





Using Vendor Taxonomy to Exercise Free Will and Exploit Globalization Benefits when Making Vendor Selection in Outsourcing

LISA-ROSS summit at St.Petersburg, June 2004

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Parts courtesy Fiona Agnew,
Idea Factory (LLA founding member)

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The presentation dwells into the difficulties of vendor selection in a gray area situation of remote vendor evaluation (without an inspection visit) when there may be not enough information to make an informed decision, and further elaborates into the suggested vendor taxonomy providing clear guidelines for evaluating vendor offering in terms of comparing price and quality for vendors in different "weight" categories. Finally, the speaker tries to derive several important conclusions regarding vendor offerings in various markets.

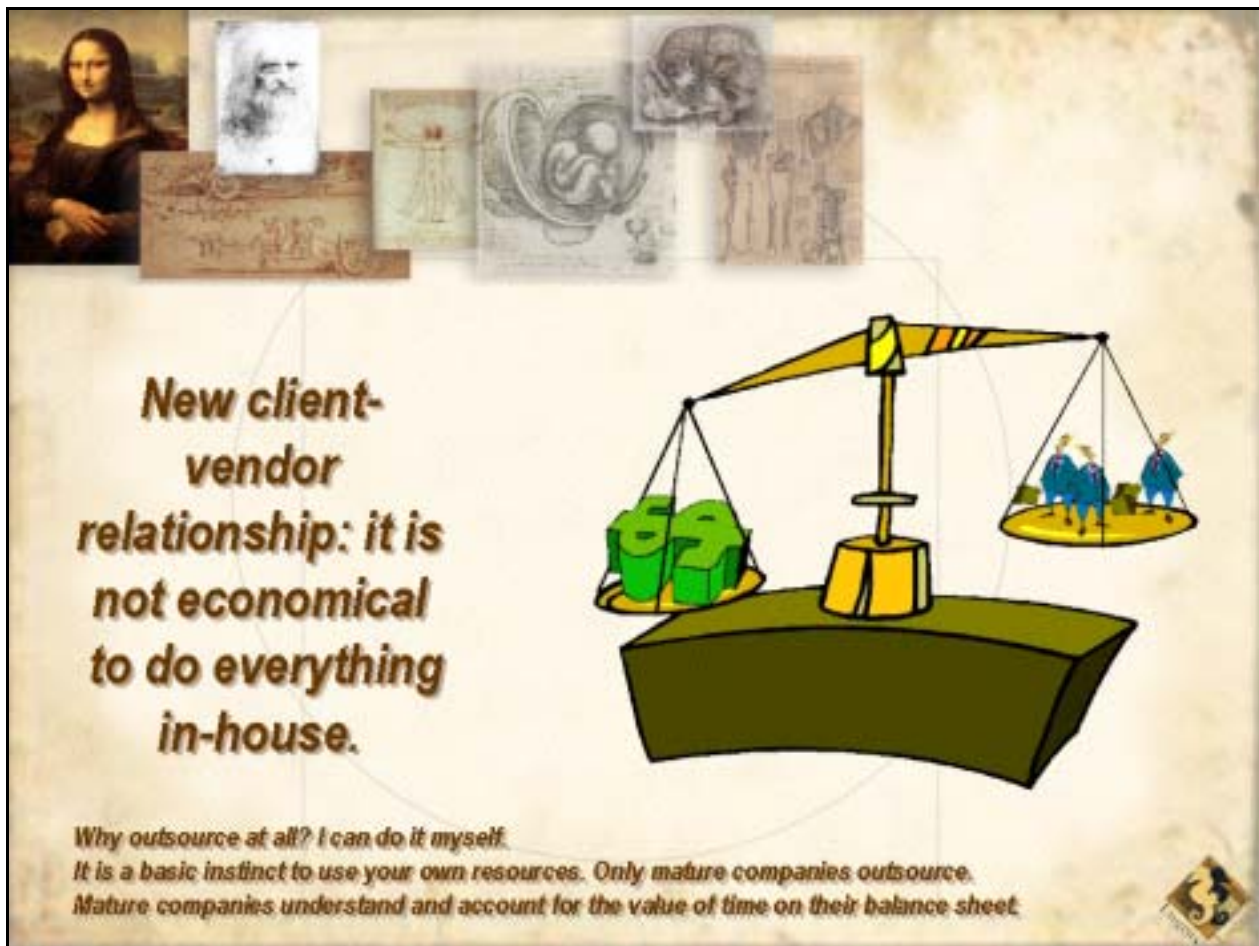
Hello!

My name is Serge Gladkoff, I am the President of Logrus International Corporation.

Here's an excellent opportunity to welcome you all again at LISA forum at St.Petersburg.

Now, by saying LISA I don't mean Mona Lisa of course, but Localization Industry and Standards Association led by Michael Anobile. For yeas LISA has been a great forum for localization industry, it has been the stage for discussions, meetings and participation both for vendors and clients. LISA has been around basically since this industry has started, and it is through extensive personal contribution of Michael Anobile and his efforts that this has become possible, so I would again say thank you Michael for your talent, your drive, your creativity and your continuing efforts to bring us all together every year.

But I have chosen Da Vinci design template not for the sheer coincidence between the name of the great character and good conference. The number of ways neurons can be connected to each other in human brain is greater than the total number of atoms in the entire visible universe. Homo Sapiens is extremely complex object, so complex that sciences studying fields relevant to this object (such as social sciences and applications to economics – relationships between people and companies) will remain "inexact" for quite a while yet. To cut is short, I have chosen Da Vinci template because nowadays in XXI century in social sciences and human communication we are roughly in the same phase of cognition than Da Vinci was about physics and other exact sciences 500 years ago, and we definitely need his spirit very much.



The subject of my presentation is vendor selection in a gray area (lack of information). Vendor selection is a deeply intimate process, and every client and every vendor has its own point of view on this very live subject, and its process.

However, to understand vendor selection motives and reasoning on the client side let's consider the driving reasons of outsourcing decision. Before digging into vendor selection process itself, the first question to ask is – why companies outsource at all? It is indeed the very first question that is always being asked inside the client. Just as you ask yourself before you contract someone for flat remodeling, companies also ponder “why don't we do it ourselves”?

During recent TouchPoint discussion on emerging concerns in Software Testing and Quality Assurance Malcom Williams from Xerox asked one very simple but crucial question: “We have our own internal testing team, testing is one of our regular competences. Give me the reason then why our software development group should ever outsource multilingual testing at all?” The implication was that internal testing team can do all the same in much more advantageous framework – in any case internal testing team “by design” has direct access to product development team and there is no extra outsourcing communication and financial overhead.

It is a natural instinct of every organization, especially service organization to use its own resources prior to even thinking about turning to outside supplier. In fact, even when outsourcing relationship is built, the client often tries to build his own process inside and to take back the job because it believes that inside it will do the job faster and cheaper.

It takes a lot of advancement in corporate culture to calculate correctly internal cost of doing business. Typical corporate thinking is that by giving money to someone else you are losing it on the bottom line.

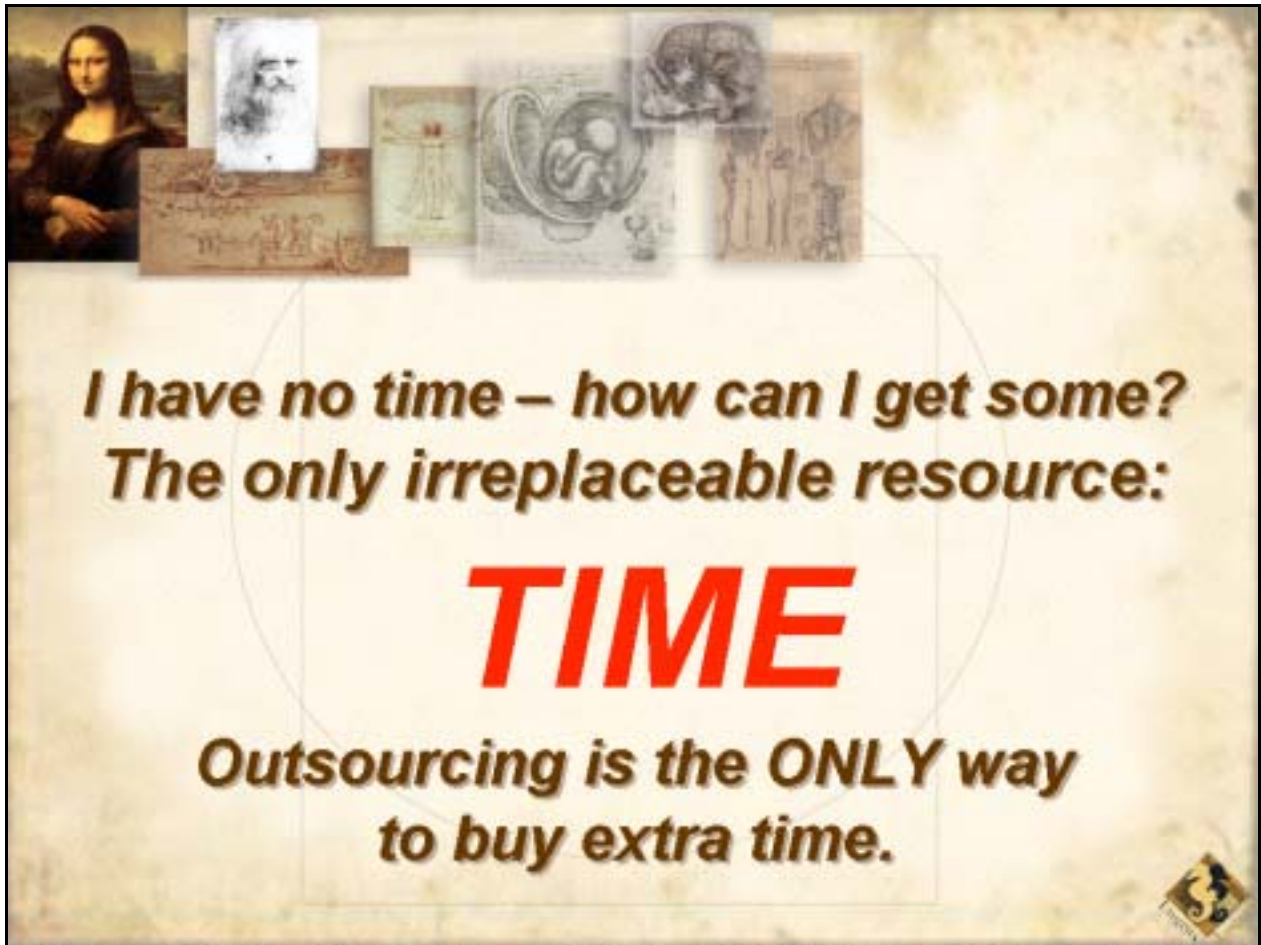
It depends on the balance between the volume of work that has to be done and frequency of upcoming projects, but in many cases *if* internal team already has adequate number of people, the knowledge and experience, *then certainly* internal process is the most efficient way to go.

However, too often one of the components listed above is usually missing. The most typical driver to outsource is the lack of internal resources and/or expertise in the field.

Yesterday in Gartner presentation Joseph Feiman argued that reasons to outsource are: a) cost of acquiring skills, b) Time of acquiring skills and c) risk of skills required.

But even if the expertise is not an issue (or is not perceived as an issue), every sensible company is watching its expenses, and very rarely there is an inflated team in house just in case, sitting and waiting for emergency of the next project peak. Financial constraints inevitably bring down in-house team size. With limited in-house team when project peak arrives, project manager quite often faces desperate need for more resources. It is very important that these resources ***are required instantly*** – there is no time to carry out hiring process and then train people to build a team which inevitably has to be downsized afterwards.


Here the keyword is TIME.



*I have no time – how can I get some?
The only irreplaceable resource:*

TIME


*Outsourcing is the ONLY way
to buy extra time.*



To do everything internally is a very powerful instinct.

Internal cost is not felt as something to shed. Backpack is always heavier than your own weight.


The most powerful motive for organization to allow external spend is the need to release product fast.



Exactly how much money is time?
MONEY = X * TIME ?

SRP	\$12
Circulation	200000
Revenue	\$2,400,000.00
Monthly revenue	\$100,000.00
Monthly in-house cost	\$50,000.00
Localization, 0.1% of revenue	\$2,400.00
Localization, 5% of revenue	\$120,000.00
Cost of one month delay	\$150,000.00

And this is ONLY FOR ONE LANGUAGE.



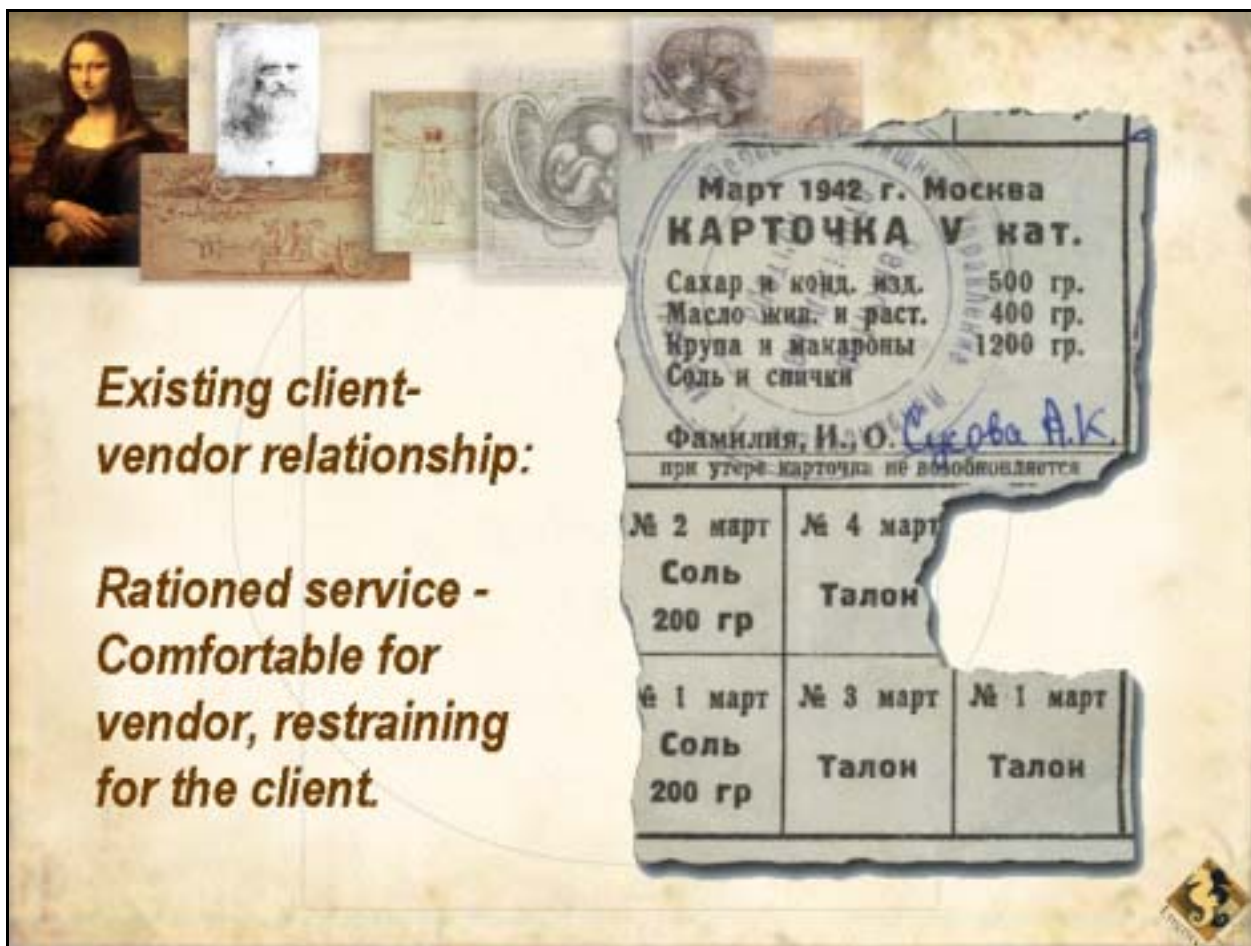
It is important to realize just how critical the time is.

Let's consider the product with SRP of \$12 and circulation of 200,000 copies.

Depending of the size of the product localization cost may represent from 0,1% to 5% of the product revenue.

Let's take the product lifecycle two years. Then the monthly revenue would be \$100,000 and associated internal cost about \$50,000.

Every month of delay would cost you \$150,000.



The same timing consideration is usually driving vendor change.

In the stable situation of established, engaged client-vendor relationship the client is inevitably provided with rationed service.

This is the most comfortable situation for any provider. I would call it a dream of any service provider – how nice to have a permanent client and be able to control your workload! Unfortunately, what is comfortable for vendor is not always comfortable for the client. Of course, if everything runs smoothly, it is good for both. There are several powerful stabilizing factors in every good relationship, such as: special skills in a field, b) history of successful and comfortable relationship, c) successful track record, d) realized cost of change a provider, e) just pure psychological reluctance to change what works well.

However, at the same time the client is always time-pressed, because every month of production means lost sales and extra month of cost. And in outsourcing relationship production efforts are not appreciated: “We do not understand why it takes so long! We pay you money – why don’t you do it fast?” It is in human nature to underestimate other people effort. So I would say that in every stable relationship there is a crack of instability.

This is why **most client-vendor relationships are intrinsically unstable**. There are a lot of drivers to destroy the relationship, which is exactly why they do not last forever. Sooner or later there’s an internal call within a client to change a supplier.

Trigger events for vendor selection process

Trigger Event	Internal Motive
Large volume of work	Buy time (resources).
Change of supplier management policy	Reduce vendor management overhead OR diversify (call for an alternative).
Irregular and/or scarce workload	Internal team costs more.
Not core activity	Don't want this skill in-house.
Supplier failed	Contingency plan.
Cost saving restructuring	Cost is the driver (outsourcing, offshoring)

Here I've listed some trigger events for vendor selection process:

The key parameters to consider are: cost of time, amount of external spend and amount of internal overhead to support the outsourcing structure.

For every one of these cases a financial calculation can be made to see what is the most economical and optimal.

Vendor selection process nightmare:

There are simply **too many supplier offers**, it's getting **noisy**, because many quote the **same prices** and offering the **same services**, some frighteningly **cheap**, others **expensive**, they aren't **financially secure**. They are not telling me the what is **relevant to me**, and besides their information is **not reliable**, so **who can I trust?** I have **unique buying needs**, and I am not actually sure **exactly how much to outsource**, how can I go **offshore**, how can I get the **best value for my money**, how can I get them to do **what I want**, how do I **compare** them to **select or change supplier**.....

IDEA FACTORY

Every client knows that vendor selection is a very uncomfortable process. It is actually surprising how difficult, risky and time and effort-consuming the task of supplier selection can be.

Internet is an information superhighway. Surprisingly, it looks like there is just too much information available, there's an impression that these days the task of selecting proper supplier is more difficult than ever. You have to consider so many factors and offers, it is very easy to be totally confused.

What is worse, no information is reliable a priori.



Let me remind you about Jean Buridan, a French scholar who was professing philosophy in Sorbonne in 12th century. He has become famous for his proof of the predicate that there is a free will. To prove this point, Buridan has always conducted during his lectures a thought experiment with a donkey choosing between two equally appealing carrots. Buridan argued that obviously the situation when donkey cannot visibly distinguish between the carrots is quite probable real world situation. And, if there was no free will, the donkey would not be able to choose between the meals and would die of starvation. "Yet have you ever seen the dead donkey that died of starvation between carrots on the plains of Asia? Donkeys usually manage to choose between carrots!" – asked Buridan his students, - "This proves ad absurdum that there is a free will indeed."

So, here on this slide I have pictured a typical client who is trying to make his choice between visually undistinguishable carrots. He has got the offers for all these carrots over the Internet and hesitant which one to taste. He cannot possibly taste all of these carrots. Before picking several to taste, he has to base his choice solely on e-mailed carrot profile, carrot rate and hearsay from other donkeys. It is a pure free will scenario.

Most of vendor selection process is done in gray area.
Motives:

- hearsay
- first choice
- advertising
- ONE other factor

Identifying the need (self-assessment).
Selecting outsourcing strategy.
Process design
Initial call for proposals.
Screening.
Shortlisting.
Detailed supplier assessment.
Pilot project.
Production adjustments.
Process audit and analysis.

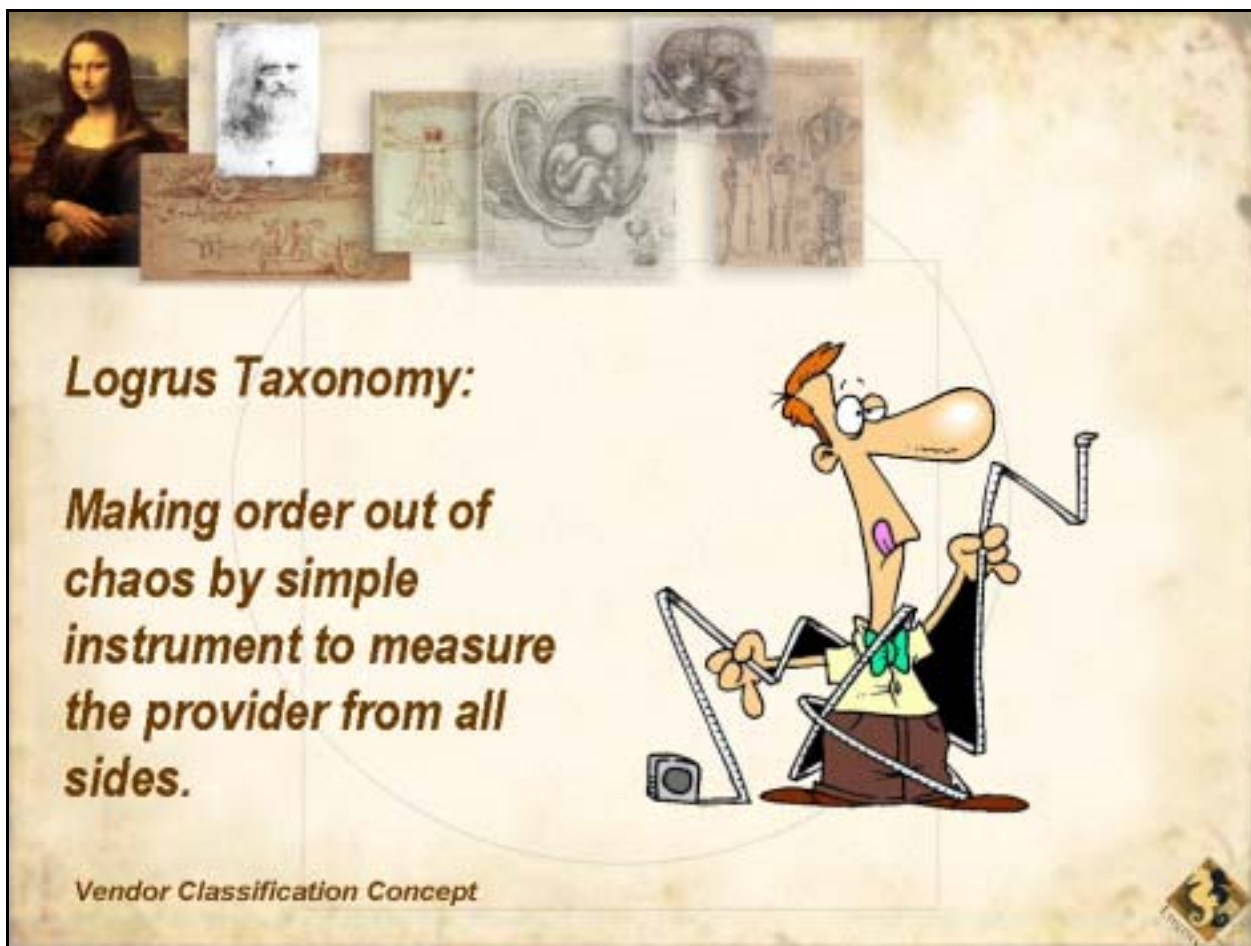
Let me emphasize once again that when I have placed an initial call for proposal and received a lot of answers I am very deep in a gray area.

It is not humanly possible to carry out a detailed provider assessment for hundreds of offers and opportunities. I am in situation when I have to decide who to speak with BEFORE detailed information is available.

Gray area is something people most sincerely hate.

They tend to rely on what other people say (their colleagues, advertising), advertising, first choice, or usually one other factor.

This is not an exaggeration. In most reputable companies decision in gray are made by pure chance. I have heard a very senior IT company employee who has confessed that they were going to India for several projects primarily because "everybody were doing that". Later they carried out a self-assessment and saw that India was not the best choice for them at all. But on reflection why they did that decision in the first place they realized that they did it simply following suit.



So, I am in need of a simple sorting instrument, a ruler to measure prospective suppliers.

This instrument would be used to sort a massive response that I will receive on my Call for Proposals, and even the tool to actually make this call correctly in the first place.

The ruler that we propose to use is a very simple yet powerful Vendor Taxonomy system that we use in Logrus.

Service Vendor Taxonomy System:

Rank	Category
A0	Large International MLV ("big 3")
A1	MLV Activists, BRIC MLVs
A2	MLV beginners ("we do all langs")
B0	SLV veterans
B1	SLV mid-sized companies
B2	SLV beginners
C0	Individuals, gurus
C1	Individuals, professionals
C2	Individuals, beginners

A=MLV	0=Guru
B=SLV (niche)	1=Pro
C=Freelancer	2=Beginner

Let's break down the entire variety of suppliers into A, B and C Categories. For translation and localization industry let's agree to place individual translators and freelancers into C Category, single language vendors into B Category and multiple-language vendors into A Category. Let's further break down the entire range of suppliers into Subcategories 0, 1 and 2, where 0 would be the vendor, who is very well established and has the highest possible level of expertise, reputation and knowledge, 1 would be used for the vendor, who is already established and has adequate level of expertise, but does not have extensive client track record matching to subcategory 0 vendor. Finally, subcategory 2 would be beginner folks. Combined together, they give us 9 groups to distinguish between.

C2 - offer very low prices, but unfortunately often cannot ensure quality and are new for the business. This means that they can suddenly disappear, may lack the knowledge of various tools and quality is unstable. Offer limited field area expertise.

C1 - Most attractive individuals for the freelance contractual work. They are reliable and proficient, yet hungry enough to work hard and provide competitive prices. Agile, ready to learn and cooperative.

C0 - Industry professionals, "cream of trade". Very good quality, often overpriced up to adjacent price group and not willing to take on large volumes within limited timeframe. Very selective, often difficult to communicate with.

B2 - New SLV companies founded by industry professionals. As a rule, good quality, but very limited scalability. Usually 2-10 people operation. Very good vendors for price-conscious customers for projects with limited volumes. NO scalability.

B1 - SLV companies with good track record and solid yet not 100% stable position in their own language. Excellent vendors for their respective languages; however, financial stability and scalability must be thoroughly verified for large on-going projects.

B0 - SLV companies with enormous track record but no MLV ambitions. Excellent for regional projects, but inadequate for global and complete solutions. May show excessive SLV pricing, but can be negotiated. Sometimes selective with tools and projects, however.

A2 - Companies that claim that they “can handle all languages” with no past record of large multilingual projects. Unreliable, not scalable; may lack financial and human resources to handle large multilingual projects.

A1 - Mid-sized companies with MLV ambitions. Have successfully completed large multilingual projects before. Have adequate resources and staff to handle projects, but as BRIC companies can offer better pricing.

A0 - Very large international companies with proven track record of large contracts with large multinational companies.



A0: Globalisation Supplier – Big Three

- **Pan international people operations 700+**
- **Pan enterprise customer solutions**
- **Location driven by industry vision**
- **Subset of tangible standalone services 35+**
- **Linguistic scalability through full time staff**
- **Linguistic scalability through professional SLV partnerships**
- **Local & multilingual project mgmt as business function**



Localization services rendered (personnel skill variety)

- Translation 24 languages
- SW Localization
- Help Localization
- Documentation Localization
- CourseWare Localization
- Web Content Localization
- Web Globalization
- Web Internationalization
- Interpretation (consecutive)
- VoiceOver
- Marketing Localization
- MarCom Localization
- Software Internationalization testing
- Documentation Usability testing
- Cross Platform Localization testing
- Web Usability Testing
- Terminology Mgmt
- Language Quality Assurance
- DeskTop Publishing
- Competitive Benchmarking
- Localization Engineering
- Localization Testing


Service Vendor Taxonomy:
vendor size

Rank	Category	Staff
A0	Large International MLV	>200 (700+)
A1	MLV Activists, BRIC MLVs	30-120
A2	MLV beginners	<30
B0	SLV veterans	20-50
B1	SLV mid-sized companies	10-30
B2	SLV beginners	2-10
C0	Individuals, gurus	1
C1	Individuals, professionals	1
C2	Individuals, beginners	1

Here on this slide we show the number of people employed by companies in these categories.

It is important to mention that the number of employees for every group does not depend on the language the company is servicing. That is, in all the countries across the globe (including France and Vietnam and even China) typical SLV would have from 10 to 30 employees.


The number of the internal staff is not the total number of employees in the company, but the number of people engaged with this particular expertise (localization/translation activity, in our case). If we speak about 200+ people software distributor doing localizations, then it is effectively an SLV and therefore the localization department would have from 1 to 30 employees – it would be B class localization provider.



Vendor category assessment and placement: intuitive (YOUR expert judgment), but logical AND substantiated.

$$C \sim F(\sum t_i w_i s_i)$$

(Certain function of TIME of RELEVANT SKILL of ALL PEOPLE a company is capable of making WORK TOGETHER AS A TEAM – at one location or virtual, across multiple locations.)



It is very important to assess what is the number of people in the company with that particular expertise, and what is the maximum size of the team (people capable of working together) that company can provide for the project.

Misleading:

Total number of employees across all country offices (they are on separate balance sheet, work separately), number of people in mother company or headquarters or other office (all offices are working separately on their own balance sheets), the number of people not having that skill, the number of people not available for the job (busy).

Rank	Infrastructure	Availability	Expertise	Management overhead	Process	Scalability (capacity, throughput)
A0	Advanced	High	Advanced	High	Excessive	High
A1	Advanced	High	Advanced	Regular	Developed	High
A2	Developed	Average	Average	Regular	Minimal	Average
B0	Developed	Average	Advanced	Regular	Developed	Average
B1	Basic	Low	Advanced	Regular	Basic	Low
B2	Primitive	Low	Average	Minimal	Minimal	Minimal
C0	Personal	Minimal	Advanced	None	None	None
C1	Personal	Minimal	Average	None	None	None
C2	Personal	Minimal	Basic	None	None	None

Categories define critical ranges of abilities and client assessment criteria

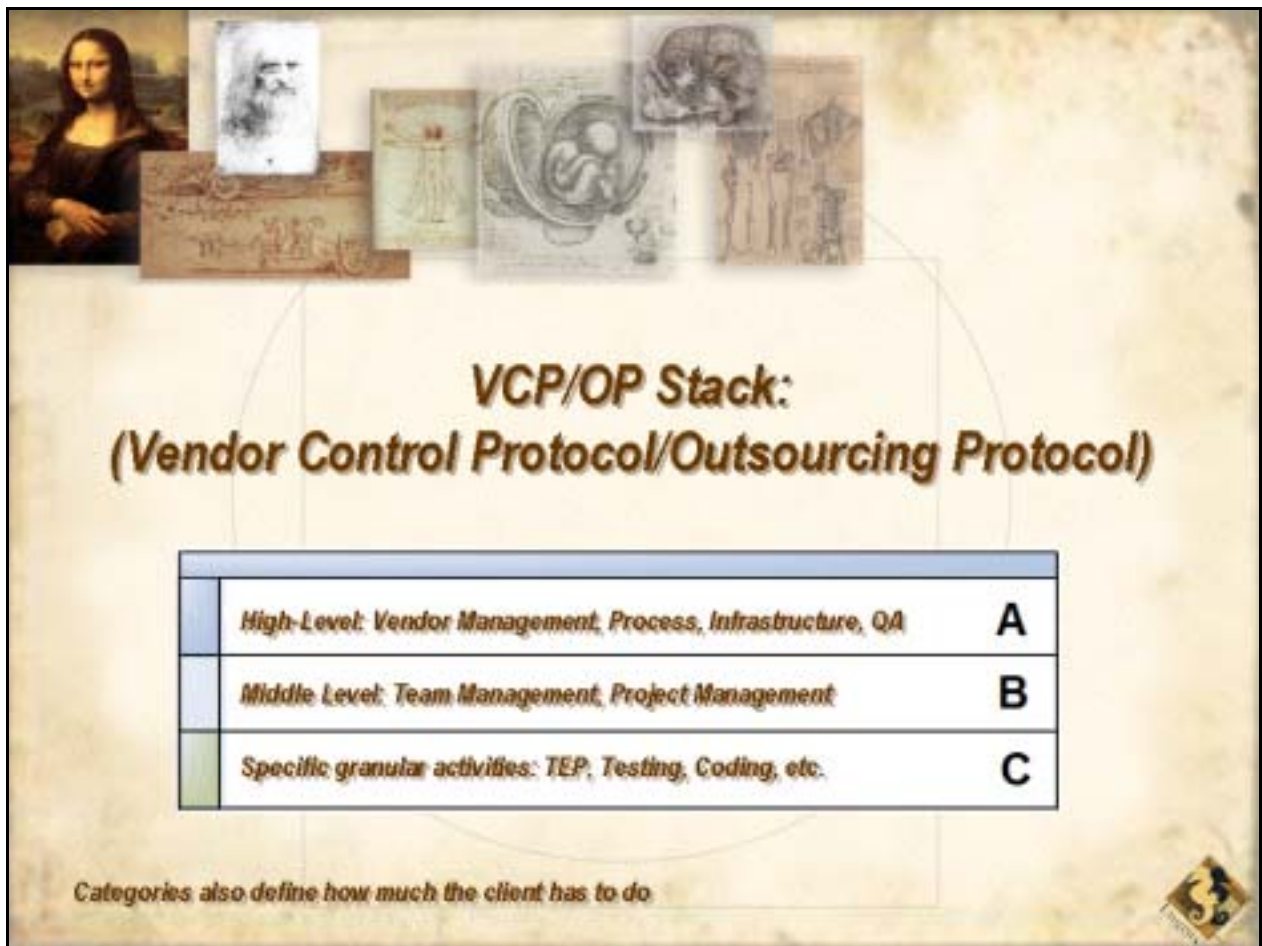
This simple 9-class vendor taxonomy allows us to make important conclusions and generalizations.

Let have a more detailed look into C, B and A categories.

C – lowest capacity; requires the entire process inside the client.

B – most diverse group; requires intensive provider screening at the client side, extensive project management, QA, as well as on-going vendor management.

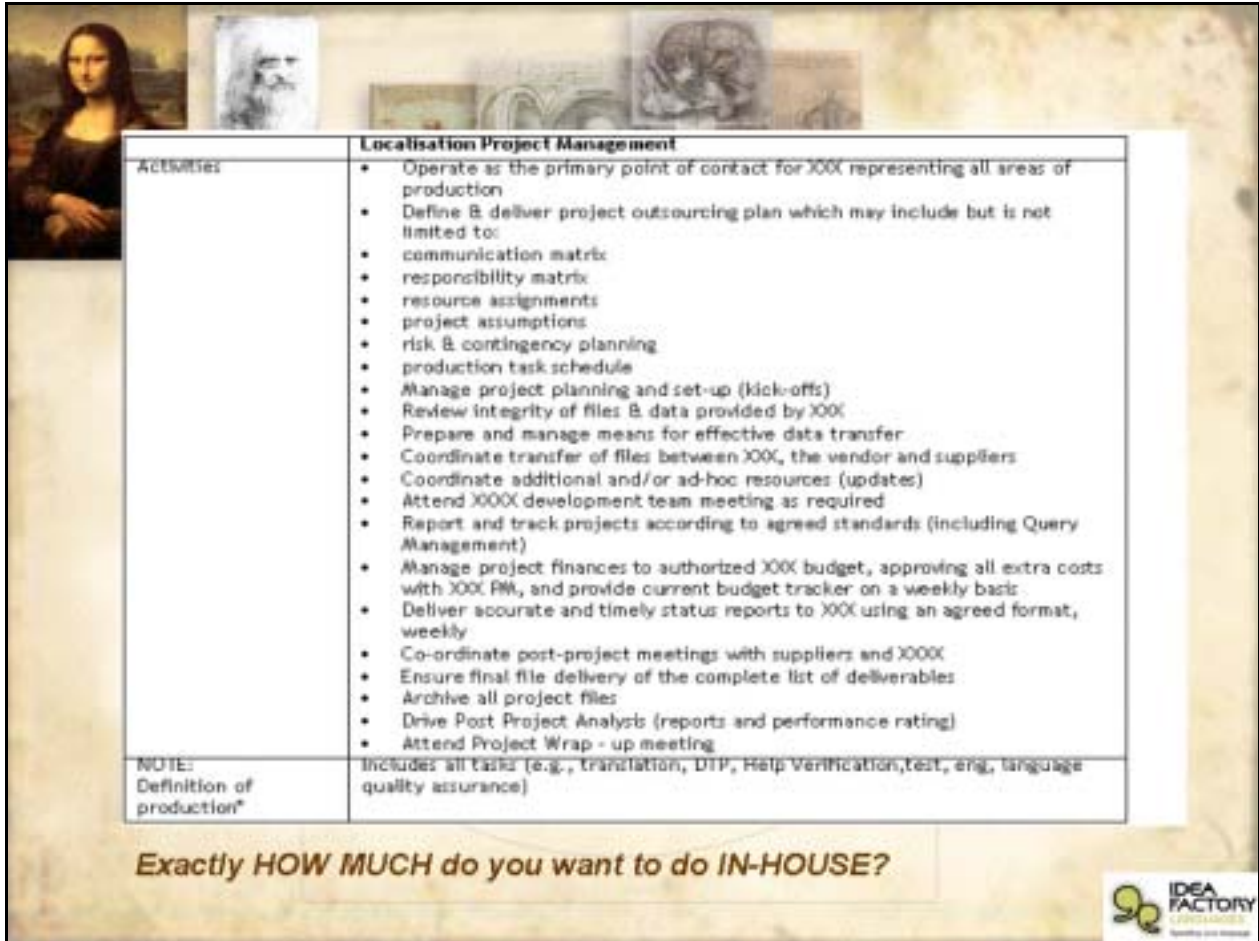
A – requires very skilled vendor with highly sophisticated process to plug in directly into the client processes and need to ensure quality operation. QA is at vendor side, fully implemented. Work with A provider is most expensive, but most lightweight on the client side. If you believe that translation and localization is not your core business, then working with A vendor is the best way to go.



Here you see levels of granularity in vendor communication. The lower you go in vendor class hierarchy, the more signals you have to exchange with vendor for project implementation.


Working with A class vendor, you only have to communicate with several people inside the vendor, on a very high level. As you step down, you cut the cost but increase the number of signals and complexity of the process. You also take risks on yourself and increase the number of management efforts required inside to get the project done.

Remember the scene from Terminator 3 movie when Woman Terminator just acquired a car and started to access some personal database via cell phone by imitating a modem through whistling? This is just what you do when you are working with vendor on C level.



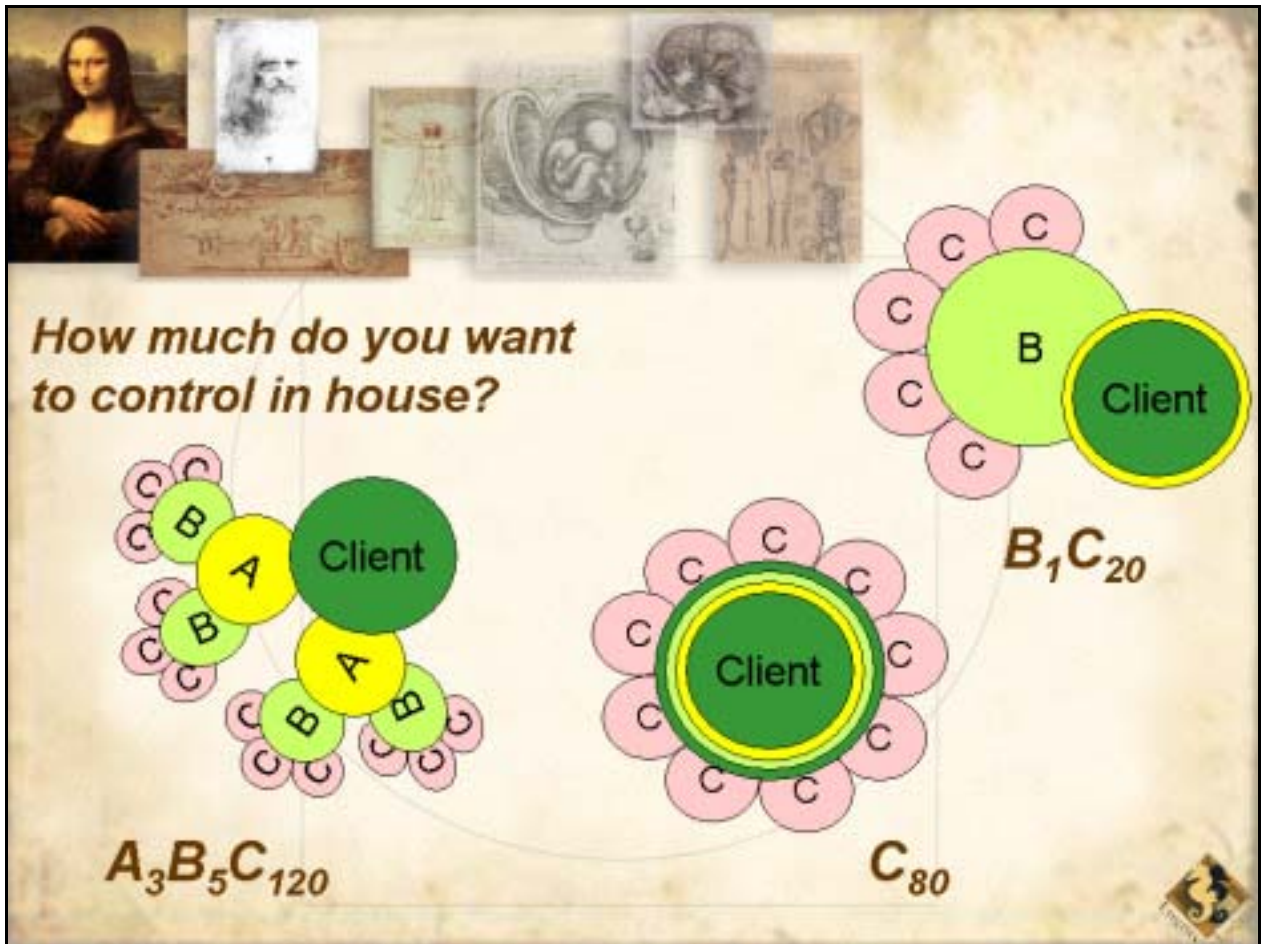
Localisation Project Management	
Activities	<ul style="list-style-type: none"> • Operate as the primary point of contact for XXX representing all areas of production • Define & deliver project outsourcing plan which may include but is not limited to: <ul style="list-style-type: none"> • communication matrix • responsibility matrix • resource assignments • project assumptions • risk & contingency planning • production task schedule • Manage project planning and set-up (kick-offs) • Review integrity of files & data provided by XXX • Prepare and manage means for effective data transfer • Coordinate transfer of files between XXX, the vendor and suppliers • Coordinate additional and/or ad-hoc resources (updates) • Attend XXX development team meeting as required • Report and track projects according to agreed standards (including Query Management) • Manage project finances to authorized XXX budget, approving all extra costs with XXX PM, and provide current budget tracker on a weekly basis • Deliver accurate and timely status reports to XXX using an agreed format, weekly • Co-ordinate post-project meetings with suppliers and XXX • Ensure final file delivery of the complete list of deliverables • Archive all project files • Drive Post Project Analysis (reports and performance rating) • Attend Project Wrap - up meeting
NOTE: Definition of production*	Includes all tasks (e.g., translation, DTP, Help Verification, test, eng, language quality assurance)

Exactly HOW MUCH do you want to do IN-HOUSE?



To illustrate this, here some of the project management tasks are listed.

Are you sure you want to do all this all by yourself?



Another way to present a relationship is a “molecular” structure of vendor supply chain.

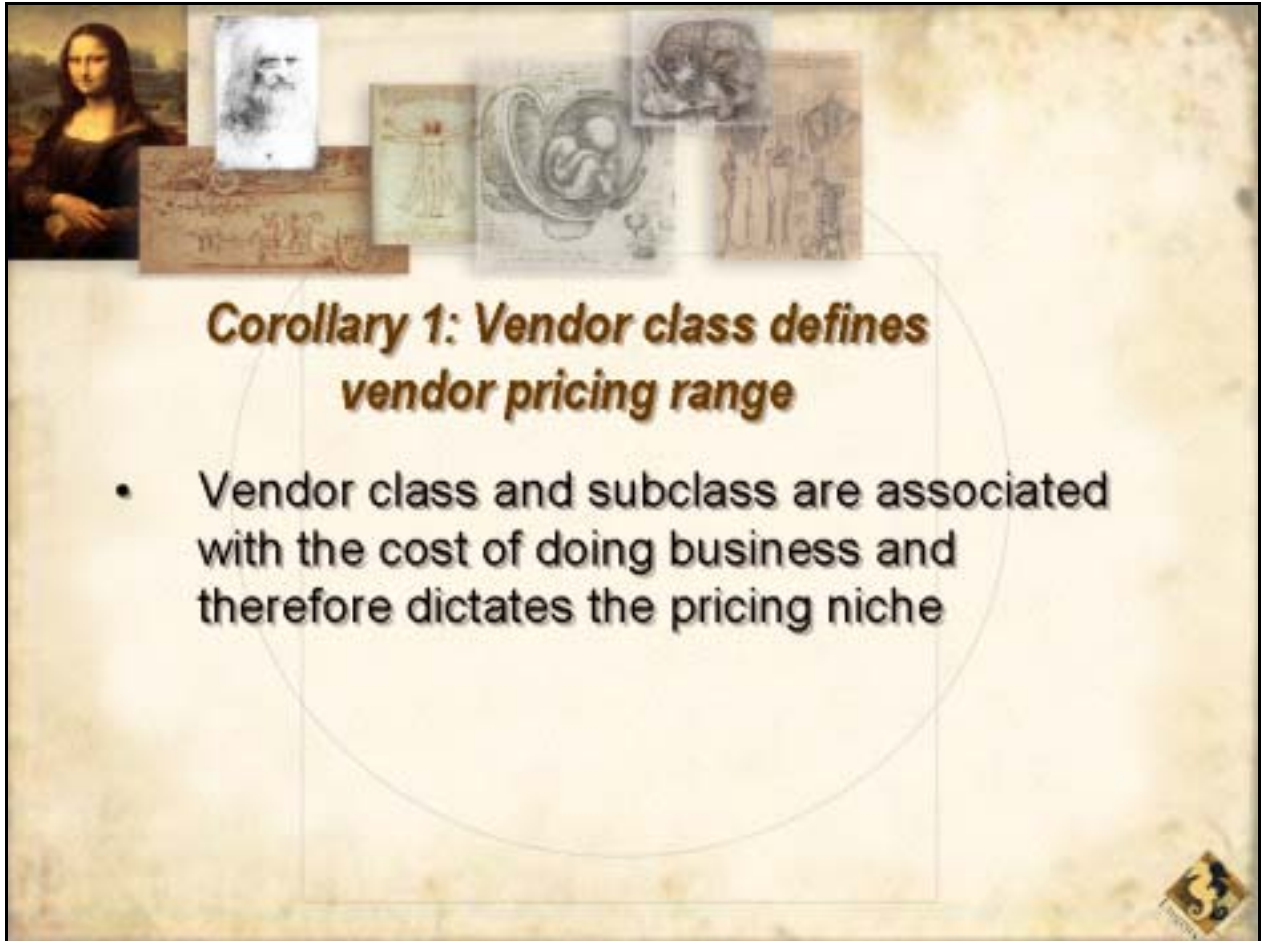
Do you want to be a fat and clumsy client who prefers to implement the entire process in-house, or your company wants to be slim and thin to get to the revenue target and market quickly?

Level 2

Rank	Hungry (eager)	Busy (placement)	On time? (average)	Quality?	Price (Rate)
A0	No	Very	As a rule	High	Expensive
A1	Yes	Yes	Always	High	Reasonable
A2	Too much	No	High risk	Unstable	Dumping
B0	No	Very	Often	High	Expensive
B1	Yes	Yes	Mostly	High	Reasonable
B2	Too much	No	High risk	High	Aggressive
C0	No	Very	Average	High	High
C1	Yes	Yes	Risky	Good	Average
C2	Too much	No	High risk	Unclear	Dumping

*Telling the difference between Categories 1 and 2 is IMPORTANT
(2 is unreliable, 0 is overpriced and often too busy).*



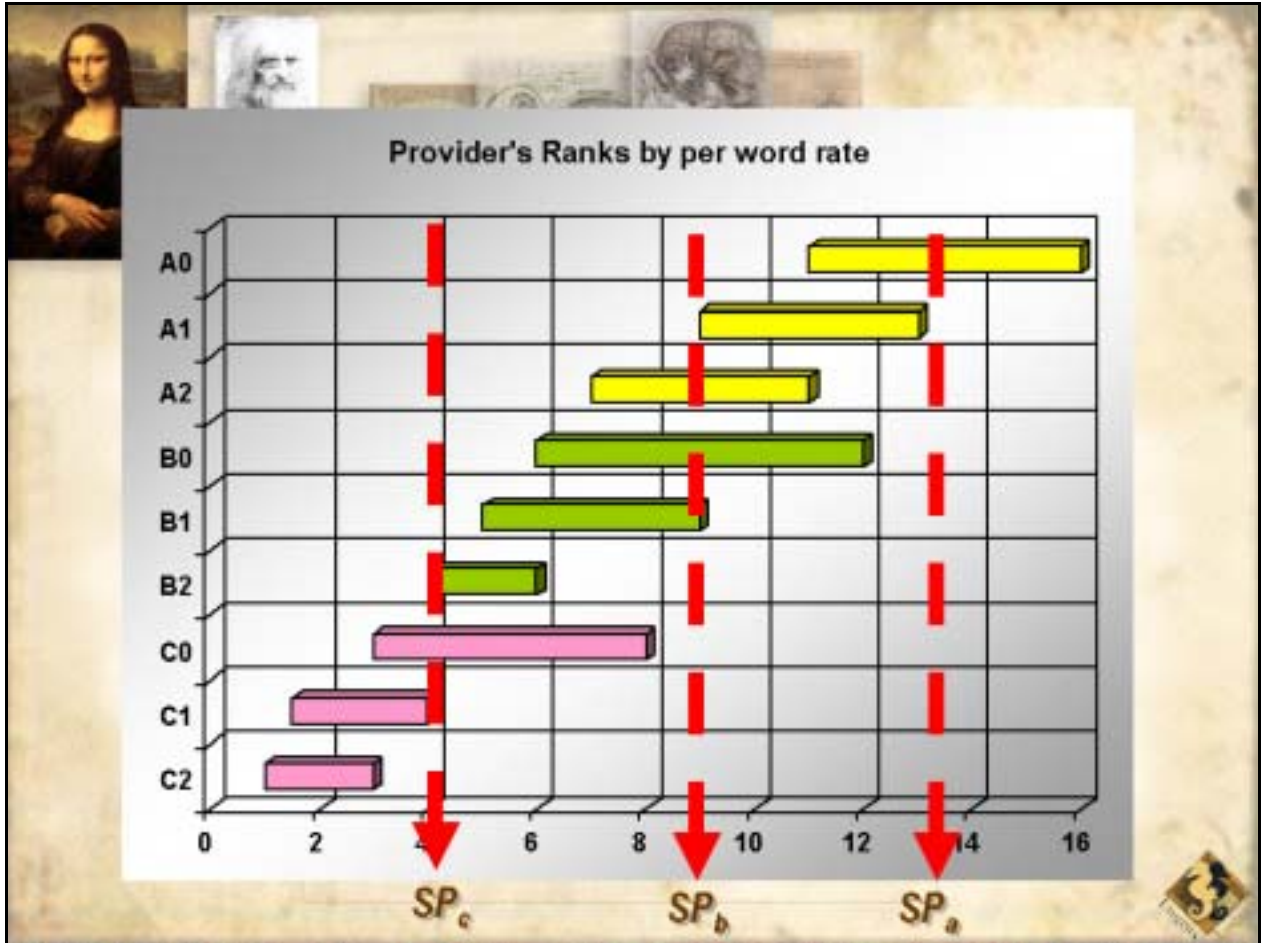


Corollary 1: Vendor class defines vendor pricing range

- Vendor class and subclass are associated with the cost of doing business and therefore dictates the pricing niche

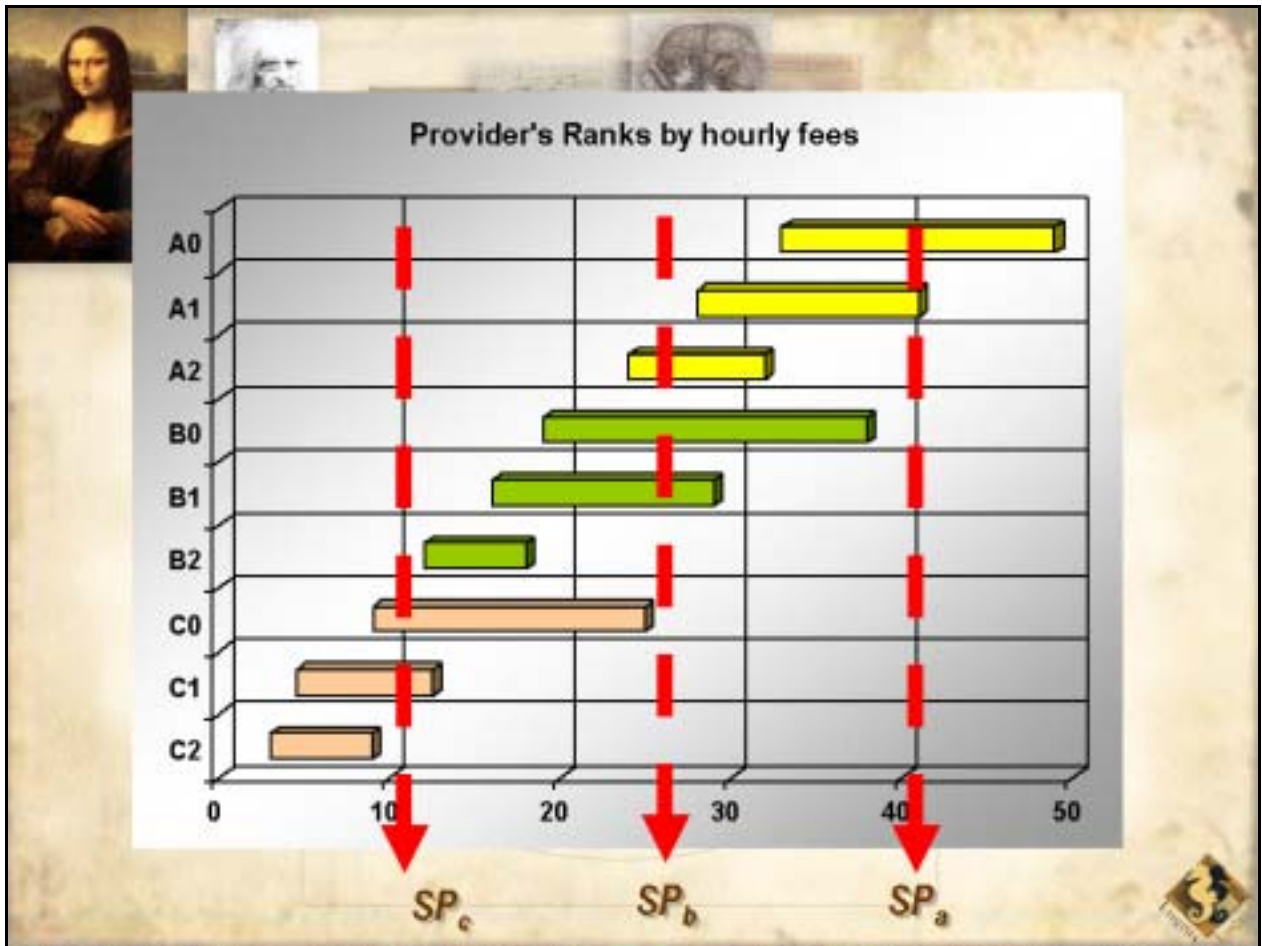
According to the number of tasks the vendor is taking upon himself, there is a certain associated cost of doing business and therefore each vendor class works in his own pricing niche.

Let's get into some more details of the pricing aspect.



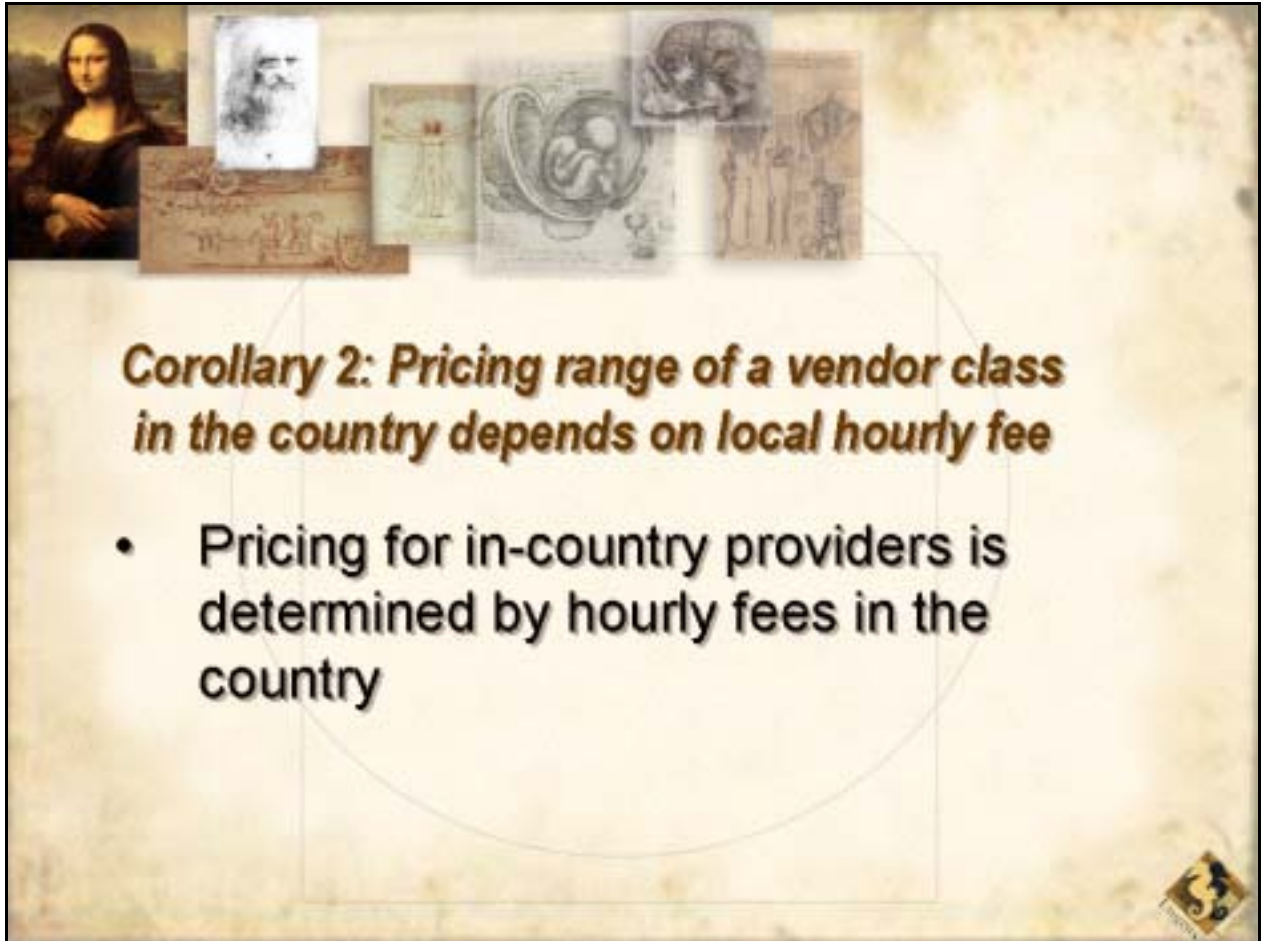
This slide shows the supplier rate distribution for so-called high-availability languages, the languages for the countries where resources are abundant - such as Russian, Spanish, Chinese.

SP, Sustainable Price – the price attractive and high enough for vendor to stay in business.



Service business cost is driven primarily by the cost of human labor.

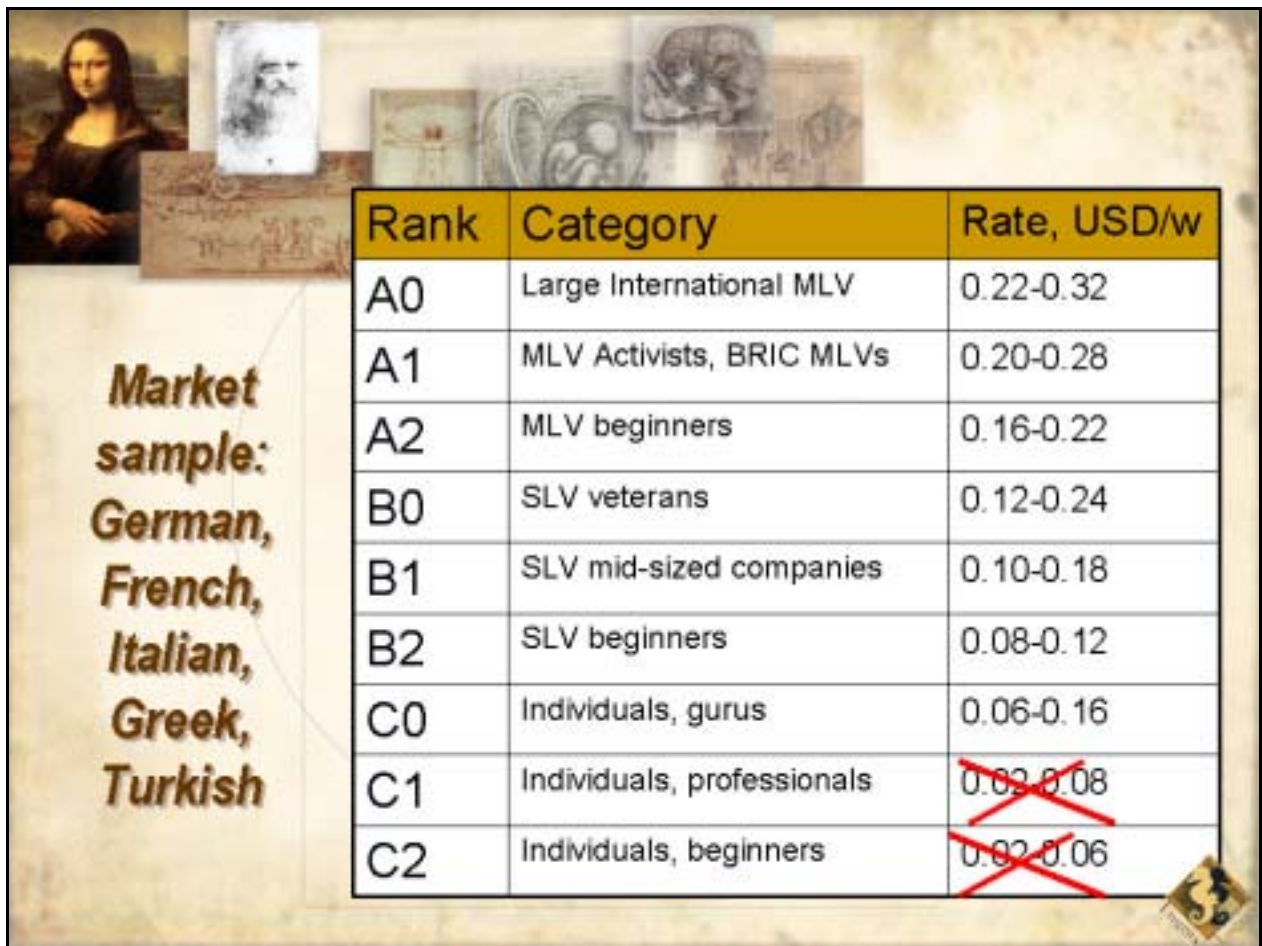
For this reason we can scale this chart on X axis by hourly rate.



Corollary 2: Pricing range of a vendor class in the country depends on local hourly fee

- Pricing for in-country providers is determined by hourly fees in the country

Now, the labor hourly rate is local parameter, varying from country to country and more or less uniform within the country.



**Market sample:
German,
French,
Italian,
Greek,
Turkish**

Rank	Category	Rate, USD/w
A0	Large International MLV	0.22-0.32
A1	MLV Activists, BRIC MLVs	0.20-0.28
A2	MLV beginners	0.16-0.22
B0	SLV veterans	0.12-0.24
B1	SLV mid-sized companies	0.10-0.18
B2	SLV beginners	0.08-0.12
C0	Individuals, gurus	0.06-0.16
C1	Individuals, professionals	0.03-0.08
C2	Individuals, beginners	0.02-0.06

Here is the local sample.

As you can see, there may be some differences in pricing structure for the local markets.

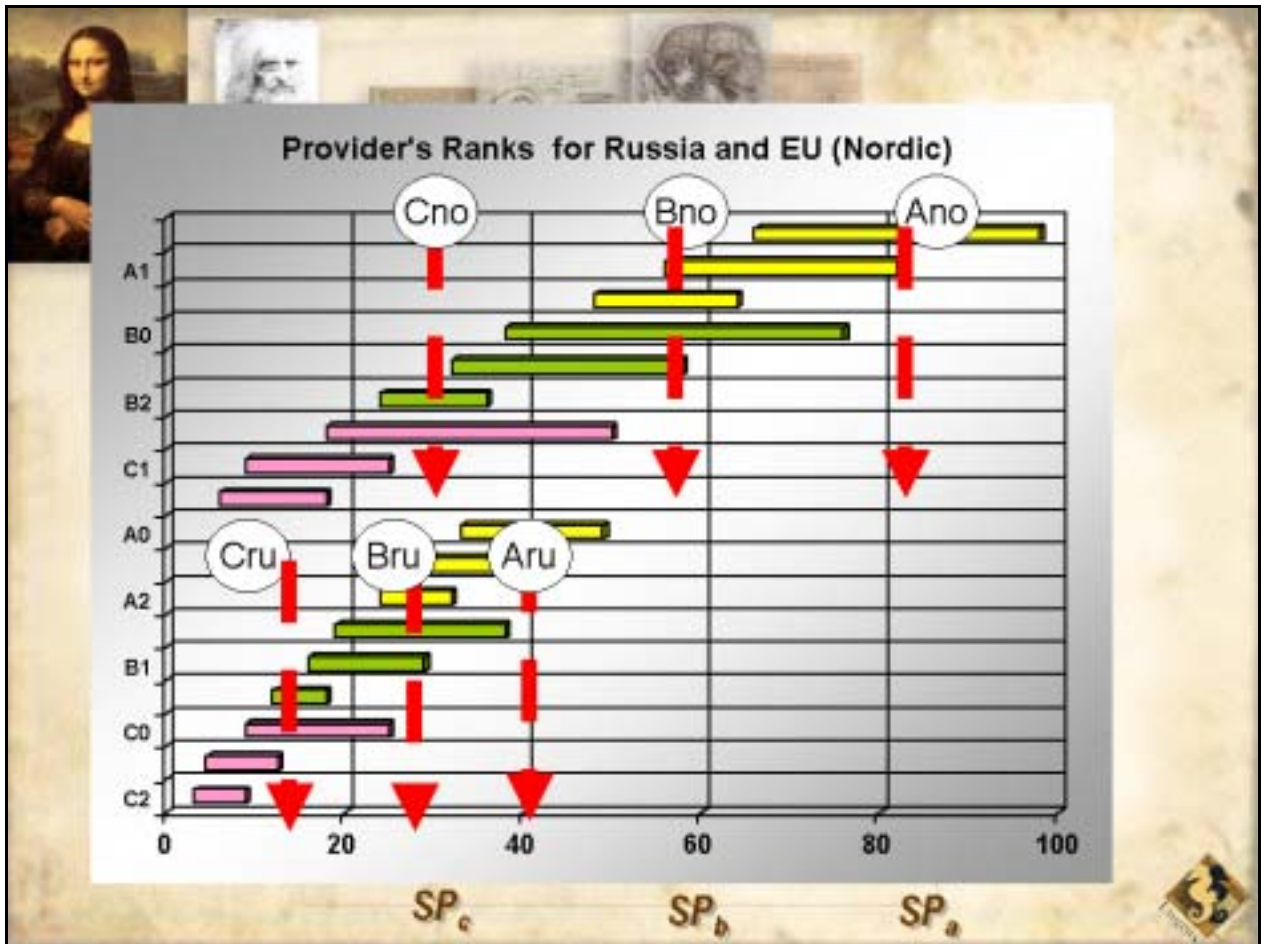
Namely, on developed markets even C class vendors do not go below sustainable price levels for their category.



Let's have a look at the hourly rate distribution in various countries of Europe.

Europe of 25 is becoming one single market now. One important consequence of that is that very soon Eastern Europe will cease to be an offshore (low labor cost) location.

* Spanish hourly rate actually reflects only linguistic hourly rate offered by companies from Spanish-speaking countries in Latin America, such as Argentina and Mexico.



Let's picture the ranks from different countries together on one chart.

In UK the hourly rate is about 3 times higher than in Russia.

What is interesting about this chart is not the trivial fact that there are offshore locations.

What is especially worth noting is that the difference between C class providers in Russian and UK is much less than the difference between A class providers.

Working with higher ranking vendor in Russia is much more profitable, reliable and sensible than working with lower class provider, - you save more money and reduce risk.



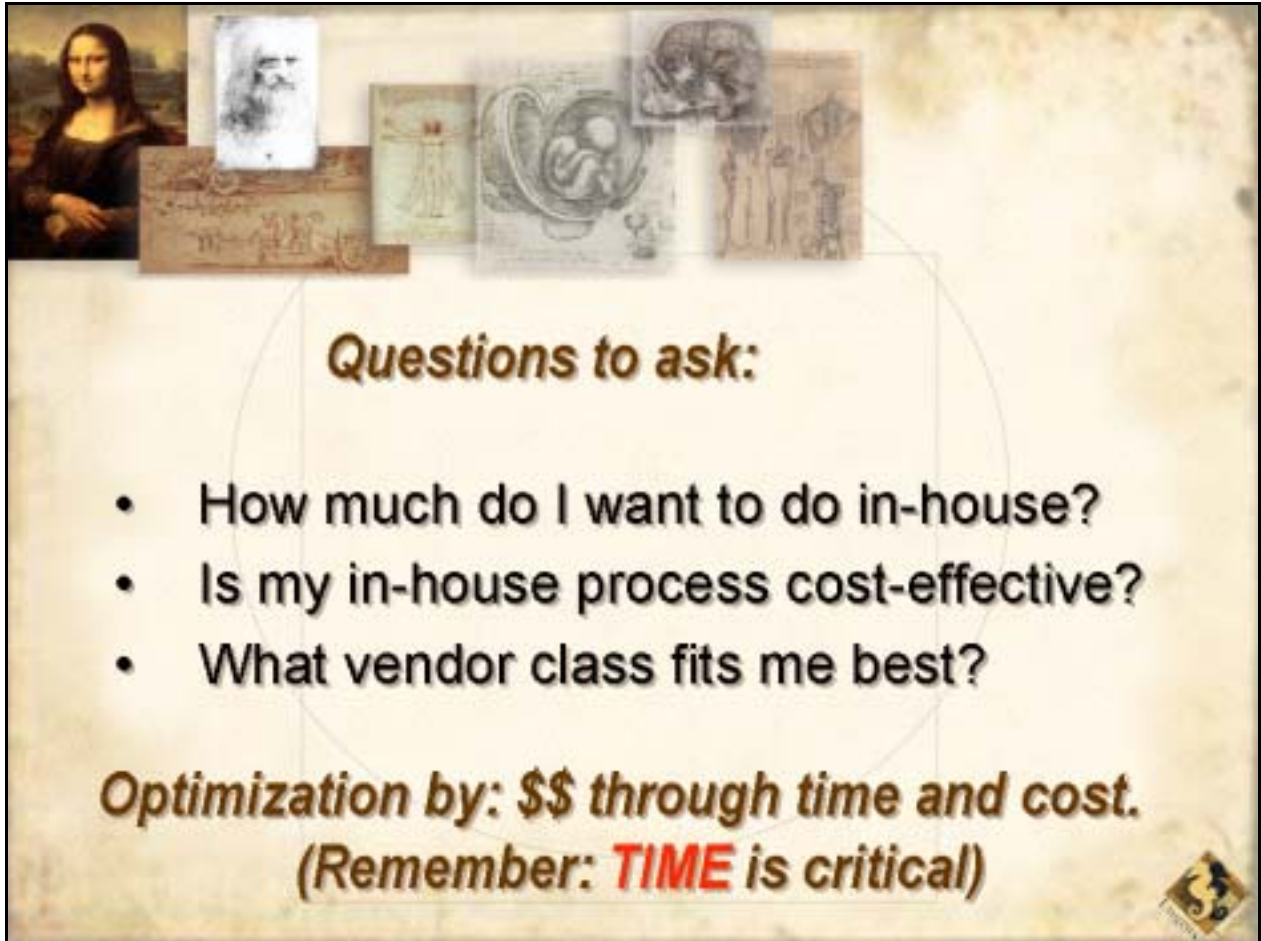
What is my best fit?



“Shopping question”:

**Should I work with MLV
in USA/UK, MLV in
Moscow or directly with
freelancer in France or
Georgia?**






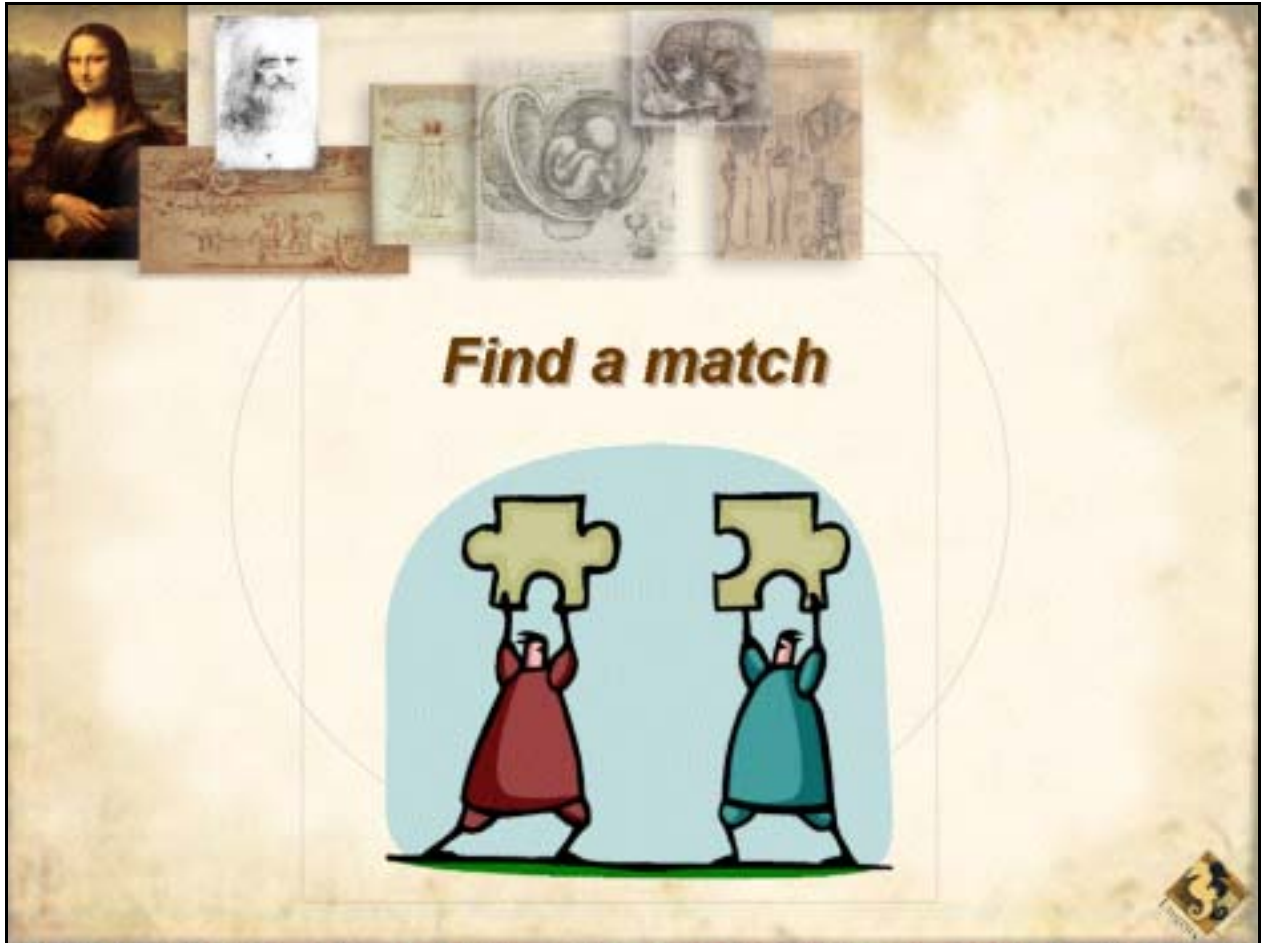
Questions to ask:

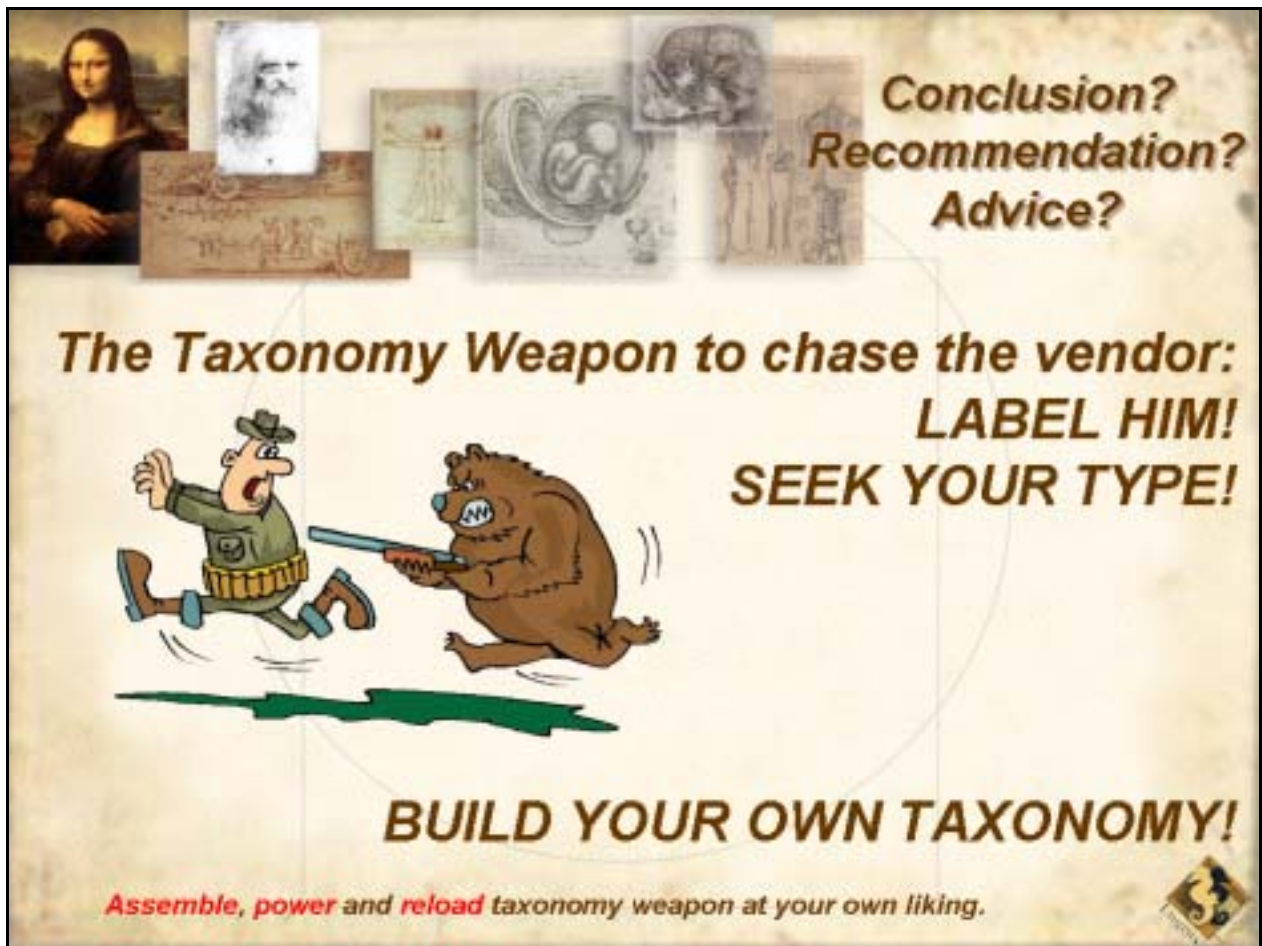
- How much do I want to do in-house?
- Is my in-house process cost-effective?
- What vendor class fits me best?

Optimization by: \$\$ through time and cost.
(Remember: *TIME* is critical)



It is for yourself to decide which model fits best, this has to be optimized internally taking into account your corporate criteria.





But at least you can use the taxonomy instrument to measure and chase your prospective provider. I can imagine the dialogue here at the Summit:

-How long are you in business? Five years? How many people do you employ? Oh, you are a B class provider!

☺



Thank you!

QUESTIONS?

