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Getting Bigger By Getting Smaller: Vertical Market Specialization

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Vertical Market *Specialization*

When I hear some vendors discussing the pros and cons of adopting a vertically focused strategy, their main strategy seems to be to focus the sales team on the vertical. This is understandable, as client organizations obviously consider a vertical-market focus to be key among the criteria that influences their vendor selection.

However, pursuing this strategy solely as it relates to sales is simply not enough. Attending industry-specific conferences and focusing business development efforts on a particular vertical market will get you only so far. Committing a full complement of resources to the vertical—sales people, project managers, engineers, and linguists—is the strategy that will ensure your success; marketing cannot do it alone.

In my eight years at TransPerfect and Translations.com, I have found a few key success factors critical to sustaining an above-average organic growth rate. But none is more responsible for our exceptional and sustainable year-to-year growth than breaking our business into practice groups, each with a razor sharp focus on a particular segment of the marketplace.

When I first started with TransPerfect in 1997, the company was just really turning the corner. Headquartered in New York City, we pursued business opportunities like most small businesses do. In other words, we pursued opportunity wherever it happened to exist. By virtue of our location, clients in the Financial Services sector were everywhere; they seemed the most logical to pursue. And pursue them we did. This sector provided the majority of our revenue for the first years of the company's existence. It continues to be a core vertical.

However, while we were growing exponentially in the financial services industry, we also developed small pockets of clients in other industries. It was then that we decided to make the "vertical leap."

Our linguistic resources were already grouped in a vertically specific fashion. However, we made a conscious effort to hire outside the language industry and recruit people with specific experience in what we reasoned to be our most promising vertical market opportunities. We did this not only for sales personnel, but also for production and project management positions.

At the same time, we expanded geographically to facilitate access to clients from various industries. For exam-

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ple, I opened our Miami office in 1998, and the cruising industry was one of the key drivers of the South Florida economy. As a result, we targeted the cruising industry and ended up landing one of the largest globalization efforts in the history of the industry. To successfully complete the project, we created a dedicated department of 10 people. The accumulated knowledge and experience of that team has allowed us to become the top localization provider to the cruising industry. We continue to experience success within this market segment.

Because of successful experiences like this, we moved to a vertical structure in all other parts of our business. Today, we have 10 fully functioning vertical practice groups, each evaluated as its own independent business unit. In true meritocracy fashion, resources are allocated and incentives are aligned for each group according to performance and market opportunity.

Despite our success, our company did not start out with a plan from inception to create a vertical market strategy. Instead, it evolved over time through recognition of emerging opportunities. Of course, it helped that the founders were risk tolerant enough to make the strategic investments required for success.

Today, this focused strategy pays dividends daily, with client acquisition and revenue growth as just two of the most obvious benefits. Other, more subtle, benefits result as well.

STRATEGIC ACQUISITIONS

Since mergers and acquisitions in recent months have grabbed so many headlines in the localization-industry press, let us first examine how vertical-market specialization affects opportunities for strategic acquisitions. For the purposes of this discussion, I will define strategic acquisitions as those in which the merger enhances a

company's ability to support clients in a specific vertical market or functional area of expertise. Note the contrast of this definition with recent larger mergers designed to capture greater market share, reduce costs and headcount through consolidation, and allow more supplier power in pricing. Such growth strategies might have their merits, but since those merits have already been hotly debated and do not fall within my personal experience, I will not opine on them here.

I had a conversation recently with a consultant who specializes in acquisition opportunities in the localization space. His opinion, with which I concur, was that three primary factors impede many acquisition deals that would otherwise make sense. The first, naturally, is money. For example, a small to mid-size firm operating in the black might deem its valuation at a level over and above what a potential acquirer would judge economically feasible.

The second impeding factor is the strong sense of self-association that many entrepreneurs have with their firms. Many good acquisition candidates are run by the founders of the firms, people who have put their hearts and souls into their businesses for years. As someone who works for two entrepreneurs that have invested themselves completely in the growth of their business since 1992, I can attest to the powerful sense of ownership and responsibility that is at play. Owners rightfully feel the obligation to ensure that their life's work will not be neglected or become just a line item on a financial statement of a larger institution.

That powerful desire brings us to the third impeding factor, which is business culture. No matter what the apparent synergies and economic benefits that may appear on the surface of a deal, if the cultures of the two firms do not mesh well, the acquisition will result in a difficult and strained integration process. Such stress reduces or eliminates the on-paper benefit perceived in the planning stages.

So, how does vertical market specialization help with strategic acquisitions?

For one, becoming part of a larger organization that is successful in the same vertical market provides a level of confidence for the acquired company. The company can feel confident that their customers and employees will be valued. Plus, they can feel confident that the acquiring company appreciates the market and is willing to make the necessary investments for success.

Moreover, the task of integrating a firm with a familiar business model has a much flatter learning curve than the merger of a completely new and unfamiliar business unit. Common experiences of the integrated teams can facilitate an immediate sense of camaraderie, allowing for increased cooperation toward a common goal.

The bottom line for TransPerfect and Translations.com or any organization considering a strategic acquisition is that, by having a focused division that caters to specific and similar clientele, your chances of success skyrocket, both in terms of executing the transaction, and in terms of integrating the new members of your team after the deal closes.

EMPLOYEE RECRUITMENT AND RETENTION

Another primary benefit of a vertical market focus at TransPerfect and Translations.com has been employee recruitment and retention. With respect to employee recruitment, vertical specialization makes a company very attractive to potential project managers with specialized vertical experience. As a result, the company increases its ability to recruit from outside the localization industry. Recruiting a top-flight project manager with experience in the financial services industry is a much easier task if that project manager will continue to serve financial services clients—while also becoming an expert in localization.

A project manager who has the experience to interact with clients as a peer and who is familiar with the industry nomenclature can often be the missing piece of the client-service puzzle. It's a powerful value add to possess a complete understanding of the unique challenges facing a given client and to be able to explain solutions to those challenges by using terminology and approaches that the client understands.

As an example, when Translations.com established an opportunity for growth in the educational publishing industry, we sourced our practice group director directly from the "ed pubs" industry, rather than from the localization industry. By training the project manager on our localization processes, we married our knowledge of best practices in localization with the project manager's client-side knowledge of ed pubs production processes. In this way, the manager acts more readily as a true partner to the client, anticipating challenges before they arise, mitigating perceived risk, and establishing an optimized process for each client. Moreover, the client's confidence in our understanding and appreciation for their internal challenges helps foster a sense of partnership, resulting in increased customer trust and loyalty.

CONTINUOUS PROCESS IMPROVEMENT

TransPerfect Translations and Translations.com are both proud to have received certification for ISO 9001:2000. Without question, the driving force that led to investing in the ISO process was expansion into vertical markets, particularly those in which clients understand and even mandate the commitment to continuous process improvement. As with vertical specialization amongst project managers, the common understanding of documented, measurable, and systematic process improvement creates a common understanding between

vendor and clients working under similar stringent quality guidelines.

Because workflows, authoring environments, and business objectives vary immensely from one client to the next, the flexibility to work within the parameters of each client's process is critical. Our localization process for medical device companies is vastly different from the process for shrink-wrapped software applications, which also is vastly different from how we handle translations associated with a luxury brand.

More often than not, however, the optimal processes for companies within the same vertical are very similar. They are similar enough for us to document, measure, and practice the continuous process improvement that is dictated by ISO certification.

In my area of expertise, the Travel and Tourism market, direct online channels that drive revenue call for the localization and frequent updates of content. Our customers based in the United States can rely on my team's specific knowledge of their market to help guide their decisions. For instance, European travelers often book vacations in a package format that includes hotel, rent-a-car, and airfares. This is much less common with travelers in the states. Therefore, on a travel engagement, we can give advice that can make clients consider an alternate

technical specification in their localized project, which may greatly enhance their chances for success in their target markets. By providing this kind of added value, we are no longer simply a localization vendor, but a valued partner in our client's business success.

In all the vertical practice groups in TransPerfect Translations and Translations.com, we strive to provide added value to our client engagements.

Investment in a vertical market strategy adds value. It adds value to current employees through process optimization. It adds value to prospective employees through better opportunity. And it adds value to potential acquisition candidates by easing the pain of integration and by creating trust. In turn, these parties maximize the added value for clients.

Committed investment to a vertical market strategy is not inexpensive, but once the cycle of added value is started, the dividends are indisputable. For our company, this strategy has allowed us to sustain an average yearly growth rate over the past five years of more than 30 percent. I believe this strategy will be the predominant factor for successful firms as the localization industry continues to mature.

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