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Calculating ROI in Software Localization

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The most fundamental reason for a software company to localize product is to increase total revenue and net income. The logic is simple: Higher total revenue offsets larger R&D, product development and product marketing costs. Larger budgets mean better products and better odds of dominating the market space.

In 2001, 65 percent of all PC sales and 66 percent of all server sales were outside the U.S., according to IDC, and 48 percent of worldwide software revenues were generated in markets outside of North America. By adapting - also known as localizing - products for international markets, these companies are maximizing their revenue capture, as well as protecting or improving their global market share.

Software companies do not rely on ROI calculations alone to decide what international markets they will enter. Market research, competitive forces, sales channels, existing customer relationships, and other strategic factors also color, or determine, the outcome. But as one international product manager commented: "A strong ROI case is hard to ignore."

> *"As you get started with your first or second localization project, ROI calculation is important but may not be your primary driver in the decision making process. When you have four or five product lines going into multiple languages, then it becomes critical to have a method of evaluating and prioritizing investment opportunities, and measuring the results. When trying to answer questions like 'are we better off spending the money to localize Product A into Korean, or Product B into German?' That's when an ROI calculation is indispensable."*
> -- **Ulrich Henes**, president, The Localization Institute (www.localizationinstitute.com)

The Basic ROI Calculation

The basic ROI calculation used for software localization is as follows: ROI = revenue - cost. Or, to express this as a percentage: ROI = (revenue - cost) / cost. In a famous ROI study reported by LISA (the Localization Industry Standards Association), Equipe Consortium calculated that the software industry invested US $2.5 billion in one year for software localization. Against this expenditure, the industry posted US $50 billion in associated sales. Using the favored equation, software companies collectively achieved a $47.5 billion - or 1900 percent - return on their localization investment. Since this is the only ROI study published to date, these figures have been used as a benchmark both for individual products and for the software industry as a whole.

However, there are other costs associated with foreign markets that are not factored into that equation and that cannot be ignored. Organizations do not make market entry or localization decisions in the absence of detailed estimates of sales and marketing costs, corporate and legal costs, infrastructure costs and customer support costs. Internationalization is a related investment requiring its own ROI calculation. These other factors may indicate how much and how soon to localize, but in most cases will overwhelm the cost of the localization itself. So the Equipe calculation is best amended with the addition of these other factors.

If a company is already selling non-localized product in a given country, and they have a clear cost basis for that international operation, the following variation may prove useful when evaluating whether or not to invest in localization.

1. Determine the likely increase in sales revenue that will result from selling the product in the native language of the target buyer. Using focus groups, customer feedback or a survey will increase the accuracy of your estimate.

2. Obtain a fixed-price quotation from a localization services provider. Internationalization costs should be calculated separately, since that work may be required even for the non-localized version - and because once completed, the work should not need repeating in subsequent releases.

3. Compare cost and revenue projections with and without localizing your product.

Although this does not directly address the strategic (hard-to-calculate) benefits such as customer retention, market share, brand equity and competition (see below), the basic ROI calculation will give you a valuable financial snapshot of short-term, base-line "ROI".

Selling Non-Localized Product	
Projected 12 Month Revenue	$ 2,000,000
Projected Cost	$ 500,000
Short-term "ROI"	$ 1,500,000
ROI expressed as a percentage	300%

Selling Localized Product	
Projected 12 Month Revenue	$ 5,000,000
Projected Cost	$ 1,000,000
Short-term "ROI"	$ 4,000,000
ROI expressed as a percentage	400%

How Market Development Affects ROI

The biggest factor in software localization ROI may be the dynamics of market development. What stage is your product at in each country? If your product has been available in Germany for five years, and consistently available in updated, localized versions for three years, expect higher ROI for localizing your next German release. Return on localization investments is always higher for existing markets than for new market entry for the following reasons:

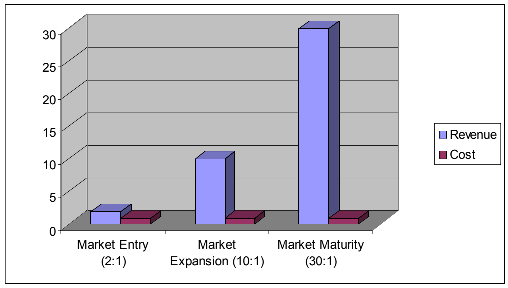
a) Leveraging translation memory after a first release will reduce the effort and cost of localization.

b) The sales channel, installed base, and brand awareness are already established.

Discounting all other factors, ROI on software localization will increase as you progress from market entry to market expansion to market maturity. Therefore, it may be more appropriate to use separate benchmarks for each market stage.

In the market entry stage, infrastructure and localization costs typically seem high to software developers. Successfully entering a new market requires multiple investments - localization is just one of many factors. During market expansion, sales and marketing will be the primary cost burden, since competition is most fierce at this stage. Localization decisions should focus on time-to-market issues rather than on cost in this part of the cycle, in order to maximize revenue capture and market share. As a market matures, it is customer support costs that will raise eyebrows. This is when quality and a thorough approach to localizing user assistance and technical support become the paramount ROI considerations. At the beginning of the cycle, it is most important to maximize selling opportunity. At the end of the cycle, the focus is on minimizing support costs (while maximizing retention) of a large installed base.

The dynamics of market development have a big impact on ROI calculations. ROI, in turn, affects decisions on what markets to enter, and when to offer a localized product. To be useful, these decisions must take into account hard-to-calculate ROI factors such as market share, brand equity, competition, and customer satisfaction.



Software Localization ROI targets should change as a market develops

> *"Initially, we knew we had to be global, and just focused on getting our localization program up and running. But as scalability became an issue, with more languages and more products being added each year, we realized that localization decisions needed to be less of a development issue and more of a business decision. We decided to invest time in defining our localization decision-making process and coming up with business metrics to quantify opportunities and measure results.*
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> *"We worked with our executive team to build a custom methodology for ROI-based decisions, supported by both Finance and Field Operations. ROI is never the only reason for localizing, as there are numerous strategic issues to consider, however because of our methodologies, we are now more aware and can more accurately predict success."*
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> -- **Jessica Roland**, Senior Product Manager, Localization, Documentum (www.documentum.com)

Hard to Calculate ROI Factors

Market share. Offering a localized product means that more people can buy and use it. Governments in most countries are an obvious case, were policy dictates that all software must have user interface (UI) and user assistance (UA) available in the local language(s). But many businesses also have purchasing requirements that make it difficult for managers to buy English-only software. Most consumers also prefer localized versions. Thus, you will gain market share more rapidly by localizing.

Brand equity. Software produced in the U.S. and Canada is already in a good position - just as wine from France. So it is not necessary or even advisable to downplay the fact that your software is the product of a company in North America. However, software buyers in Europe and Asia - no less than in the U.S. - are sensitive to the financial strength (survivability) of a software vendor and its ability to support customers long-term. Localized UI and UA, as well as localized marketing materials, are part and parcel of developing a strong brand image within a given market. The investment says to the customer "we are here to stay."

Competition. Market share and brand equity issues are part of the competitive equation. The more competitive your market space, the more thorough your localization must be. If you are establishing a new product category, English-only product may still sell. As competitors enter the field, localizing the UI and key pieces documentation will be necessary, plus sales and marketing collateral. And as competition intensifies, all help and documentation, and even online support, must be localized in order to maximize opportunity and minimize competitive threats. To skip localization is to cede territory to the competition.

Customer satisfaction and retention. Although no data exists for use of desktop or enterprise software applications, analysts are in agreement that users of Web interfaces will gravitate to the Web sites and applications that are in their own language by a large margin. This margin varies by country and by demographic, but remains high in all the major economies, including Japan, Germany, France, Spain, China, Brazil, and so on. Users are most comfortable when working with software and documentation in their own language. This easily translates into higher customer satisfaction and retention, which are key factors when calculating ROI.

Cost of support. The effect of support costs on localization ROI is significant. Poor or incomplete localization increases the cost of support, diminishes customer satisfaction, and erases localization ROI. Unfortunately, companies seeking to maximize ROI by reducing localization cost often diminish it instead, by raising their cost of support - and customer churn. By selecting inexpensive localization resources, strings may be translated out of context, leading to errors; inconsistencies in terminology may appear between UI and UA; and new bugs may appear in the software. A thorough approach to localization and testing, by a supplier using a consistent methodology across all languages will ensure customer satisfaction, reduce the cost of support, and safeguard your localization ROI.

Sometimes ROI is not relevant because companies simply have to localize. For instance: when a key customer demands localized versions, or other revenue is threatened; when software is used in manufacturing by people who are not proficient in English, and the risk of running non-localized software is too great; due to government regulation.

In most cases, part of the localization decision, and therefore part of the ROI calculation, is whether to localize the full product or only parts of it. User modules versus admin modules is one frequent trade-off, UI versus UA is another. Project scoping is very important and decisions must be taken with detailed knowledge of both the product itself and the target market.

By combining the basic ROI calculation with market cycle dynamics and a strategic assessment of hard-to-calculate factors, a solid ROI methodology can be built to serve companies in making and tracking localization investments.

In the end, calculating software localization ROI produces useful results only when part of a bigger picture - the full investment required to sell products internationally. In that context, localization is not the biggest item and, in fact, is typically smaller than the cost of marketing and sales. And yet localization is a critical step in effectively selling products in international markets. If skipped, it jeopardizes all other investments in local presence, such as internationalization, channel development, advertising, sales training, administration, and customer support infrastructure.

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