



# Pink Ink

First of a three-part series

Localization and ROI:

*Increasing Value by Eliminating Pink Ink*

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## Localization and ROI: *Increasing Value by Eliminating Pink Ink*

First of a three-part series, by Chris Langewis, ABLE Innovations, Inc.



# Revenue that's lost forever

*Accounting systems boil everything down to two colors of ink: black or red. In the software business, however, companies can rack up hundreds of millions of dollars each year in indirect, yet real, losses. And these are losses that accounting often fails to catch, because they result from a too-narrow focus on domestic business that in turn leads to missed localization opportunities. Let's call this phenomenon "pink ink."*

As Bill Sullivan, IBM program director of globalization said in the April 7, 2003 issue of the [LISA](#) newsletter, *Globalization Insider*, "In our view, globalization is an imperative; a non-negotiable customer expectation. It cannot and should not be treated as an add-on feature. It is a condition of participating in the e-business marketplace. Instead of asking themselves how much they will earn by investing in globalization, companies should ask how much they will lose if they do not."

Unfortunately, pink ink doesn't show up on a P&L; software companies can be quite profitable and still suffer these losses. Still, pink ink represents unrecoverable revenue, for these key reasons:

- localized software might be slow to hit foreign markets
- localized versions may be available in relatively few markets
- localized versions may be substandard in quality

- localized versions may have been created inefficiently, reducing profits unnecessarily.

As a result, pink ink's causes are tightly linked to localization; so remedies must address localization and ROI issues. Software companies can reap great rewards by recognizing the cost of pink ink, however - by making process, technology and people-related changes that enable delivery of first-rate localized software to the right markets at the right time.

In the next few paragraphs, I'll identify some root causes and true costs of pink ink. In a second column, I'll discuss some key technologies and processes companies can use to speed product to foreign markets and eliminate pink ink. A final column will address how a software organization's goals and reward systems can be fundamentally re-directed to create profit opportunities when marketing internationalized products.

# Overlooking Markets: how to generate more pink ink

The easiest way to avoid making money is by not being in a market, but software companies often focus heavily on their domestic business, and some don't recognize the serious dollars they are leaving on the table by neglecting or ignoring foreign markets. Pink ink is all about lost overseas revenue. Often, lost revenues are the result of a passive approach to overseas markets. Rather than making hard strategic decisions and establishing concrete revenue and profit targets as a part of a comprehensive international strategy, software companies may allow themselves to be "pulled" overseas by distributors.

In a typical scenario, a software distributor in, say, Germany contacts the developer of a well-reputed U.S. software package and offers to localize, distribute and even handle local technical support. For their trouble, the German distributor takes up to 60% or more of the gross. Meanwhile, the same thing is happening in France, Brazil, and Japan. For the U.S. software house, this new overseas revenue may seem like found money. Expenses seem negligible and development teams can focus on additional releases of the English-language software. Since overseas gross is flowing back into the company's top line, accountants see black ink, but beneath it flows a river of pink.

Consider this: If the German distributor can sell \$1 million a month of the software and takes a 50 percent cut, the U.S. software house is in effect spending \$1.5 million per quarter on overseas marketing. Using the distributor can end up costing a lot more than it might cost to bring the projects in-house. And this scenario doesn't take into account the effects of software-quality issues that inevitably emerge when another company roots around in your source code in the process of localizing it. Quality problems can tarnish a software company's image overseas, alienating customers, shrinking market share and reducing overseas revenues. More pink ink.

*It's not that the distributor model never makes sense. But companies need to consider carefully the best approach to a given market and the pink ink distributors can spill.*

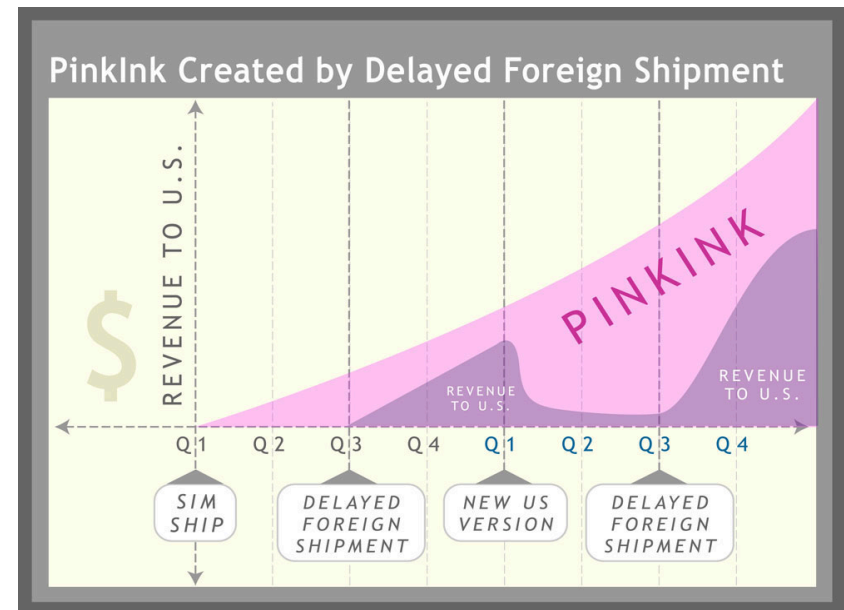
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# How delays lead to higher losses

Whether employing a distributor or going direct, delayed market entry yields a very deep pool of pink ink. If you release a product domestically and then deliver it to your distributor – who then takes months to get it localized – the hidden financial impact can be enormous. In the example above, the company is foregoing over \$32,000 in revenue every day that the product isn't on German shelves.

Pink ink doesn't stop once software is selling in a foreign market. Unless localized versions of software are available concurrently with the new U.S. release, losses occur with each upgrade as well. For example, let's say an overseas buyer is in the market for a German-language version of a software package. If that buyer learns that the software has been upgraded to a new U.S. version, the reaction is often to wait for the new version, even though that process can take six months. If customers need software and there are competing products available, the delay can drive them to competitors or customers may purchase gray-market English versions of the upgraded software. Such buyers will never purchase the localized upgrade - more lost revenue, plain and simple.

Since a small investment in localization enables companies to generate a large source of additional revenue ([CommonSenseAdvisory](#), 2002), software companies that downgrade the importance of localization-related delays play potentially expensive games. Given competitive markets and constant product upgrades, localization-caused delays in international product releases lead to unrecoverable revenue losses. The word "delay" is a misnomer in this context: it is more accurate to view delays as shortening a product's life cycle in overseas markets, resulting in millions of dollars of losses each year.



# Halting the tide of pink ink

Corporate accounting practices, traditional management mindset and efforts that focus only on domestic business can have a negative effect on overseas software sales. Executives need to understand the significant revenue losses that are the direct result of faulty logic: work related to globalizing products appears simply to cost money and hurt ROI, but evidence shows instead that localization can be a cost-effective promoter of products and services. Technology, process and people changes that are critical in enabling simultaneous shipment, or SimShip of domestic and foreign releases, can communicate a company's message across the entire sales and marketing spectrum. Yes, domestic financial targets may seem clearer, and foreign ones murkier, but putting

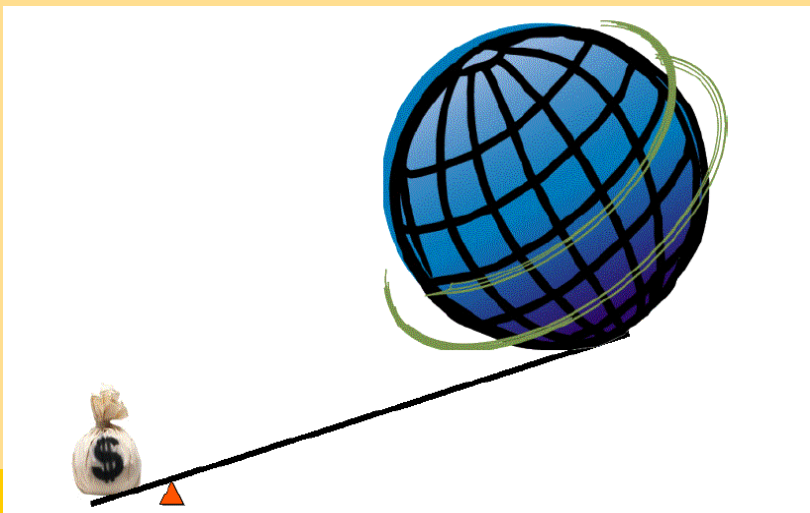
international product development on the back burner can result in a tsunami of pink ink.

Fortunately, lost international revenue is a solvable problem, if a company avoids its primary causes:

- passive reaction to overseas opportunities
- non-strategic stance toward international markets (e.g., relying on high-cost channels; domestic-focused software development processes)
- narrow thinking about what ensures ROI in global markets
- passive reaction to delays in the release of localized products - delays that artificially shorten overseas product life cycles.

## Conclusion

In the next column, I'll discuss processes and technologies that software firms can use to dramatically grow international revenues by generating higher unit volume with higher margins over longer periods of time. A third column will address people and reward-system changes that reach deep into the organization and that require support from top leadership. Together, these three columns should provide a starting point for thinking about how companies can maximize overseas revenues and minimize the flow of pink ink.



*A Little Localization Funding Enables a Lot of International Revenue*  
Source: [Common Sense Advisory, Inc.](#)

### About the Author:

Chris Langewis has 25 years of international software business experience. He has built global product marketing groups and led teams in the development and implementation of new technology for machine translation, computer-aided translation tools and localization process management programs.

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