencies and approach. That's why we'd ended up with an eye-popping 150 vendors in the first place! The legal department, for example, had very different needs from marketing, who had a different set of needs to the intellectual property team, who had a different set of needs from the technical documentation team and so on. That level of variety indicates that this is not a commodity service.



Despite what translation agencies claim, they don't all deliver to the same (or an acceptable) quality. Some stakeholders I spoke to had stories to tell of past suppliers that weren't up to scratch. And quality really matters to stakeholders. In marketing for example, not getting the brand messages across properly due to a poor translation has a real negative impact on the business. And since suppliers are not equal when it comes to quality, translation services started to look less and less like a commodity to me.

### “Quality has a real impact on business performance

Also, as I spoke to both suppliers and stakeholders, I started to see that translation is not just about translation. There is a wider Content Supply Chain to consider. I am talking about what happens before and after the actual translation task is performed. Some suppliers are better than others at helping their customers optimize that Content Supply Chain – again, a capability that can't be described as a commodity in my eyes.

I became more and more convinced that it would be wrong to treat translation services like you would treat a commoditized product like, say soya beans or pork bellies. However, I couldn't help thinking that surely there would be pockets of the translation spend where it would be all about price and, therefore, commodity-like. Such areas would need to meet the following criteria:

- Quality is not that big a deal
- Requirements are always the same
- There are no opportunities to optimize the Content Supply Chain
- No stakeholder would care, or even notice, if we switched translation supplier

I didn't find any areas that met those criteria.

So, while translation services could hypothetically be treated like a commodity product, the reality at ACME Pharma was different – and it's the same for most mid-sized and large companies – requirements are complex, varied and quality really matters.

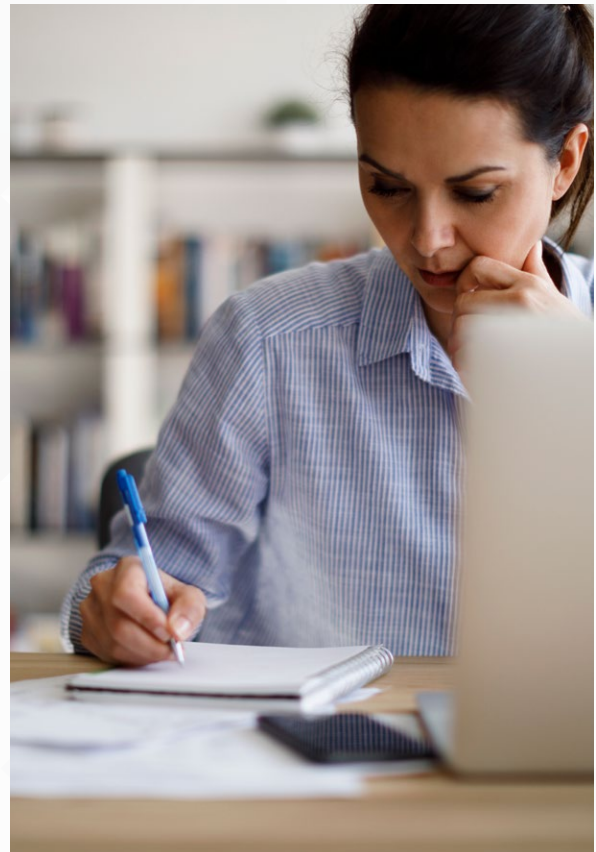
### “Few translation suppliers can handle the requirements of large companies

In a fragmented supply market, relatively few Language Service Providers (LSPs) are able to handle the variety of complex requirements that mid-sized and large companies have. So, from the point of view of these buying organizations, translation services cannot be regarded as a commodity.



#### 2.4 Implications for your sourcing project

What does all this mean for your translation services sourcing project? To answer that question, let's start by summarizing what we know about the macro trends and factors affecting the translation industry and then take a look at industry dynamics.







### 2.4.1 PEST analysis

A PEST analysis (Political, Economic, Socio-Cultural and Technological factors) is a good tool to use to think through the implications of macro trends and factors. This basic framework works well for me, but there are many varieties<sup>2</sup> that build on this model which you can use if you prefer.

#### Political



Local language documentation requirement for imported goods

#### Economical



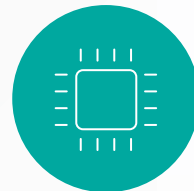
Growth in global trade  
Recovering world economy

#### Socio-Cultural



Only 17% English speakers worldwide  
Growing world population

#### Technological



Advances of Machine Translation, AI, Translation Memory and Workflow Technology  
Digital data explosion

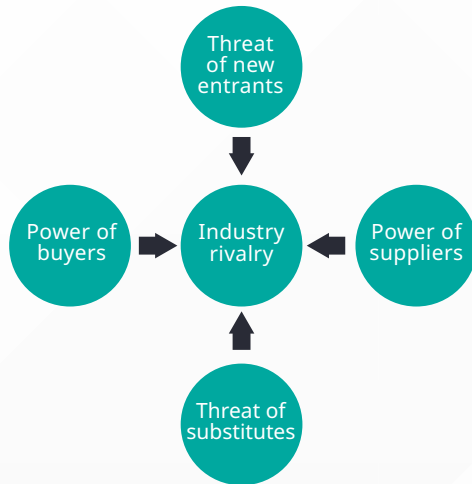
Though this PEST analysis is far from complete, the picture is pretty clear. All trends point in the direction of continued growth in demand for translation services and, therefore, competition for talent. And technology will play an ever greater role in meeting this demand. This, in turn, suggests that your sourcing project needs to focus on securing the services of the best translation talent, while ensuring your company reaps the benefits of productivity gains driven by technology.

<sup>2</sup> [en.wikipedia.org/wiki/PEST\\_analysis](https://en.wikipedia.org/wiki/PEST_analysis)



### 2.4.2 Porter's Five Forces

Now, let's take a look at industry dynamics as seen through the lens of Porter's Five Forces model.



**The threat of new entrants** is very high when considering the industry as a whole. There are extremely low barriers to entry in general – anyone with a laptop, an internet connection and language skills can open a virtual translation agency. However, to compete at the level of the leading LSPs, the barriers to entry are significant. Brand equity, scale, QA processes, ability to innovate, technology skills and infrastructure all increase the barriers to entry, offering some protection from head-on competition from smaller translation agencies.

**Power of suppliers** to the translation industry is somewhat low, as the main 'supply' is translation talent. Translation agencies use many contractors and freelancers. As individual entities most have limited negotiating power vis-à-vis the agencies they supply their services to. Exceptions are translators with rare language combinations and subject matter knowledge.

**Threat of substitutes** is moderate, as such threats only seem to appear at the 'edges' of the translation industry. For example, low risk translation where speed is more important than quality, can be done by technology companies deploying machine translation. Another example is instruction manuals of certain consumer goods which sometimes convey messages in pictorial form, rather than translated text (think flat-pack furniture assembly instructions).

**Power of buyers** ranges from insignificant to substantial depending on the type of buyer and the actions they take. Small customers do not have much bargaining power vis-à-vis translation agencies. Mid-sized and large customers on the other hand can wield significant power – but only if they consolidate their translation spend in a way that minimizes deal leakage.

The degree of **industry rivalry** differs depending on which segment of the translation industry we are looking at. The 'jockeying for positions' situation that Michael Porter referred to in his 1979 Harvard Business Review article<sup>3</sup> is applicable to the segment of smaller translation agencies. Barriers to entry are extremely low and competition is fierce and very price sensitive. In contrast, larger international LSPs that offer a more value-added end-to-end style service are able to command higher prices due to the higher barriers to entry that apply to their segment of the market.

The implications of these industry dynamics for your sourcing project are threefold:

1. To put yourself in the best bargaining position vis-à-vis suppliers, the project needs to consolidate **all** translation spend.
2. Stakeholders need to be meaningfully engaged to avoid deal leakage, as this will otherwise erode bargaining power long term.
3. The objectives of your sourcing project must be clear, as they will influence which segment of the supply market you engage with. For example, if the objective is to reduce total costs and leverage technology, then you will likely need to deal with the larger and more powerful players in the market.

<sup>3</sup> [hbr.org/1979/03/how-competitive-forces-shape-strategy](https://hbr.org/1979/03/how-competitive-forces-shape-strategy)