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@issue

By Shaun P. Daggett, CSN Publisher

Who cares about the race to the mid-tier? I do—again...

All is quiet on the western front. No major announcements these days from our industry's large-enterprise language service providers (LSPs). But what about from the up-and-comers? This month, we hear from one of them, and people will be talking for some time about what this up-and-comer has to say.

E. Smith Yewell, CEO at Welocalize, called me several weeks ago to give CSN early notice of their acquisition of Connect Global Solutions. Interestingly enough, but not a surprise to most, Smith has been looking for a company to acquire for some time now. Most everyone knew about it. I congratulated him on their purchase, but I had to push a little and ask him what made this purchase important or interesting. What he had to say not only caught my attention, it made me realize that we had to do a feature interview.

The race to the mid-tier by small-to medium-enterprise LSPs was covered in CSN when we interviewed

Liz Elting of TransPerfect about her company's virtually unnoticed rise to the mid-tier of the market (August 2004). And Common Sense Advisory has commented on the subject recently in their Global Watchtower as a hot subject for 2006.

But Smith doesn't seem interested in merely talking about it. Nor is he interested in quietly rising to the top. He wants to win this race for the mid-tier, and he thinks he has the company, staff, and leadership to do it.

The interview with Smith left me invigorated to see how this race to the top of the mid-tier will shape up. Some folks might say, "Who cares?" But after this candid interview, I can honestly say, I do—again!

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Winning the Race for the Mid-tier

A Provocative Interview with E. Smith Yewell, CEO at Welocalize

With the recent M&A activity among the large-enterprise service and technology companies in our industry, small- to medium-enterprise companies have an opportunity to step into the mid-tier of the marketplace and capture some highly desirable clients, revenue, and growth. For well-positioned companies already in the mid-tier, such as Translations.com, TOIN, McElroy Translations, and Welocalize, the opportunities are even greater. Not only can they grow their bottom line and their client lists, they also can become prime acquisition targets for further consolidation—almost a certainty in this mid-tier space.

One of these companies, Welocalize, is not only carving out their place in this coveted space, they are racing their way to the top. Recently, Welocalize announced the acquisition of Irish-based Connect Global Solutions. They also are boldly announcing their intent to win this very important race. CSN spoke with the dynamic CEO of Welocalize, Smith Yewell, to better understand what the mid-tier space is currently about, and why it is important.

CSN - Smith, can you share with our readers your vision on how the market has changed, given the recent large mergers, and where you see the opportunities for both service providers and clients?

Smith - I think the Bowne and Lionbridge merger and the SDL and TRADOS merger were very good for our industry. They have proven to be successful, and we need successful companies at that level in our industry. We all need to be able to point to our industry's successes in order to confirm the industry's financial viability, to attract talent, to attract investment, and to continue to grow to meet clients' evolving needs. Many investors see this as an industry with opportu-

nity. As a result, they feel confident in investing—giving companies the ability to access the capital to invest in innovation and in talented staffs. So, from a standpoint of generating industry confidence, these mergers are beneficial.

I also feel these mergers generate value from a niche standpoint. Both of these companies—and I think the

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industry as a whole is evolving this way—have completed mergers that fill opportunity gaps across the industry landscape. These mergers have filled two niches: one being a very large company aligning itself with accounts that are correspondingly very large, and the other (SDL/TRADOS merger) filling the niche of a combined service and technology provider, aligning itself with that market segment that is looking for the service and technology combination.

So these are great examples in our industry of successful companies that are large in scale and that are filling value-generating niches. At the same time, as

these niches are filled, others are opening up. And these new niches are where Welocalize plans to accelerate past our competition by deploying a vertically focused, professional-services-firm business model.

CSN - The race for the mid-tier has seen a lot of attention lately. Can you define what the mid-tier really is, from your perspective, and explain why there is such passion for capturing this space right now?

Smith - The mid-tier represents another opportunity niche within our industry. In this niche, there is a real company-size to service-level gap in the market place right now. It is challenging for smaller companies to scale up, and it is equally challenging for very large companies to scale down. The mid-tier is so attractive because there is an imbalance between buyers with midsize-service-provider needs and the number of mid-tier companies in the market. Most companies that were in the mid-tier were rolled up in prior consolidations. The mid-tier also is where we will see the greatest opportunity for growth on a percentage basis.

The high ground has been taken, leaving the most exciting opportunity gap for both clients and service providers within the mid-tier. This gap will be most successfully filled by companies aligning their business models with the specific needs of clients that are looking for a midsize company with vertical specialization and scalability, and a company that can provide attention greater than that of larger providers.

I believe you cannot be all things to all clients, and I have learned that, in order to be successful, you have to fully understand the market, the range of clients, and their needs within that market. You must choose which niche you are able to service best as

the market evolves. We do nothing halfway at Welocalize. We focus all of our efforts on making particular types of clients successful within specific industries.

So what is the mid-tier? It is the most exciting place in the industry right now. It is a place where we intend, quite frankly, to grab the lion(bridge) by the tail, and tame them!

CSN - Smith, it is one thing to talk about it, but how are you going to do it?

Smith - Lionbridge is well aligned with buyers who have very large needs, which is the only niche that can generate a return on their massive infrastructure. But does that massive infrastructure still appeal to mid-level buyers? I don't believe so; the service-level alignment is just not there. I also think that, with our vertically focused, professional-services-firm model, which is highly mature at this point, and with our equally focused and mature senior staff members—much like the partners you would see in a legal firm or an accounting firm—we will be able to respond faster and with a higher service-level, one that is specific to a customer's unique needs.

It is in these areas that we will take Lionbridge by the tail and capture new business. And at the same time, we will truly differentiate ourselves and innovate faster than our mid-tier competitors.

The proof is in our results. We landed a spot on the Inc. 500 last year. We delivered 15 percent in EBITDA, and I believe one of the best things we can do for our clients is be successful—so they can count on us to be a long-term, reliable, and stable partner. We need success like this in our industry. Success generates earnings that can be reinvested into innovation, which can improve efficiency and advance service-levels for clients.

CSN - How does a service provider create success in this industry right now?

I believe one of the primary reasons for our successful growth and earnings, and one of the reasons we are poised so well to capture this mid-tier market, is our pure business approach to this challenge. Unlike many companies that have come up through the traditional ranks within this industry, building successful lifestyle businesses, I had no localization-industry experience whatsoever. I believed we could take what everyone else was doing and make it better, or we could do something different and be better as a result. What I bring to this company is a fresh perspective on the business model and a focus on smart growth. I am fascinated by language and technology, but it is the challenge of growing a business that I really enjoy. I think this is similar to what Rory Cowan brought to Lionbridge, and it has served them well.

CSN - Am I correct in saying that you see Lionbridge and SDL as two companies that have broad infrastructures and that position them to be all things to all clients, while you see the leader of the mid-tier as

a financially healthy company where vertical specialization, laser focus on client-needs, and mature senior managers will emerge to secure them the top spot in this wide open race?

Smith - I think you are dead-on with several points. Let me elaborate on others, specifically this concept of a professional-services model. We did not create this model, but I think we were the first to adopt it and truly realize it in this industry. It is common in other professional services such as accounting and law, but it is not common in our industry. The importance of the model is that it adds value and creates efficiencies naturally at key junctures in the sales and delivery processes. A project must be both sold well and delivered well in order to meet expectations on both sides.

Let's start with how projects are sold. We do not have the conventional VP of Sales and sales force model. At Welocalize, sales and production are merged. Our production team is client-facing, which enhances communication and service at all points in the process. Our service competencies and vertical specialization are organized in a matrix management model that is led by our senior vertical managers. These managers provide valuable experience and leadership on the account before, during, and after the sale. And our production team is able to draw upon this leadership to deliver

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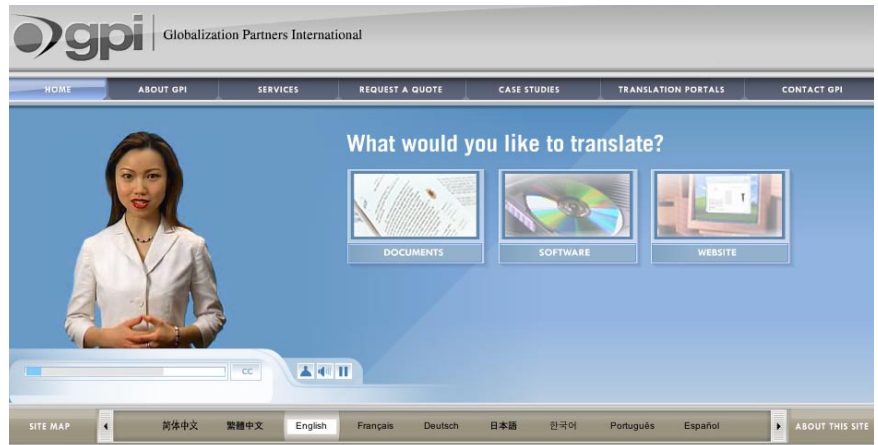
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At the same time, this model reduces infrastructure requirements and mid-level management requirements, ultimately generating greater earnings that can be reinvested into quality staff and expanded service levels.

The other area I would elaborate on is that companies the size and scale of Lionbridge and SDL can obviously deal with just about anything from anybody. But I believe that will become a weak point. They have to continue to go after just about anything out there to maintain their growth. If you look at the numbers, where are they going to get 10 percent annual growth? For a company like Lionbridge, that is \$40 million (US) in new business this year. Where is that going to come from? This will push them to try and achieve sales at every level of the market, but you cannot be all things to all people. I believe that it is at the mid-tier where we are going to match up against them in a much more favorable result. This is because we are not all things to all people; we are specifically focused on this mid-tier segment, growing within that segment.

CSN - Size is one of the primary metrics defining this mid-tier space. It is no secret that Welocalize has been pushing towards the mid-tier for some time, but your recent acquisition of Connect Global Solutions in Ireland clearly places you there now, based on size alone. But what is it about this acquisition that has given you the confidence to so boldly plant your flag at the top of this market space?

Smith - Service providers are continually faced with the delicate balance of matching capacity to demand. Over capacity can ruin a company financially, and under capacity can result in lost deals or botched projects. So yes, size is critical. It is from this question that all things follow. We are very confident that we have this right as it pertains to the segment of the market we are targeting. The key is that this is a complementary merger. This was not a merger where we were looking to reduce costs by eliminating overlap. In fact, we have no overlap in staff or clients, so our existing client teams will remain in place, complementing one another. Connect had also adopted a vertical approach, and that fits nicely within the model we have on the ground now. This acquisition also extends our global reach into Ireland, a key market. And Connect is a well recognized and successful company with a great repu-



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tation throughout Europe. We now have five offices in four countries around the world, and our size is an ideal match for clients looking for a reliable and stable mid-tier leader.

CSN - Let's be honest here: M&A at this level isn't that exciting these days. Isn't this just CEO speak and rhetoric? Your company has been flush with cash from consecutive years of profitability, well backed by investors, but isn't it YOU that makes the difference in your success at striking out and making a play for the top spot?

Smith - I will take credit for hiring what I think are the best people in the industry and finding such an outstanding merger partner in Connect, but the success is theirs. I am just fortunate enough to share in that success. If I can continue to steer our company and staff into a position where they can succeed and win, I feel I have done my job.

In fact, this merger is very exciting because it represents a shift in the landscape, a new level of competition in the industry and a new range of choice for clients. The landscape is naturally evolving to provide buyers with viable large, medium, and small service-provider choices within specialized niches, and this is a good thing; clients are driving the demand for options, and the industry is responding. Also, our merger was

not done to shore up some weakness. It wasn't a merger to try to disguise our lack of organic growth. Nor did we suppose that we would change the world. But we do expect to change the range of choices for clients, how services are sold and delivered. We have been building up to this position for a long time. We have the wind in our sails, and our time is now to really lead the way in this space in 2006. Do I think I am the man to lead this ship? Yes I am.

CSN - In a field of 3000+ companies that all look very similar, one thing you don't see much of from midsize companies such as Welocalize is a vocal CEO. Everyone has heard of Mark Lancaster or Rory Cowan, but why is it important for people to know who you are? Why is the way you run your company important to your clients?

Smith - I think my background and how I structure and lead this organization is very important, not only to our employees and investors, but also to clients.

A little bit about me: From the beginning, I have not been in this industry for lifestyle reasons. I think that sets me apart from other CEOs who I have met in this industry. The majority of small-to-medium companies out there are lifestyle businesses. There is certainly nothing wrong with that as a goal for those owners. It is a great goal; it can be a great lifestyle. But we are in this for growth. I am a fierce competitor. I want to get out into this market, and frankly, I want to win. Right now, I think winning means leading the mid-tier. We have very savvy investors, outstanding employees, as well as leading clients that expect me to deliver at ever-higher levels. That is what I have committed to do. Does this approach to the business make me different? I think it does.

CSN - You seem to have a clear vision of what you think this market lacks, where the opportunities are for mid-tier players, and what you want for your company. What forward thinking statements or predictions would you like to make for our industry? Will Welocalize ever emerge as a true competitor to Lionbridge and SDL? Will we see a "Big 3" again with Welocalize in the mix?

Smith - I see a great future ahead for our industry. I predict this industry will continue to grow, albeit more slowly as it matures, and that the greatest growth opportunity lies in the mid-tier space. Defending the high ground, from a growth percentage standpoint, will be a lot harder than expanding the middle ground. The industry is mature at this point, and double-digit growth will be hard to come by. The exciting growth will be in the mid-tier, and we

plan to capture that growth organically, while continuing to look for complementary acquisitions.

SDL will dominate what little market there is for tools on a total revenue basis, and will lead the service and technology combination niche. Tools will never replace people. This is a service industry. But tools will enhance the service when used in a practical and financially viable fashion.

Quality translators will continue to be a valuable and scarce commodity. Plus, there is still innovation ahead in the working relationship between translators and MLVs.

There has been speculation about what will happen to Welocalize, ultimately. My plan is to take the company as far as possible. I and the rest of my team want to find out just how far we can go. We relish the challenge, and we enjoy competing. I see us continuing to grow, making complimentary acquisitions over the next few years. After that, the future is just a matter of time. Eventually, Rory will retire, and given the right timing, I see the possibility of merging our two companies and assuming his position as CEO.

Cover Photo of E. Smith Yewell provided by Harriet Wise Photography.

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