**Globally Speaking**

**Podcast 016**

**What’s in Store for LSPs in 2017?**

R Hi, I’m Renato Beninatto.

M And I’m Michael Stevens.

R Today we have a show about predictions and what is in store for us in 2017.

M So, we’re putting on our Nostradamus hat and we’re looking into this next year. So, let’s do it.

R So, here’s what I have in mind that we’re going to talk today. We’re going to talk about what are the topics that are going to dominate our conversation in 2017.

M And this is like a tradition for you.

R Well, I’ve been doing this for about 10 years. At the end of the year, just for fun I started doing this when I was at Common Sense Advisory, and I would have conversations with Don DePalma, and we would come up with trends, and then I continued doing it in every other function that I have.

M So, we’re all getting to kind of celebrate a 10-year tradition with you on this podcast.

R Yeah, I think this is a much more interesting way of presenting this instead of just three bullets. We can talk a little bit about why and what’s behind this whole topic. We’re in interesting times when it comes to technology and the economy of the world. I mean, international trade is slowing down for the first time in decades, so this whole movement of globalization is not disappearing, it’s just slowing down, it’s growing at a lower rate and that should have an impact in the growth of the company, in the growth of the industry.

 We have talked to a lot of interesting people in these several episodes from this first year of our podcast and I think that we can derive some interesting trends and topics that we were going… I’d like to call it topics that we’re going to be talking about next year. What do you think is the number one topic in my mind, Michael?

M Well, I just want to say, it also takes a little more guts to call out what we should be talking about in the next year because there’s a pretty quick return on that. Most people like predicting 20 years out because it’s a little safer; 20 years, who knows what they’ll be doing to be called on their stuff. So doing this year in and year out, is awesome.

 I would think, let’s see, what I would think your trend would be. Does it have anything to do with consolidation in the industry?

R No. I actually think that the consolidation topic was the topic of this year. We’re going to be talking about it, there’s going to be some conversation about the result of the translations.com, TransPerfect debacle and how that’s going to be solved…

M Will that be settled? You think it will be settled this calendar year?

R Yeah, yeah, it has to because there are deadlines in there, so something is going to happen there, and there is going to be private equity; there’s going to be more acquisitions and mergers in this space, but that’s a continuation of a trend that started a couple of years ago. So, that’s not new.

M And I don’t want to look back too much but one thing that people didn’t foresee was there were some pretty major reorgs as well this year with some of the major companies in the industry. Slator just did an article on the SDL reorg and what’s happening there; Lionbridge went through, I think, the biggest one they’ve had in their history, or at least in recent history. So, that’s been pretty significant.

R Well, the good thing about that element is that most of these changes have been driven by the client side, by changes in the buyer behavior on the client side. So, what happened with SDL is essentially that the leadership was driving for a push on technology, customer experience, social communications, and when the new CEO came on board, and I love when outsiders come to our industry because they can see the obvioius. We’re often talking about our own concerns, and we forget to look at the most obvious thing.

And what I heard him saying, Adolfo the new CEO of SDL, is that they’re going to focus on the process, they’re going to focus in the middle, what happens between the moment that you get the file from the client and you deliver what you agreed to the client. So, this middle part of the process is where all the translation technology is used and where there is still a lot of inefficiency and opportunity for growth.

On the other side, I understand that Lionbridge is now organized into nine different business units, and this is a result of the focus on the buyer behavior of different clients in different segments and how the clients buy, and the best way for you to organize is to map your organization to the needs of your clients.

I think that these are very interesting points for our industry because they will reflect in their stock value and that reflects in the image of the industry as a whole. But, keep in mind that the most valuable companies in the language business are RWS, based in the UK that is not seen in regular cycles or circles of localization; they focus on patents and now life sciences. The other big star is Keywords Studios; this company that is traded in the Dublin stock exchange that has one of the highest valuations in the market, their stock is priced really, really high. And these companies consolidating and buying a lot of companies in the gaming space.

M Yes, they have had had rocket growth through acquisition.

R It’s a very exciting company to watch. But, that’s not the trend of the year!

M Okay, what is the trend of the year? Let’s start there.

R The number one topic that we’re going to be talking about is going to be neural machine translation. And, guess what; what can you tell our audience here, Michael?

M Well, lo and behold, there happens to be a really good podcast coming out to cover neural translation, so any listeners who are checking this out should pay attention to the upcoming episodes that we’re going to be releasing.

R Yes. And I think that this is one of the areas where there is a lot of conversation and very little understanding, and I hope we’re going to bring some clarity to that. But, the concept of neural machine translation and machine learning are not new concepts, but they’re going to be brought to the forefront of every conversation that we have in the industry about automation, machine translation, processes and everything.

 So, more than neural MT, we’re going to be talking more about machine learning and this, I think, is a trend that is going to last for a certain period of time. So if you, our listener, want to know more about machine learning do some research, see what Google, Amazon, Baidu, IBM, are doing in this space, and figure out a way to incorporate concepts of machine learning into your business model.

M Yes, get into the conversation because on a previous podcast on content marketing they said that the person who’s starting brand new, right now, is not that far behind; this is even more so, you can get up to speed pretty quickly with what’s happening. There are going to be a number of engines that we’re able to have access to. I think Google already has a few languages released, Facebook has gone that direction, so any testing you can do, any way you can get involved—do it right away.

R Yes. One of the most interesting ones if you’re going to neural machine translation, which is the ultimate use of machine learning, it’s the most complex computing problem, it’s translation, so being a translator has a tool that compares, you put in a machine translation and you can compare statistical machine translation with neural machine translation, and it’s impressive. Then, you vote which one is the best, and it’s interesting to see the results. But, it’s important not to do with traditional languages; it’s better to do with very disparate languages like Chinese to English, Arabic to French and things like that. But let’s go to the second.

M Trend number two?

R Trend number two is going to be the incorporation of virtual reality.

M Oh! I like this one.

R As a format that will require localization. So, virtual reality is, again, one of those things that is a promise that everybody is talking about and a big gift for Christmas is going to be these headsets and so on. But, there is a lot of focus on the hardware and not so much conversation about the applications. For us, in the language industry, what really matters are the applications that are going… it’s a new format, right? And virtual reality is just going to be a new format of content that needs to be translated and localized.

 So, important things to keep in mind. Virtual reality has to do a lot with image, even though there is some text incorporated, like in this Pokémon goal where you have this…

M Augmented reality.

R Augmented reality, thank you. Yes, so augmented reality overlaps content with image, real world with this virtual world, and there is also a big element of the trend that I mentioned a couple of years ago and I repeated last year and it continues, is the increased demand for localization of video and audio content. That is something that expands into virtual reality.

M Absolutely. This is a big year for it because, as you mentioned, there are big companies like Steam and Oculus Rift, who’s owned by Facebook, out there who have had virtual reality. And you’ve had Samsung get into the phone that you can put into goggles, but none of these, the hardware piece you mentioned, had mass appeal to them. There are a few hundred thousand people with these devices in their game rooms or in their living rooms. This Christmas the gift is the Sony version of it, which works with PlayStation, which means now you’re going to have millions of people with virtual reality headsets on. The learning as far as what is able to be used as far as text goes, I mean, just within the last year, we were still asking the question “how do we keep people from getting motion sick in games?” Right?

R The point here is that gaming is just the starting point. But virtual reality applies to real state, to engineering. So, today you can go into a building, a virtual building before it is built, and you can visit your apartment, you can have a view of the ocean from the 32nd floor of a building that has not left the ground yet. So, there is application in the area of medicine, a lot of application in the area of medicine. So, virtual reality and medicine has this area of medical device implications that require a lot of regulatory approvals and processes that usually generate more translation.

 So, think of virtual reality outside of the gaming industry, but think of virtual reality and its application in every segment that you can imagine. Training for every industry; you name it.

M Yes, and there is going to be a lot of voice to go along with it, voice and video, for sure.

R And one of the things that is also increasing dramatically is this shift from keyboards to microphones. I know that many people in the … let’s say, in the older generation, are reluctant to use Voice Search, but if you think that talking to your device, the one that you carry in your pocket with you all the time is extremely convenient or more convenient than typing a search in Chinese.

 We had an interview with Sonia Zamborsky in a previous episode where she was talking how Asians search for information more on an image base than on a text base. So, that has implications for localization.

M The Japanese website needed to have more images, especially maps and things like that to help find hotels, was what she was referring to.

R So, image, voice, this is all related to a trend of using more voice for interacting with the device, rather than keyboards. I bought one of these Amazon Echoes here at home. I have a blast, telling Alexa to do stuff. “Go back to that, play that song”. It’s fun.

M Make sure you speak nice to her! It’s very key. There are some articles out there right now saying that we need to treat our virtual assistants with… to be polite, because…

R Yes, just say please and thank you.

M Say please and thank you because what you put in you get in return. That’s how the robots turn against us. So, yes, I think that’s a great trend, and I think this is going to be a big year to the viability of virtual reality and how it impacts our industry. Okay, what’s your number three?

R Well, my number three is a longer cycle trend. We’re going to talk more about it in 2017, but it’s going to take more time for this trend to develop. This has to do with China and India. Today, India is the second internet market after China. The United States is a far third.

 What is happening now is that you have Chinese brands that you and I are not familiar with, like Vivo, OPPO, LeEco, these are electronic devices that are taking over the Asian market. They are predominantly in China, but they’re going into India, and this is something that I’ve been talking about for a long time, that we tend to look at the world from a North Atlantic perspective, it’s United States and Europe. But, there is a lot of things happening in another axis; it’s the China/South America, it’s the South America/Africa, it’s China/Africa. China is one of the biggest investors in Africa and South America, in infrastructure.

 Also, between India and these markets because India is the fastest growing economy in the world now; China is slowing down, and India is accelerating. So, I think that this is something for us to watch, and we’re going to see more Chinese brands and localization—there’s going to be a bigger demand for localization from those markets.

M Do you think mobile is driving a lot of this still?

R Yes, even though the growth of mobile has stalled in the West, it’s still growing in India, Africa and Southeast Asia. But, the important element here is that with economic growth comes purchasing power. So, the story is that India is growing, and a lot more people are able to buy devices and use devices and have access to technology, information, ecommerce, and they can buy more--which is what drives the economy.

And this is not a long discussion for us to have here, but I read recently an article that GDP is probably not the best way for us to measure success of an economy because an example that the economists gave was that if you walk from your house to your office that doesn’t generate any economic activity, and it’s not captured in the GDP. But, if you take a bus or take a car to go to work, that generates an economic activity, it generates GDP, but it’s terrible for the environment, while walking or biking is not good. But, that’s a story for another podcast.

M Yes. Well, the Western user tends to be laptop-first, desktop-first in their thinking, where that hasn’t been the case with India and China, that it’s a mobile-first thinking. So, this past year I’ve been reading a lot about WeChat as a platform, and I was introduced to it early because I was working for a company where we had a large production center in China, and I had a team there. But, to me, I just saw it as another messaging service equal to Skype or something like that.

 Well, the development of WeChat as a platform where you can split your bill at dinner over WeChat; you’re calling your ride service through WeChat. It’s taking care of all these other services, again, because there’s a mobile-first mind-set, and I think, now, we’re going to see a lot of development that’s happened in India and China being pushed our direction. Evernote was a company that got into this early; a lot of the breakthroughs with their product came through having a development center in China, but now these larger companies who are based there are going to be making it even more competitive, and as consumers, as localizers we benefit so much from this.

R Absolutely. We talk all the time about Microsoft, Facebook, Apple, Amazon, and these leaders of the Western world, but we need to be able to talk about Baidu, Tencent and Alibaba; these are driving the second largest economy in the world, and we barely know it. I mean, WeChat, I love WeChat, I have tons of friends on WeChat, and it’s an amazing application. But this is very cultural. If it weren’t for the Chinese Great Firewall, they probably would be using Facebook and Twitter like we are.

M One of my predictions on this is that we’re going to have some folks from these companies on the podcast this coming year.

R I think that’s a plan, and we definitely need to do that. And, as a bonus, Mike, I would love to talk about another long-term trend.

M But hold on, before you do that, let’s close on another long-term trend. I want to surprise you with something here. That is, I looked up what you wrote last year.

R Aha!

M And I just… again, so people can put … how much they put stock in things because I think it’s fun to review what we talked about, or what you talked about last year.

R I’m scared!

M See how you did. Okay, are you ready for this? The number one trend you mentioned is that global brands will turn to single-sourced language solutions.

R Absolutely true! Microsoft, Facebook, VMware, more and more companies are turning into single-source, and that is definitely one of the conversations that is happening with the very mature language service buyers. So, I would put a check on that.

M I would too, I’d give you thumbs up on that. Number two, this is interesting. For better or for worse, Smartling will disrupt “business as usual”.

R That one is interesting because Smartling was for quite a while a topic of every conversation that you had with anybody in the industry because they had a very strong sales and marketing engine; they were capable of being in front of all the buyers in the industry, and we would often have questions—“who are these guys; are they any good; should I look into them?” They definitely got the bandwidth of the industry. But, as I also predicted, and as I have said from the beginning, their technology is not disruptive; it’s not new technology. And they are, from what I hear lately, they’re moving away from the pure technology player into becoming an LSP.

So, they are going to become another SDL because that story of the proxy server, it’s not an enterprise solution and a complete solution. It had a lot of sex appeal, but very little substance, and I think that it was a good prediction and nobody is talking about them anymore.

M You know what I just did to you? I did two of your 2015 predictions. It’s like “this does not sound right, Smartling”? Okay, are you ready for your 2016.

R Okay, let’s do that!

MOkay, 2016, one of these we already talked about and we’re in agreement. There was more consolidation. Check. Good call. Number two, you talked about voice-based content is growing, and we’ve seen that. Do you think we’re going to see much change related to the tools space, this coming year?

R Except for some advances in the neural machine translation that we talked about earlier, I don’t see anything revolutionary. We have incremental innovations like Lilt and new technologies here and there, but I don’t’ see this, unless we have a disruptive new product that comes in.

M What about companies acquiring tools companies, do you see that happening more?

R Yes, I think that will happen just because there is so much money in this space, and the companies are cash rich, and technology is cheap these days. So, I think we’re going to see LSPs buying machine translation and TM technologies, yes.

M Okay. Last year you predicted value over price, that mature clients will look for different ways and aspects in the value formula other than just straight price.

R Yes, because I think that this concept of commoditization has reached a bottom, and it’s starting to bounce back. I saw that in the telephone interpretation industry some several years ago when there was a company called Network Omni that came into the market, trying to become the low cost provider, offering rock bottom prices and they went bankrupt and within a matter of months the price levels came back to what they were before NetworkOmni tried to disrupt this market.

 So, I think that we are at a price point that people are comfortable with. We will have… when I talk about view per-word price, it’s been stable, it hasn’t changed much, and I think that buyers now that work more… I’m talking about the mature buyers that work more in an agile environment more than the waterfall traditional project per word-based, they are looking at the value chain in a different way, and things like turnaround time is more important than on time delivery. “Can I finish the project within this cycle or this week release?” And things like that.

 So, I think I was right. It’s a longer trend.

M I think that’s one of the longer ones, yes…that you can sort of… I’m on the fence about that one.

R Yes. Well, everybody loves to talk price, but we’re talking, if you’re really objective, we are in the ballpark wherever we were five years ago, or something like that. You win some, you lose some.

M The last one you had here to watch out for 2016, the scramble for talent and resources for long-tail languages.

R Yes. This is vendor managers… you know, the reason, and something we haven’t talked about, which is the Netflix effect. Netflix launched in 120 countries, and they are struggling in finding people to translate and subtitle movies into all the languages that they need. So, good translators, because movies and series, and TV shows, and this again goes with the audio and video part that I mentioned before, these translations are highly visible, and people comment about the TV series that they watch.

Can you imagine if there is a big translation error in one of the Netflix series when it comes out and everybody talks about it? So, high quality translation is very relevant for this type of thing. So, that’s an interesting thing. As we were talking about, India is one of the topics of my predictions for this year. 27 official languages, 29? I never know. They are going to consume Netflix also.

 So, I had one last thing that I wanted to mention and that was, and I think that the industry that is going to be the surprise industry for everybody, that we’re going to start looking into is transportation. So, anything related to transportation is going to be a new focus of interest.

 The reason why I say this is that when you think about automotive, automotive was considered the grandfather of manufacturing. There is nothing exciting there, many LSPs didn’t want to go there because they were going bankrupt and so on. But, the transportation industry is going to go through a major revolution.

So, automation, self-driving cars, navigation, voice interface, infotainment, new fuels, new modes of ownership; Uber, Airbnb becoming a platform and having air fares and airlines—anything related to transportation is going to be disrupted in a very significant way. We’re in the middle of that process. That will make transportation, and particularly automotive, very exciting again for LSPs.

M All right, good. If that’s the only prediction that comes through, this has been a really good show!

R This was fun.

**END**