

# UK Language Services Market 2016

Research by the Association of Translation Companies ©



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# General overview

With over 1,300 companies employing more than 12,000 people and a total turnover in excess of £1 billion a year the language services market in the United Kingdom is one of the largest in the world. A trade body with 40 years of experience, the Association of Translation Companies (ATC) strives to keep its members up to date on trends and important events in the industry.

For the second year running the ATC commissioned independent researcher Konstantin Dranch to conduct a survey of UK Language Service Providers (LSPs) and to summarise the findings in the present report, as well as making presentations at the ATC's Language Industry Summit in London and during online webinars. The purpose of the survey is to provide members and those interested in the market with information for data-driven decision making.

## New in 2016 report

This report differs slightly from the research paper produced last year. This edition of the report focuses on events in the market, pricing practices, margins, and profitability levels in LSPs. To make the survey more accessible and manageable for respondents, indicators that do not show significant change over a single year such as salaries, were skipped.

## Sources of information

A total of 89 responses were collected in the survey, 50 of which have been qualified for the final report. The number of responses is not very high, but it still allowed us to derive benchmarks for pricing and profitability.

To identify large companies not taking part in the survey, we have used an industry report from Merlin Scott Associates, which groups companies listed on Companies House by the nature of their business. Specifically, the report available to us included all companies that have selected the code 75300 - Translation and interpretation activities as their primary business activity.

Unlike some other countries, the market in the UK is transparent. Prior to September 2016 companies with a total turnover exceeding £6.5 million were obliged to publish full accounts on Companies House. These accounts provide consolidated revenue, and if the company in question has multiple legal entities in its structure, including foreign legal entities, their revenue and profits can still be viewed (with rare exceptions). This official and reliable information is available freely via the new portal of the registry's portal, [beta.companieshouse.gov.uk](https://beta.companieshouse.gov.uk), and was a strong reference point for the research.

# Summary - key findings

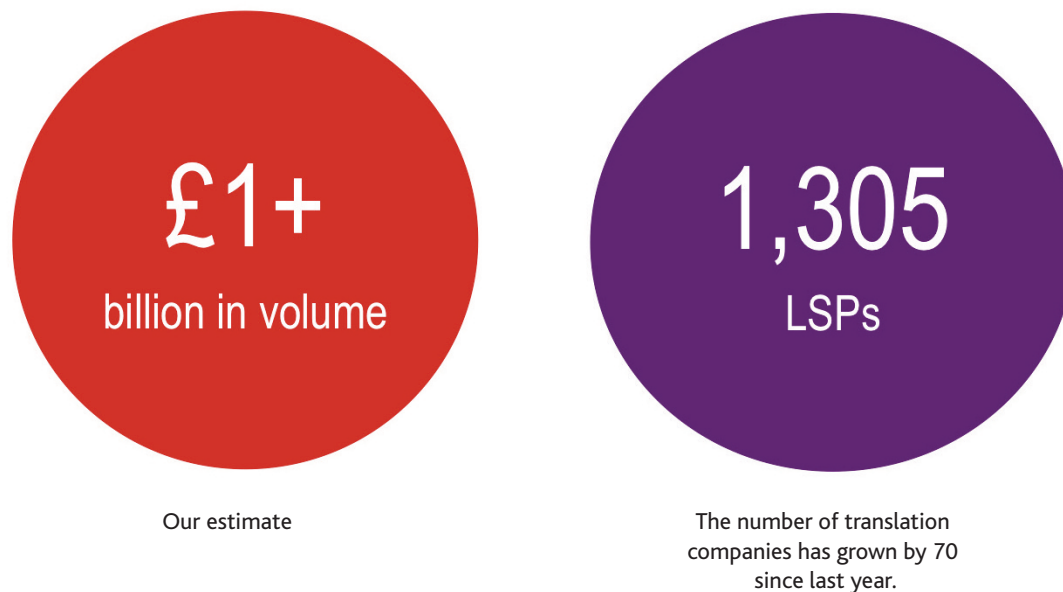
1. Key events marking the last 2 years:
  - Brexit and currency instability
  - a chain of LSP acquisitions in the UK
  - public sector framework agreement contracts worth more than £416 million
2. The combined revenue of UK-based LSPs has grown by 2.5% in 2015, and stands to grow at least 4.2% or more in 2016, driven by projected performance of large groups. Individual medium-sized companies sometimes achieve higher growth, up to 30-40% (see “top performers”).
3. Medium-sized companies report an average profitability before tax (EBIT) of 15.1%. Companies above £6.5 million revenue have varied levels of operational profit margins, from 26% (Mother Tongue, Inc) in the top range, to negative
4. Gross margins for LSPs has been confirmed at an average of 45%. They do not correlate directly with profits
5. Pricing is being driven down slowly by high competition. This year the survey indicates a slight drop in median rates, from £0.15 per word to £0.143 per word
6. Margin erosion is an issue for many companies
7. 40% of respondents report increase in profitability over the last 3 years due to cost control
8. Company CEOs are considering cost control to increase profitability through:
  - translation memory and machine translation technology
  - launching new production teams outside the UK in Central Europe
  - automation and provision of value added services.



# Market size

**1,305 companies, 75 of them bigger than £1+ million**

**Figure 1** Market size



There are 1,305 companies registered in the UK under the “Translation and Interpretation” coding at Companies House, an increase of 70 or 5.6% since last year. However, most language companies are small, and do not pose as real competitors to established businesses.

Out of these 1,305 we identified providers that have more than £1 million (\$1.3 billion) in annual turnover. Data for identification came from a variety of sources: Merlin Scott Report (MSAL), Common Sense Advisory report, Companies House, Slator and our survey. The results: there are 67 language services providers of this size that are headquartered in the UK, and at least 8 legal entities with non-UK parent companies.

**Figure 2** Top 20 LSPs in the UK

Company	Revenue 2015	Growth	Source	Company	Revenue 2015	Growth	Source
1 <b>SDL</b>	£266.9 m	2.4%	Annual Report	11 <b>TranslateMedia Ltd</b>	£7.88 m	-8.6%	CH 2015
2 <b>Hogarth Worldwide</b> ≈	£96.7 m	N/A	Website 2014	12 <b>Mother Tongue Ltd</b>	£7.31 m	39%	CH 2015
3 <b>RWS</b>	£95.2 m	2.0%	Annual Report	13 <b>Sandberg Translation Partners</b>	£6.34 m	6.2%	ATC
4 <b>thebigword Group</b>	£47.54 m	5.8%	CH 2015	14 <b>Pearl Linguistics</b>	£6.22 m	8.2%	ATC
5 <b>Capita TI</b>	£34.0 m	8.5%	ATC	15 <b>Language Connect</b>	£5.8 m	9.4%	ATC
6 <b>Alpha CRC</b>	£19.27 m	-10.4%	CSA	16 <b>Wordbank</b>	£5.27 m	-7.8%	CSA
7 <b>Voice &amp; Script International</b>	£16.08 m	8.5%	CH 2015	17 <b>The Translation People</b>	£3.9 m	30%	ATC
8 <b>translate plus</b>	£8.5 m	26%	ATC	18 <b>Cintra</b>	£3.66 m	N/A	Website
9 <b>Television Versioning and Translation Ltd</b>	£8.49 m	-1%	CH 2015	19 <b>3di Information Solutions</b>	£3.4 m	3%	ATC
10 <b>Lingo24 Holdings Ltd</b>	£8.01 m	0%	CH 2015	20 <b>Wolfestone</b>	£3.0 m	7.1%	ATC

We identified translation 67 companies in the UK with revenue of around £1 million or more

Sources: ATC - company provided the figure to the ATC

CH 2015 - Companies House financial year 2015 data.

CSA - company identified via the Common Sense Advisory report.

## Market volume at £1+ billion

The total turnover for the UK-based providers exceeding £1 million in revenue was £705 million (figures 2, 3, and 4) in 2015, with SDL and RWS together responsible for 51% of this figure. Branches of foreign LSPs identifiable via MSAL earned a total of £74.5 million. The “long tail” of smaller providers might be responsible for up to £300 million more. This brings the total market size to more than £1 billion.

### Annual revenue per employee £97,000

The revenue per full-time employee (RpE) is slightly up in this year’s calculation. The average for companies responding to the survey was £97,000. The highest RpE was nearly £200,000, while the lowest was close to £26,000. Companies with production teams in low-cost regions tended to have lower revenue per employee, because they can afford to hire more people for the same revenue.

**Figure 3** Top UK entities of foreign LSPs

	Company	Last Revenue	Growth
1	Transperfect Translations Ltd	£17.11 m	14.50%
2	Language Line Ltd	£15.15 m	16.70%
3	Lionbridge UK Ltd + CLS Communication Ltd	£14.83 m +	-1.4%
4	Pole to Win UK Ltd	£13.06 m	88%
5	Sdi Media UK Ltd	£6.68 m	17.30%
6	Ubiquis UK Ltd	£6.01 m	-7%

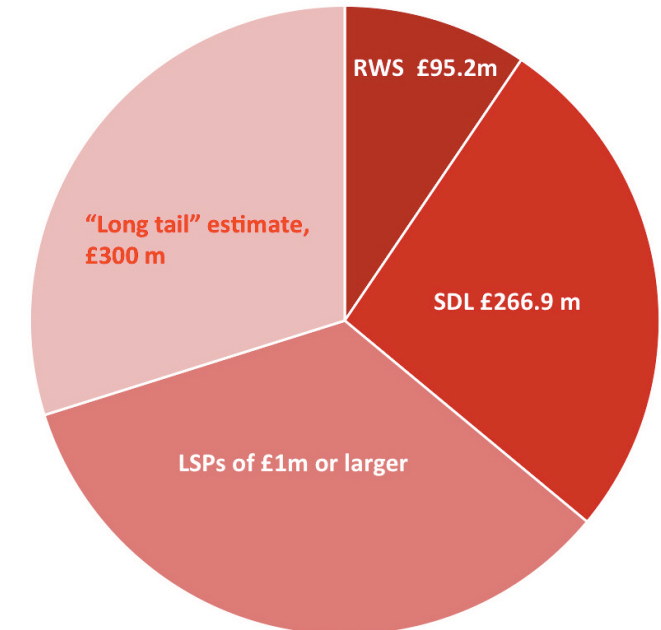
This number only reflects revenue invoiced locally. Source: MSAL and Companies House

As in 2014, the estimate for “long tail” companies is based on average revenue per employee in the sector, and an assumption that small companies have on average three employees.

Not all revenue of UK companies is local: for instance, the largest language services company in the UK, SDL plc derives only 15% of its revenue from the local market. The same applies to the second largest provider RWS. At the same time, there may be a

significant amount of revenue from UK customers not included in the calculation. For instance, US-headquartered industry leader Lionbridge does not process sales from its largest local accounts through its UK local entities, but rather processes them through its central offices. Furthermore, many companies that sell to the UK do not have a UK legal entity. Therefore the £1 billion estimate should be considered a benchmark, rather than a precise indicator, despite being based on accurate data from Companies House.

**Figure 4** Large firms control 70% of the UK market



## Growth rate - 2.5%

In 2015 the top 40 largest companies achieved a combined revenue of £738 million, which is an increase of 2.5% compared to our analysis of the same group's 2014 performance. Individually, some companies overcame this slow dynamic via acquisitions (RWS > CTi), or impressive organic growth. Among the respondents and larger players whose data is available via Companies House, The Translation People, Language Connect and Mother Tongue Writers have shown better than the market results. At the same time, a few businesses shrank. At least 5 out of the UK's 20 largest translation companies either reported a smaller volume of work in 2015 compared to 2014, or stayed at the same level. As a result, the overall growth rate is not as high as expected.

Overall growth for traditional translation services has slowed down year-on-year. It is getting increasingly difficult for LSPs to win new customers and increase revenue, and the field is more and more competitive.

## Growth rate prediction for 2016: 4.2%

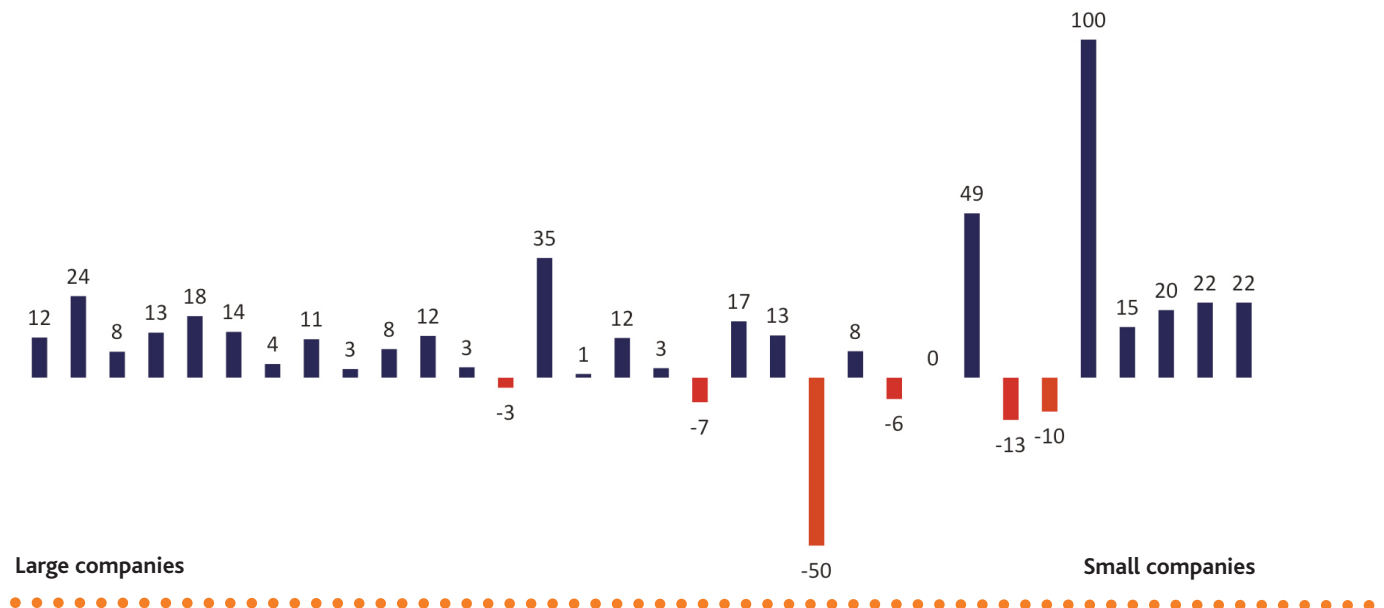
In 2016 the cumulative revenue of UK LSPs stands to grow at least 4.2%, possibly more. This is based on the performance of large LSPs, such as RWS and thebigword Group, whose contract information is available to the public.

RWS Groups' financial year ends September 30<sup>th</sup>, and the company released a trading statement indicating that it had generated revenues of £122 million, up from £95.2 million in 2015. Most of the new business comes from the CTi acquisition in the US, but it will be consolidated to a UK company.

thebigword Group is expecting a **60% surge in revenue** following the win of a new portfolio of government contracts, especially the framework agreement with the Ministry of Justice. In absolute numbers this might propel thebigword to £76 million or more. The effect on the overall market size will be minimal however, since much of this volume was processed by Capita TI last year before their strategic decision not to bid on MoJ interpreting contract this year.

SDL plc's half-year report stated that revenues have not

**Figure 5** Anticipated growth rates



experienced growth. It remained at £133.7 million in the first half of the year, compared to £133.9 in the first half of 2015.

Combined, changes to RWS, thebigword and Capita TI's business put the total sales of UK's larger LSPs at £735.3 million, up 4.2% from £705 million last year.

Medium-sized companies in our survey expected to grow by 11% on average, based on their performance in the first six months of the year. This may have been too optimistic, but if mid-market LSPs do indeed grow by the anticipated amount, then the overall rate will exceed 4.2%.

When asked about sources of growth, larger LSPs mentioned account management and new volume from existing customers. Smaller firms say they are winning new clients.

## Top performers from among medium-sized companies

From the pool of survey participants, we identified five companies with growth rates above 15% and revenue of £1 million or more in 2015.

In four of the cases company officers mentioned a major contract win in 2015: either via a tender, an expanded sales team or a new technology/service offering.

**Figure 6** Top performing survey respondents

Company	Revenue 2015	Growth 2015	Expectation for 2016
Global Lingo	£2.45 m	22%	£2.9 m
Codex Global	£2.22 m	25%	£2.3 m
Intonation / City Legal	£1.84 m	41%	£2.0 m
Webcertain	£1.55 m	34%	£1.75 m
RP Translate	£0.96 m	34%	£1.3 m

Source: ATC Survey

## Companies seen as top contenders for the UK market

Figure 7 shows the companies that survey respondents see as their main competitors in the UK. The score is based on the number of responses with weighted adjustments taking into account the company size and whether the competitor has been named as the first, second or the third choice.

Companies at the top of the list focus on the domestic market, with active sales teams approaching local clients. thebigword Group heads the list, with Capita TI coming second. US translation giants Transperfect and Lionbridge make an appearance, and freelancers are named as competition as well. SDL, the largest LSP in the UK is not on top 10 list, as only 15% of its revenue comes from within the UK.

**Figure 7** Who do you see as your top-3 competitors for customers in the UK?

Company	Score
1 thebigword Group	26
2 Capita TI	14
3 Transperfect	11
4 Lingo24	10
5 Translate Media	10
6 RWS Group	7
7 Freelancers	6
8 Language Connect	6
9 Wolfestone	6
10 Lionbridge	5

Source: ATC Survey



## UK market offers a great opportunity for LSPs

With £1 billion (\$1.3 billion) in combined revenue, the translation industry in the UK is doing significantly better than its counterparts in some other European countries.

A similar analysis of the French market, based on company data from the official registry (via *societe.com*) and a survey by *Chambre Nationale des Entreprises de Traduction (CNET)* put the French market at \$650 - \$950 million. In Russia, locally-based LSPs sell under \$200 million worth of services a year<sup>1</sup>.

Foreign trade levels of the UK and France are comparable in size, both at around \$1 trillion. Foreign trade in Russia stands at half of that amount at \$0.5 trillion, according to *cia.gov*. By a simple calculation, the UK's LSPs sell services proportionally at 0.13% of the nation's foreign trade, French LSPs at less than 0.1%, and Russian at less than 0.05%. This coefficient is significantly more favourable in the UK.

Moreover, the top 3 players in the UK are significantly larger than in France or in Russia (see the chart), testament to the opportunities presented by the UK market. There are industrious and business-savvy entrepreneurs in each country, but they depend on the domestic market to launch business and grow into the global marketplace.

**Figure 8** Top 3 players

UK	SDL	£266.9 m	Fr	Ubiquis	€70 m	Ru	Janus	\$17 m
	RWS	£95.2 m		Datawords	€30 m		ABBYY LS	\$13.5 m
	thebigword	£47.5 m		Technicis	€24 m		Translink	\$8 m

Sources: *translationrating.ru*, ATC, CNET, CSA

**Figure 9** Foreign trade in relation to language service volume

	UK	France	Russia
<b>Exports:</b>	\$442 bn	\$509 bn	\$337 bn
<b>Imports:</b>	\$617 bn	\$539 bn	\$197 bn
<b>Foreign trade</b>	\$1059 bn	\$1048 bn	\$534 bn
<b>Our estimate of LSP revenue</b>	\$1.3 bn	\$0.65 - 0.9 bn	\$0.2 bn
<b>Trade to LSP revenue</b>	0.13%	Less than 0.1%	Less than 0.04%

Sources: *cia.gov* for foreign trade, ATC, CNET and *translationrating.ru* for LSP revenue

<sup>1</sup> [www.translationrating.ru](http://www.translationrating.ru)

# Main events of 2016

## Public sector frameworks

Three tenders emphasised the huge purchasing power of the UK Government. Public sector contracts worth £412 million over the next four years were awarded by the Ministry of Justice (£232.4 million), the Crown Commercial Service (CCS) framework (£140 million) and Eastern Shires Purchasing Organisation (£40 million). The National Health Service (NHS) is in the process of establishing a framework agreement worth between £20 and £80 million.

### Crown Commercial Service framework became the template in the sector

CCS combined three previously separate language services contracts (RM987, RM738, CAG/912/0181) into one worth up to £250 million, and awarded it to 13 different companies. As a framework agreement, it does not guarantee work. While the total amount looked huge, the actual size is somewhat smaller – in the region of £140 million.

Framework agreements like the one created by CCS have been launched by the NHS and its affiliate organisations, Eastern Shires Purchasing Organisation (ESPO), and the Ministry of Justice. Several other government bodies offered smaller contracts.

**Figure 10** Selected public sector contracts and framework agreements

Organisation Name	Start Date	End Date	Value Low, £ m	Value High, £ m	Awarded Value, £ m
Ministry of Justice	18/08/2016	30/10/2020	232.4	232.4	232.4
Crown Commercial Service	22/04/2016	21/04/2020	140.0	250.0	140.0
ESPO	01/04/2016	31/03/2018	40.0	120.0	40.0
NHS Shared Business Services	01/11/2016	31/10/2018	20.0	80.0	0.0
Sheffield City Council	01/11/2016	31/10/2019	1.0	15.0	0.0
Trafford Council	31/10/2016	31/10/2019	5.0	5.0	0.0
NHS Shared Business Services	01/10/2015	30/09/2018	2.0	5.0	2.0
Taunton and Somerset NHS Foundation Trust	09/11/2015	09/11/2019	1.6	4.5	0.0
North Yorkshire & Humber Commissioning Support Unit	01/09/2016	31/08/2021	1.6	2.2	1.4
Coventry - Solihull - Warwickshire	01/04/2016	31/03/2018	1.1	1.1	1.1
<b>Total:</b>			<b>444.7</b>	<b>715.3</b>	<b>416.9</b>

Source: contractsfinder.service.gov.uk, as of October 2016



## Capita TI opted out of the Ministry of Justice contract

Capita TI which took over the Ministry of Justice's face-to-face interpreting contract from Applied Language Services, which it acquired in 2011, chose not to bid for it this time. After leaving the field to others (thebigword Group were successful), Capita TI is expected to shrink to a smaller size, £8-11 million in revenue vs £34 million the year before, but become more manageable, agile and profitable.

## Winners: incumbents vs challengers

The big winner of the procurement trials this year is thebigword Group. They were awarded the Ministry of Justice interpreting contract worth at least £120 million in business, as well as another £60 million from a wealth of different government departments. thebigword set out to hire 3,000 linguists and 100 internal staff needed to run this new business, and bought a building in Leeds to house this extra branch of the company.

thebigword already has a great deal of experience of working for the Government and the defence industry, so they can be considered a market incumbent. Significant volume of contracts this year went to companies familiar with the public sector, including Capita TI, AA Global Languages, Language Empire, DA Languages and others.

What is new is smaller companies grouping up into consortia to challenge bigger players. **Five companies** (Cintra, Clarion UK, The Language Shop, translate plus, and Worldwide Language Resources) jointly bid on and won a multi-million CCS lot for managed services. Together, they had sufficient size to shoulder the contract, and Worldwide Language Resources, acting as the guarantor, provided a clear centre of responsibility. The consortium model has also been successfully used this year outside the UK: Scandinavian provider TextMinded won a \$14.5 million contract from the EU Intellectual Property Office (EUIPO) jointly with a Swedish software company ETeam. It is safe to assume the industry will see more consortia in the future.

## Brexit

The vote to leave the European Union sent shockwaves across many markets in June 2016, and the language industry was among the sectors affected. Whilst the event did not result in any immediate terminations of any significant economic programmes, it did create tremendous uncertainty and loss of business confidence. The short-term effect resulted in significant volatility in the currency exchange rates, and the weakening of sterling. By September had fallen by 14% against the Euro and US dollar compared to the beginning of 2016.

This caused diverse effects depending on the nature of the business of language service providers. Companies selling inside the country in pounds, while buying services from freelancers and subcontractors in US Dollars and Euros may have experienced contraction of margins and difficulties with cash flow. Companies housing offices in the UK but selling abroad in USD and Euros enjoyed a short-term boost in profitability. For instance, RWS in its end of the year trading statement mentions that “the Group has benefited from the resulting decline in Sterling given that over 80% of its revenues are non-Sterling”, and STP’s Executive

**Figure 11** Exchange rate fluctuations



Source: xe.com

Chairman Jesper Sandberg dwelled on the subject in his article *Brexit, Short-Term Boost, Long-Term Headache* stating that his company might increase its pre-tax profit due to currency fluctuations.

The list of top exporters is headlined by some of the largest companies such as SDL, Hogarth Worldwide, Alpha CRC and others. They are likely to show improved profits at the end of 2016 due to currency fluctuations.

## Acquisitions

The past year has been rich in acquisitions in the UK, with at least four involving ATC member companies. Easily accessible private capital continues to flow into the language services and globalisation industry, while organic growth appears to be slowing down. Many firms look for acquisitions to achieve higher than the market average growth. The UK's firms rank amongst the most attractive. In our experience, several years ago investors looked at LSPs with at least £3-4 million in revenue, this requirement has dropped to £1 million, while estimates for deals with well-performing businesses have reached up to 10x in profit before tax and amortisation.

### Pole to Win (Japan) > 70% in SIDE UK

The Japanese company specializing in video games purchased a controlling stake in a UK-based voice acting and localization company. Revenue for Pole to Win UK Limited increased from £6.72 million to £13.06 million in the following year, partly due to the acquisition, as stated in the full accounts.

### RWS > CTi (US)

RWS purchased a life sciences specialist Corporate Translation Inc in the US in one of the largest deals of 2015. RWS paid \$70 million, partly funded from own cash flow, partly via a \$45 million five-year bank loan. The results in the following six months have greatly improved: RWS has grown revenue by 25% and profit before tax by 28.7%. By September, RWS reported its best year ever with revenues exceeding £122 million, debt almost paid off, and capitalisation skyrocketing.

### Morningside Translations (US) > AC Translations

AC Translations, a patent & legal translation company since 1979, became the UK division of Morningside IP. The US-based Morningside is very active in acquisitions, and it took over the business from the founder Amanda Conrad. AC Translations is now working as the Greater London office of Morningside IP, and in addition to merging their portfolio of customers in such areas as intellectual property, legal, medical, pharmaceutical, and corporate.

### Welocalize (US) > Adapt Worldwide

After receiving investment from private equity group Norwest Equity Partners, US-based Welocalize went on an acquisition spree. Their first purchase in 2016 was Adapt Worldwide, an agency in London with 60 employees. Adapt Worldwide that provides search engine optimization, web, mobile, paid amplification, trans-creation and copywriting services across 175 languages. Welocalize went on to acquire two more companies this year in other regions of the world. Hogarth Worldwide > Prodigy (India) WPP-owned market implementation agency, Hogarth Worldwide launched its operations in India and acquired Prodigy (a WPP-Digital Company in partnership with Smile). Through this expansion, the agency is looking to grow the India team from 80 people to a count of 300 by 2017, according to the company's press-release.

### Global Voices > London Translations

ATC member Global Voices has acquired another ATC member, London Translations, a multidisciplinary translation and interpretation business, for an undisclosed sum. This is

an expansion of Global Voices' core translation and interpretation business.

### ttc wetranslate > Bedford Translations

In another example of an acquisition of one ATC member by another, ttc wetranslate announced it had acquired Bedford Translations, a technical, legal, and financial mini-LSP that had been established for 33 years. Slator.com estimated the revenues for ttc wetranslate and Bedford Translations at around £0.5 m and £0.2 m respectively.

### Cintra > First Edition Translations

Two Cambridge-based translation companies joined forces as Cintra, with £3.5 million revenue acquired First Edition Translations, after 35 years in business. Both companies will continue to trade under their respective names.

### Capita TI > International Translation Resources (ITR) and > Amity Communications

Capita Translation and Interpreting changed their business model this year. As stated earlier they chose not bid on lot 1 of the Ministry of Justice framework RFP and now emerge as a tech-savvy provider of language services to the private sector. While this transformation is under way, Capita acquired two other companies – both ATC members: London-based technical translations company ITR (net assets £1.1 million) in February and Amity Communications, a financial and legal translation specialist in September. Slator estimated the revenue of Amity Communications at £1.5 million.

# Profitability

Margin erosion and a decline in profitability is a perennial problem for translation companies in the UK.

Competition gets stronger, and localisation procurers demand fresh discounts each year. At the same time LSP in-house costs keep mounting: salaries, customer acquisition and technology investments to list just a few of the pressures. Respondents of our survey named competition, price pressure and margin erosion as the top-3 biggest business challenges both in 2015 and in 2016.

This is why, in this latest market survey, we included a set of questions related to company profitability. This is sensitive information that companies do not often reveal. However, on this occasion participants provided a good number of responses about EBIT levels, gross margins and their change over the last few years. In addition, we have benchmarked profitability of companies above £6.5 million in revenue using their Company House full accounts for the latest year available.

## Profit levels in the largest companies

Prior to 2016 UK companies with revenues in excess of £6.5 million have been required to file full accounts with Companies House. This allows some insight into

**Figure 12** Large UK LSPs ranked by operating profit

	Company	Operating profit	Revenue	Gross profit, %	Operating profit, %	Notes
1	RWS Holdings plc	£20.83 m	£95.2 m	39.4%	21.9%	
2	Capita TI Ltd	£2.02 m	£34.05 m	23.3%	5.9%	
3	Mother Tongue Ltd	£1.92 m	£7.31 m	95.2%	26.3%	
4	Voice and Script International Ltd	£1.63 m	£16.08 m	45.1%	10.1%	
5	thebigword Group Ltd	£1.12 m	£47.54 m	45.4%	2.4%	1
6	Television Versioning and Translation Ltd	£0.68 m	£8.49 m	78.9%	8.0%	2
7	Translate Plus Limited	£0.3 m	£6.62 m	53.9%	4.5%	3
8	TranslateMedia Ltd	£0.24 m	£7.88 m	52.7%	3.0%	
9	Alpha CRC Limited	-£0.38 m	£18.46 m	16.5%	-2.1%	4
10	Lingo24 Holdings Limited Group (2014)	-£1.51 m	£8.01 m	50.7%	-18.9%	
12	Hogarth Worldwide Ltd	-£3.95 m	£80.64 m	61.3%	-4.9%	5
13	SDL plc	-£25.2 m	£266.9 m	56.2%	-9.4%	6

Source: Companies House

### Notes:

1. Thebigword Group ended their financial year in May 2015. Accounts state EBITDA was £2 million, with almost £0.9 million spent on amortisation, resulting in £1 million operating profit
2. TVT's financial year ended in March 2015.
3. According to translate plus director Robert Timms, the group's total revenue was £8.5 million, and EBITDA was £1 million. The information in the table refers to available data from the Companies House and that refers to one legal entity only.
4. Data provided refers to the financial year 2014/15, Alpha CRC accounts for 2015 were unavailable at the time this report was prepared.
5. The Hogarth Worldwide listing refers to one legal entity only, total revenues and profits for the group are likely to be different.
6. SDL reached a profit before tax of £20.6 million, but ended the year at a loss due to an impairment charge.

profitability levels in large translation companies. We have used data from published full accounts (via <https://beta.companieshouse.gov.uk>) for companies registered under the Nature of business (SIC): 74300 - Translation and interpretation activities.

Branches of foreign companies have been excluded from the analysis, as they might place costs — profits — elsewhere. Companies that do not do offer translations as a major part of their business (for example, Pushkin Press publishing house), or those that have no searchable website (for example, Mercury Translations) have been removed as well.

### **RWS Group is the most profitable LSP in the UK**

While SDL is certainly the largest LSP by far, RWS achieved the highest profit, close to £21 million. Had SDL not received an impairment charge, it would have had made approximately the same operating profit. However, since SDL's revenue is almost three times higher, this means RWS is a significantly more profitable business. In the financial year 2016/17, RWS stands to generate profits of £30.5 million according to its end of the year trading statement. It would be difficult for such a performance to be matched by any other UK LSP.

Most of RWS's profits come from patent filing and translation, together with commercial translation units in the UK (61% of profits in the first six months of FY2016). Second up is its life sciences unit (21% of

profits), the bulk of which comes from the CTi acquisition in the US.

### **Voice/screen and private sector bring in better margins than public sector work**

Another highly profitable company is Mother Tongue Ltd, which paid a £2 million dividend on a £7-million revenue in 2015. Mother Tongue Writers provides marketing translations, transcreation services and voiceovers. It is a part of an advertising giant the Omnicom Group.

Voice and Script International, and Television Versioning and Translation both have higher than the average operating profit margins. VSI provides dubbing, subtitling and voiceover services, while TVT, as the name implies, is a TV specialist that provides voiceovers, and *“end-to-end operation, encompassing everything from content acquisition and ingest, compliance viewing and editing”*, as its website states.

In contrast, Capita TI and thebigword Group have lower operating profit margins, 5.9% and 2.4% (or 4.2% EBITDA) respectively.

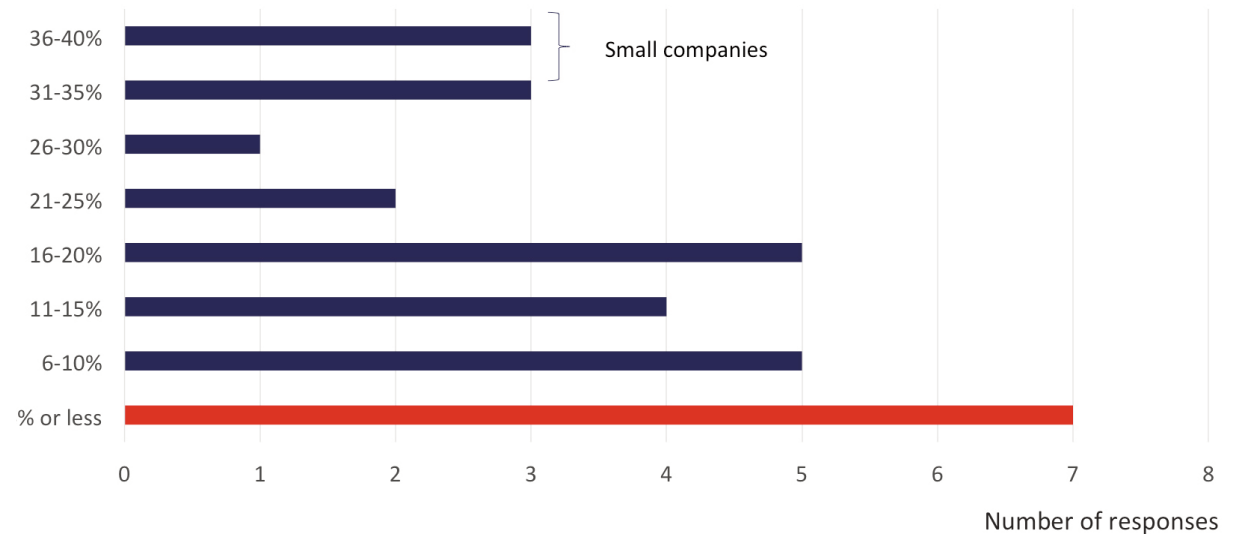
Both provide translations and interpreting a large scale to public sector buyers. Success in the public sector brings in spectacular volumes, but doesn't necessarily come with huge profit margins. This may infer that government procurement services are doing a good job saving taxpayers' money.

## Average profitability in medium companies at 15.1%

Earnings before interest and tax (EBIT) is the best indicator of profitability which reflect available free cash before it is allocated, either to investments or dividends. Net profit is often smaller, because savvy company owners prefer to reinvest the money into business growth on one hand, and to pay as little tax as possible on the other. We polled the survey respondents about their EBIT levels, and received close to 30 replies. The average for companies with revenue exceeding £500,000 was 15.1%.

- **Almost one half of respondents are barely profitable: below 10% in pre-tax profits**
- **Larger firms above £1 million in revenue tended to have lower EBIT levels.**  
With one exception, all of them stayed under the 20% mark. High revenues do not guarantee better profits according to our survey. Smaller companies can often achieve as much profit with turnover several times lower. Larger firms could be less efficient, or are optimising accounting to pay reduced corporation tax.
- **Some companies reported EBIT of 31% or above**  
Most respondents indicating high EBIT are very small, under 0.2 million in revenue. In small companies owner/directors pay themselves differently to public companies, and can alternate between salary and dividend at will. Some may elect to pay dividends, while keeping their salaries minimal, which results in high EBIT.

**Figure 13** Survey respondents grouped by EBIT levels

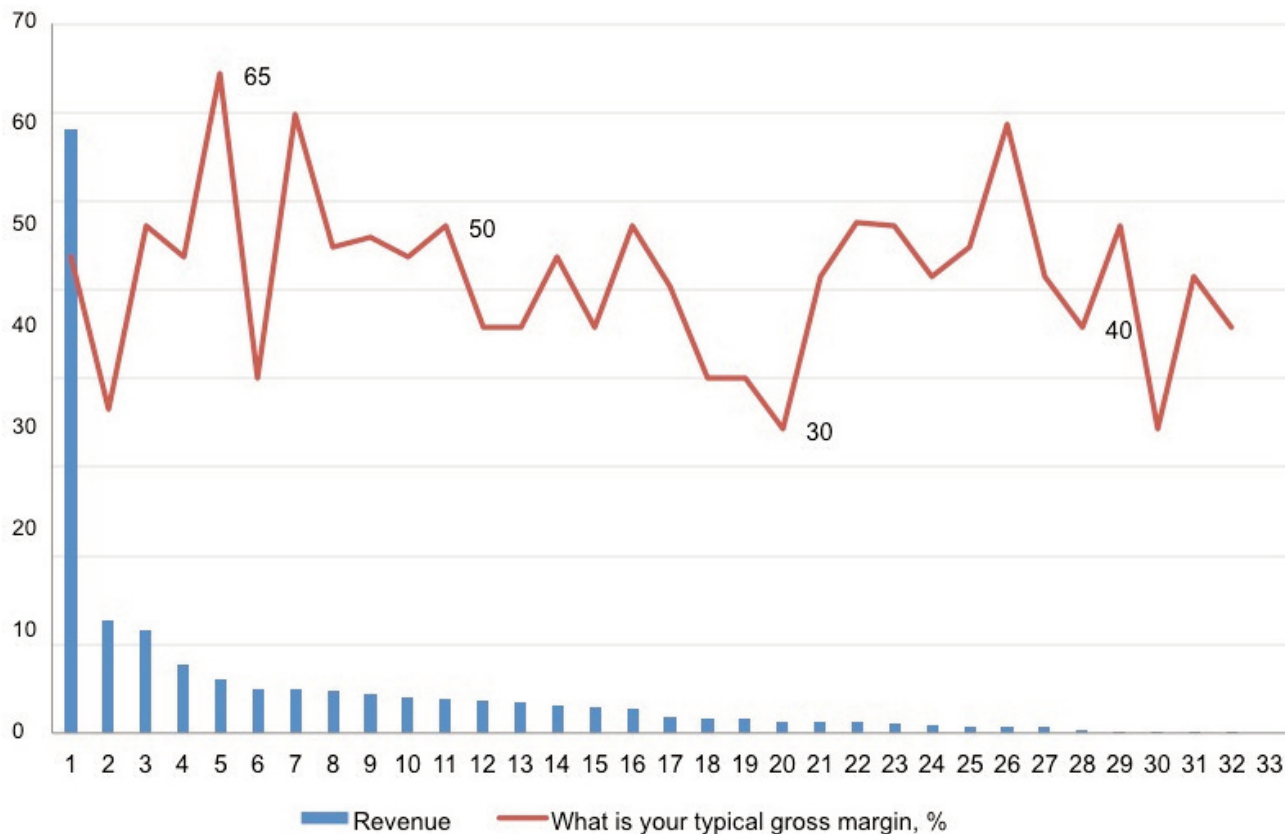


Source: ATC Survey



## Gross margins average 45%

**Figure 14** Gross margins in relation to company size



32 companies agreed to reveal their gross margins (GM) in the survey, and the median value was 45%. To clarify, on average, companies spend 55% of the price they charge the customer on translators and sub-contractors and retain the remaining 45% as their margin. Companies with optimised costs attained higher margins in some language combinations, up to 65-70% range, while the lowest gross margins hit the rock bottom at about 16%.

- Two thirds of the respondents stayed within 45-50% GM range. The graph across multiple companies is surprisingly regular
- 3 companies achieved gross margins above 60%
- Companies above £1 million in revenue had on average 3.7% better GM on than smaller competitors.

Source: ATC Survey

This survey confirms our earlier findings. In our 2015 research, we arrived at a 45% median by comparing customer-facing prices and rates for translators for 20 language combinations in 70 companies. The calculation used the following formula for gross margins:

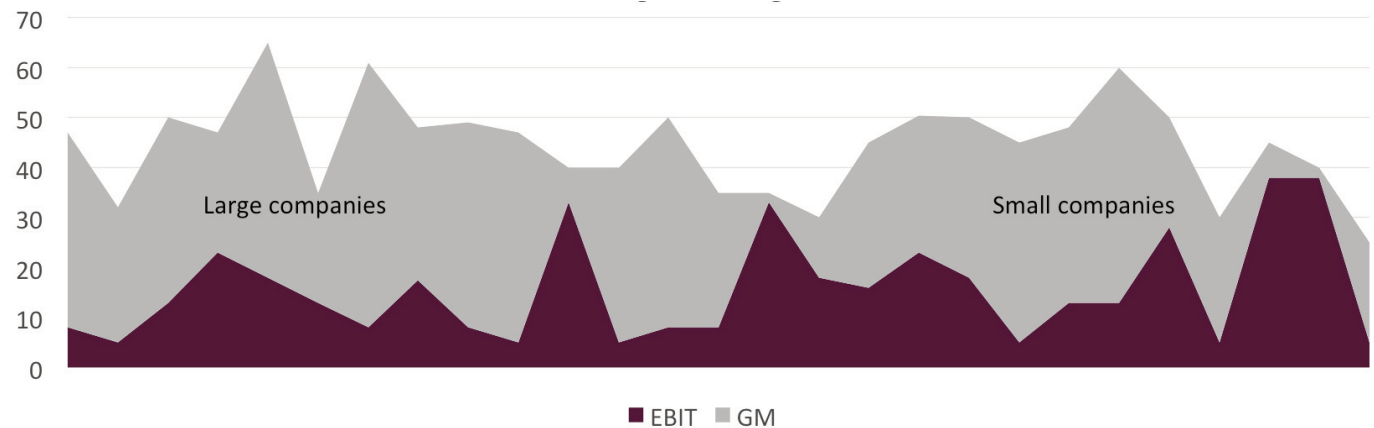
$$\text{Gross Margin} = (\text{Sales Price} - \text{Cost}) / \text{Sales Price}$$

This calculation did not take into account miscellaneous factors that influence margins, such as technology, discounts and currency rate fluctuations. In the 2016 survey we decided to verify the finding by asking the companies directly about their gross margins.

- **EBIT did not show a direct correlation to gross margins**

This could be the result of a smaller data sample, or it could infer that in some companies higher gross margins are set by the owners to counter higher overheads: they introduce an increased surcharge to sustain their office costs.

**Figure 15** Correlation between gross margins and EBIT





## Profitability slightly increasing

Despite facing margin erosion, 40% of companies surveyed have reported an increase in EBIT levels in the last 3 years. This is a result of cost control measures and proactive vendor management: looking for less expensive suppliers all the time. For companies selling translations outside the UK, the weaker pound since the Brexit decision has been a source of higher profits.

One-third of companies polled reported that their EBIT levels were declining. They cited the following reasons for the drop:

- Increased competition
- Exchange rate fluctuations

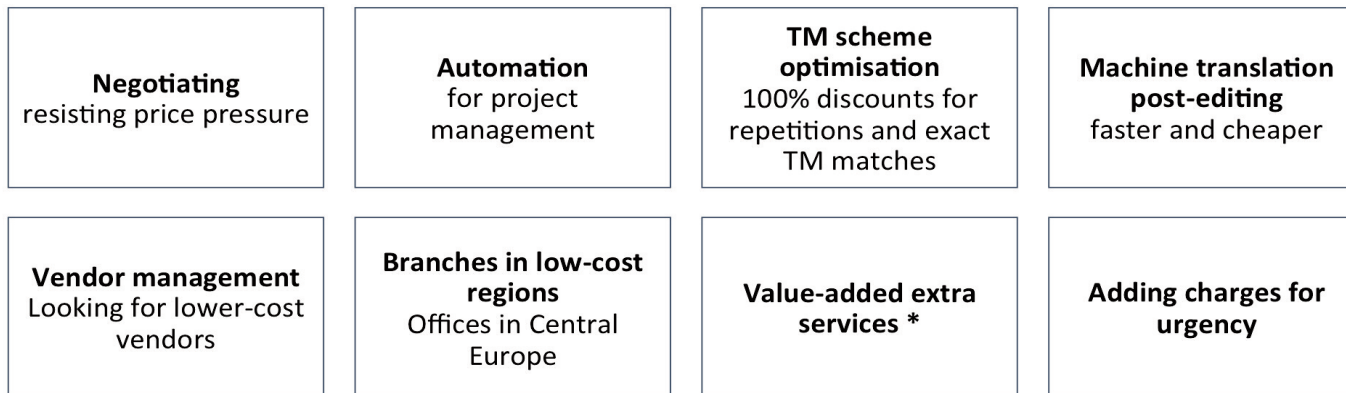
**Figure 16** Has your profitability changed over the last 3 years?

Reasons cited	
<b>Increased</b> 40% responses	"Control of costs." "Stability in 2015 stabilising the profitability." "Currency exchange rates growth."
<b>Stayed the same</b> 27% responses	
<b>Decreased</b> 33% responses	"Exchange rate fluctuations. Aggressive procurement policies. Increased overhead – more staff." "Can I have a discount?" is asked with increasing and alarming regularity." "Increased competition and higher costs." "Investment in technology." "Sectors we work in are more competitive."

Source: ATC Survey

## How companies optimise for better profitability

**Figure 17** What does your company do to maintain & increase margins?



\* Lasted value-added extra services:

- a. CMS integration
- b. DTP, document recreation and engineering
- c. SEO
- d. Voiceovers, transcription, subtitling

### UK firms set up in Central Europe

Opening production offices in lower-cost regions has become an increasingly popular way to keep costs in check, while expanding a company's capacity. In the last 2 years, at least five prominent UK language firms expanded operations by opening offices in Central and

Eastern Europe. In addition for some LSPs the other driving force behind such expansion into Europe, has been the decision of the UK electorate to leave the EU. Having a trading presence in Central and Eastern Europe helps safeguard their trading position while there is such uncertainty about the future trading arrangements between UK-based LSPs and their clients located in the EU.

#### TranslateMedia opened a branch in Zduńska Wola, Poland

Together with consolidating their two US offices into one this allowed the company to attain profitability

after the previous year's loss, reported in their full accounts filed at Companies House.

#### 3di Information Solutions opened a branch in Krakow, Poland

This branch has eight people, most of whom are technical writers, according to 3di's managing director Paul Ballard.

#### translate plus opened a branch in Sofia, Bulgaria

In addition to reduced costs, the team in Sofia is two hours ahead of the UK, and "it is also about giving us additional time zone coverage, and a few other benefits like increasing our ability to provide good coverage when there are public holidays elsewhere in the world", translate plus director Robert Timms explained.

#### STP set up a branch in Varna, Bulgaria

The team in the Black Sea port Varna started in August 2016 with plans to expand to eight people, according to the company CEO Jesper Sandberg.

#### VSI added two dubbing suites in Ljubljana, Slovenia

This increases the company's capacity to offer local-language versioning in Balkan languages, states the company's website.

## Better margins via translation memory optimisation

Many translation buyers are still not aware of translation memory (TM). 60% of LSPs respondents provide discounts for repetitions to less than half their clients. However, this refers to the number of customers, not their size. Large-volume buyers are usually aware of TM and require their LSPs to discount repetitions and exact matches.

Over time, translation memory re-use kills revenue from large customers with repetitive content. LSPs stay alert and up-sell new languages and new types of content to the buyers to maintain and expand their existing contracts.

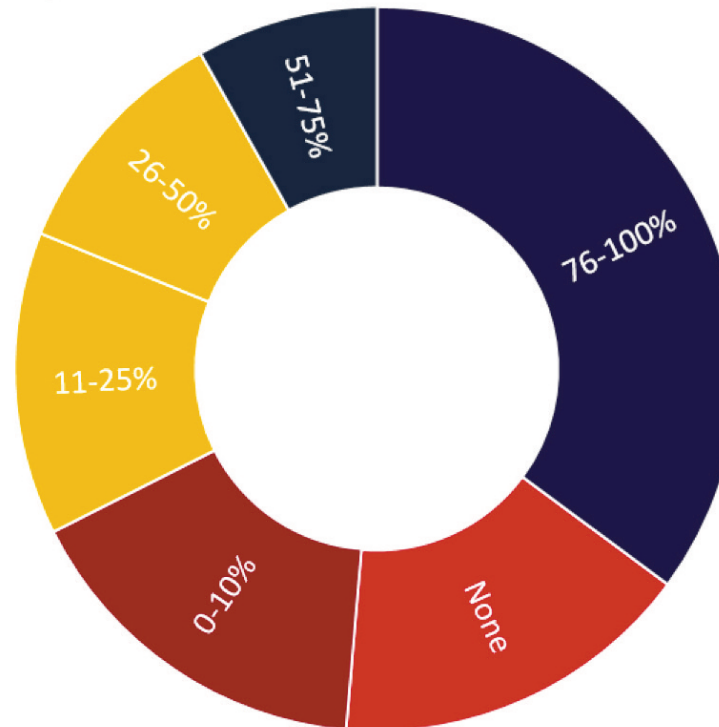
LSP project managers navigate the complex system of discounts between clients and translators and seek “pockets of efficiency”.

- 21 out of 50 of those surveyed said they capitalise on differences between discounts for translators and clients, i.e. they get better discounts from translators than the ones they offer to their customers
- 8 out of 50 indicated they get additional savings via their own translation memory, which is not available to the buyer
- 4 said they offer discounts based on pre-translation, and capitalise on real-time matches created during translation.

The different discount schemes can alter a typical translation project cost by up to 37.6%. Discounts on repetitions and in-context exact matches have the highest impact, while fuzzy match discounts play a secondary role.

**Figure 18**

**What percentage of your customers do you offer discounts for translation memory?**



Source: ATC Survey

## Leveraging MT

Another means to increase productivity is via machine translation post-editing (PEMT). In classic PEMT the text is pre-translated via translation memory first, with repetitions, exact and high-quality fuzzy matches locked in, the next step is to run the remaining part through a customised MT engine. A human translator then edits the resulting raw translation, and brings it up to human quality. The process results in a faster and cheaper job, but it is rarely as high quality as a professional translation. Some linguists complain that relying on MT too much dulls the creative faculties of linguists, and makes the work too repetitive. In interactive PEMT, translators select quality matches from either TM or MT as they go through the text. This process is a little friendlier to translators, but it is still not suitable for creative work (i.e. advertising, marketing, literary).

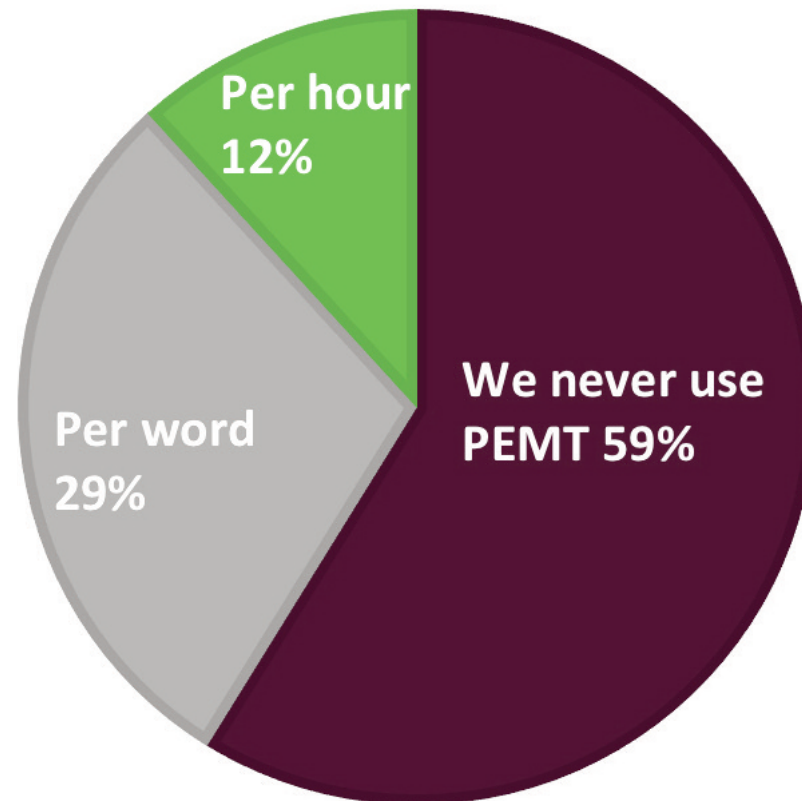
Nearly 60% respondents to our survey report that they do not use PEMT at all.

The adoption is low perhaps because MT doesn't always increase productivity, or, more likely, because customising MT engines is an expert process. However, as the quality of machine translation becomes better, its use is bound to rise in the future.

Respondents indicated the following pricing options for PEMT

- Full translation rate
- Priced per word at 60-90% of full word rate depending on the quality of the raw MT output
- Charged at high fuzzy rate
- Priced per hour.

**Figure 19** More than two thirds have adopted PEMT



Source: ATC Survey

# Pricing

For the price element of the study we selected the same 20 languages as last year. These come from three lists:

- The highest number of users on the Internet, based on Miniwatts Marketing group data
- Commonly spoken languages in the UK based on 2011 census data
- The UK top trading partners based on HM Revenue & Customs information.

The median list price for translations in this table is £0.144 per word, with either proofreading or editing, or both, included. These are list values. Actual deals might take place at lower rates.

Prices are showing a small decline compared to last year: 8% down on average for translations from English, and a drop of 3.8% for translations into English from other languages.

This could be a trend in the market or a statistical glitch, as responses on pricing this year come from a slightly different pool of companies. Additionally, in 2015 editing rates were counted separately, and we added them to translation rates during information processing. In 2016 we included QA into the price, this may have affected average values, because not all companies provide editing as their default QA, many offer proofreading or automatic checks.

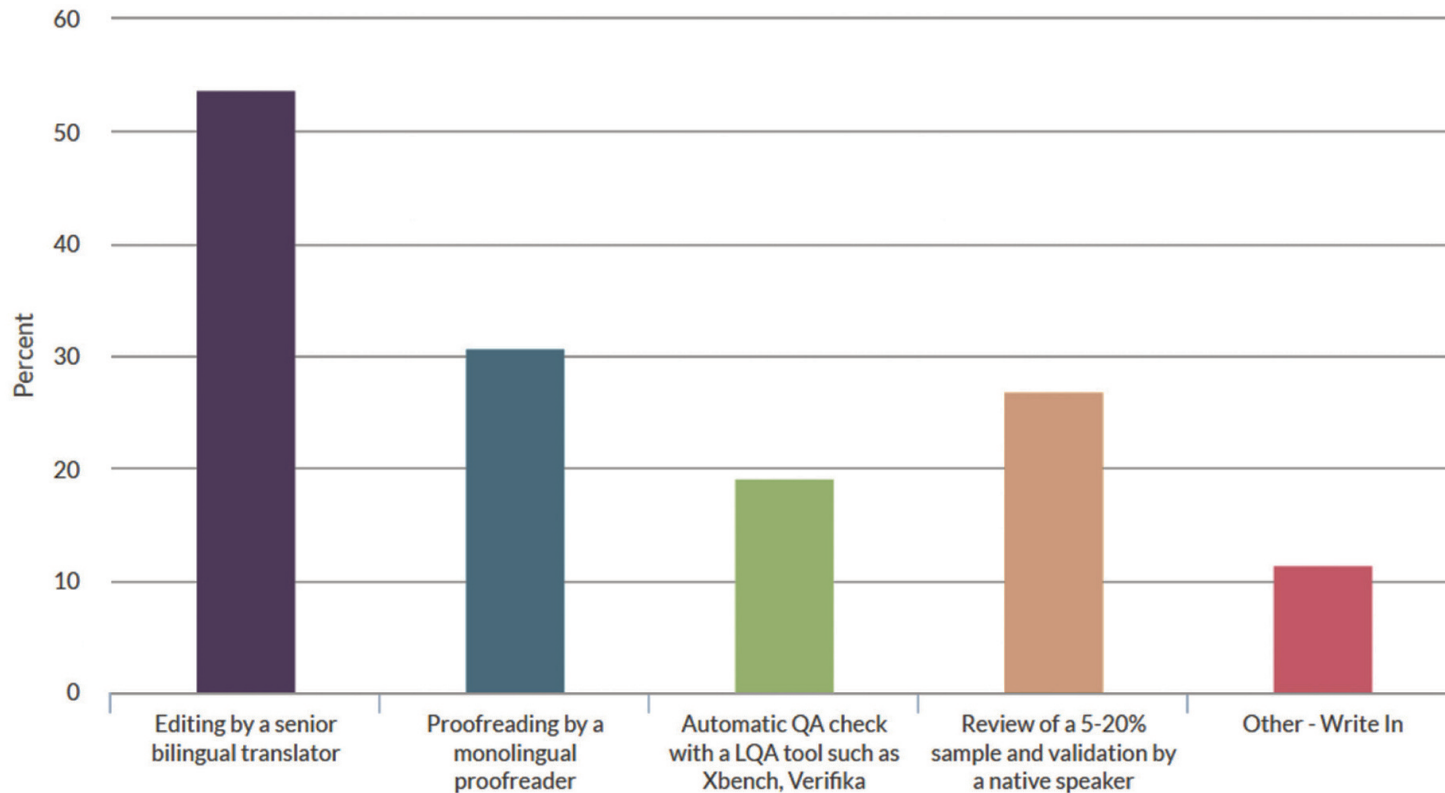
**Figure 20** Company prices for translation services

From English to	Median	Change, YtY %	Min	Average	Max	Into English from	Median	Change, YtY %	Min	Average	Max
Arabic	0.130	-21.2	0.060	0.140	0.200	Arabic	0.158	-6.3	0.075	0.147	0.200
Bengali	0.133	-16.9	0.070	0.144	0.220	Bengali	0.145	-6.5	0.100	0.148	0.220
Chinese Mandarin	0.140	-10.8	0.070	0.137	0.210	Chinese Mandarin	0.145	-9.4	0.075	0.141	0.200
Czech	0.143	-4.7	0.070	0.136	0.172	Czech	0.150	0.0	0.075	0.137	0.172
Dutch	0.140	-9.7	0.075	0.137	0.175	Dutch	0.125	-9.4	0.080	0.133	0.175
Finnish	0.163	-9.7	0.090	0.161	0.225	Finnish	0.150	-6.2	0.090	0.153	0.215
French	0.120	-7.7	0.070	0.124	0.170	French	0.118	-2.1	0.075	0.121	0.170
German	0.125	-10.7	0.080	0.127	0.170	German	0.115	-5.0	0.070	0.123	0.170
Italian	0.125	-3.1	0.080	0.126	0.160	Italian	0.118	-2.1	0.070	0.123	0.170
Japanese	0.170	-5.6	0.075	0.170	0.235	Japanese	0.175	-2.8	0.080	0.170	0.235
Korean	0.170	-5.6	0.075	0.171	0.230	Korean	0.170	-5.6	0.090	0.171	0.230
Malay	0.160	-11.1	0.070	0.166	0.230	Malay	0.155	-13.9	0.085	0.158	0.230
Polish	0.145	-3.3	0.065	0.134	0.172	Polish	0.150	3.4	0.075	0.139	0.172
Portuguese	0.130	-7.1	0.065	0.129	0.165	Portuguese	0.120	-3.2	0.075	0.133	0.200
Punjabi	0.145	-9.4	0.065	0.150	0.230	Punjabi	0.163	1.6	0.075	0.152	0.230
Russian	0.143	-0.3	0.065	0.135	0.172	Russian	0.140	-6.0	0.070	0.141	0.210
Spanish	0.125	-3.8	0.070	0.127	0.160	Spanish	0.120	0.0	0.070	0.125	0.170
Swedish	0.163	-4.4	0.080	0.158	0.225	Swedish	0.145	-9.4	0.070	0.154	0.220
Turkish	0.140	-12.5	0.065	0.138	0.200	Turkish	0.150	0.0	0.070	0.147	0.200
Urdu	0.155	-3.1	0.070	0.153	0.230	Urdu	0.170	7.6	0.090	0.155	0.230
across all languages	0.143	-8.0%				across all languages	0.144	-3.8%			

Source: ATC Survey

Notes: 1. All prices in £ per word.

**Figure 21** Which quality checks do you include by default into your standard prices?



Source: ATC Survey

Unlike freelancers, companies almost always include quality assurance procedures in their offering. Editing by a second bilingual language specialist and proof reading by a monolingual proofreader are the two most common checks. Each of the companies responding to the survey questionnaire included either one or both into their list price, with one exception where the LSP charged significantly lower basic rates, but billed QA on top of that.

- 70% of companies offered one QA check included into the default price
- 30% of companies surveyed offered two checks included into as part of the default price
- A quarter of companies surveyed included into their production process either automatic QA with tools such as Verifika and Xbench, in their production processor a review of a 5-20% sample of the text.



## Pricing set by the market

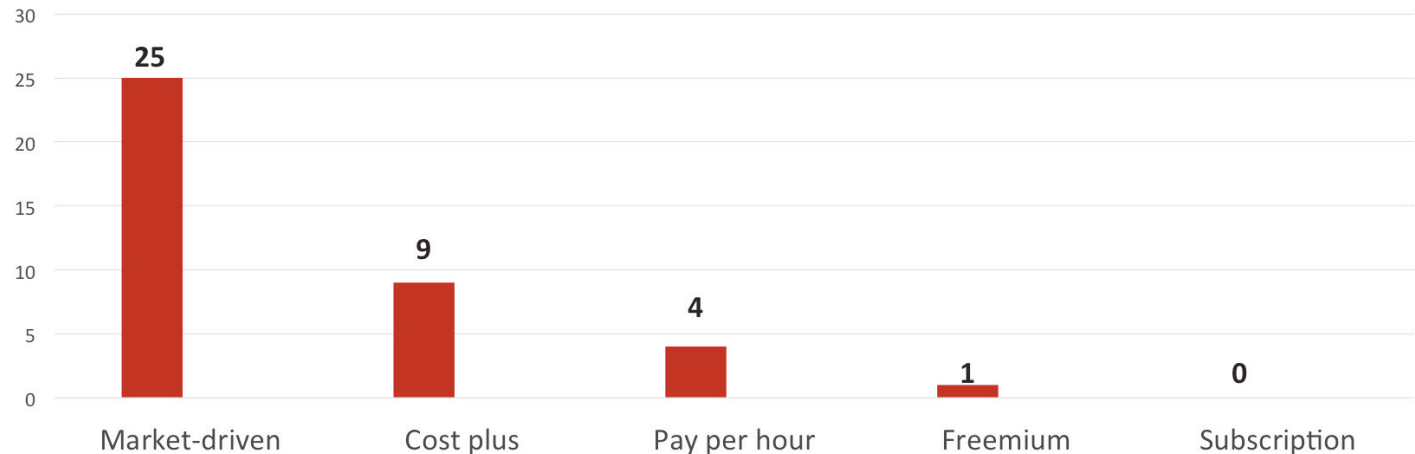
Companies replying to the survey indicate their pricing models are generally market-driven. Rates are set based on what the other companies offer, regardless of in-cost.

Most sellers agree with the customer on a per-word rate, or on a rate per 1,000 words. In a few cases, 8% of the sample, companies offered translation services on a per-hour basis. Eighteen percent of companies follow a cost-plus model revealing costs to the buyer and negotiating a fixed margin for project management on top of freelancer rates.

Others keep costs hidden and heavily optimise internally, sometimes by leveraging machine translation post-editing.

None of the respondents indicated that they offer subscription-based translation services. Translate.com in the US is an example of a subscription-based LSP, with monthly plans including a set number of words and features such as API and CMS integration. In the past subscription-based models have been used for global social media feeds.

**Figure 22** Which pricing models do you use for translation services?

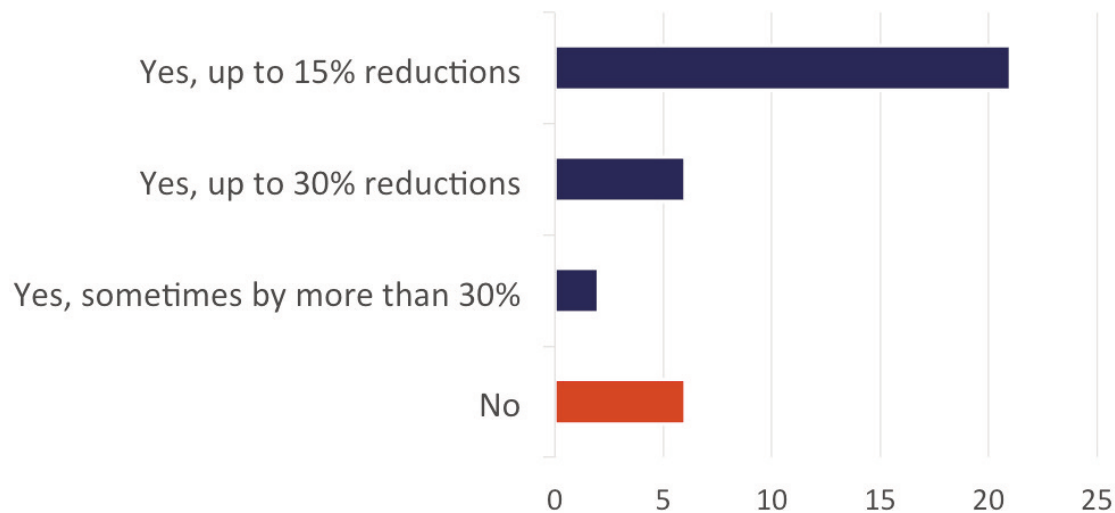


Source: ATC Survey

## Other findings on pricing:

- Competitive requests for proposals (RFPs) bring the prices down. Most reduce prices to win the customer, most frequently by around 15%, but sometimes discounts can go as high as 30% or more. Only 12% of respondents reported that they maintain their rates in RFPs
- When selling overseas, LSPs offer UK rates to the buyers as often as local rates. However, successful exporters with at least 30% overseas revenue more often offer local rates
- Almost all respondents have a minimum order size / minimum fee. This opens a market niche for companies able to offer very small translations without a minimal fee of 1-2 pages. Examples of this include on-demand platforms such as Gengo and Textmaster.

**Figure 23** Do you reduce rates in competitive RFPs?



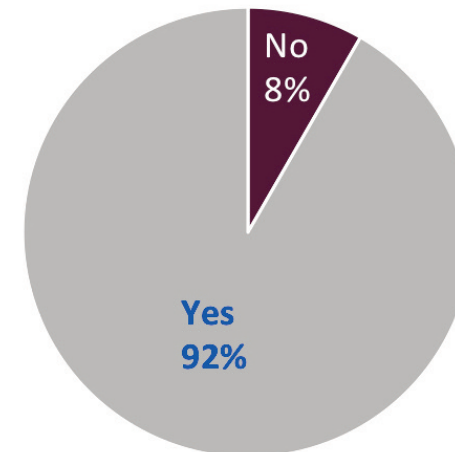
**Figure 24**

For overseas customers do you offer UK-level or local market prices when local levels are lower?



**Figure 25**

Do you have a minimum order size/minimum fee?





## Freelancer rates

**Figure 26** Rates paid to freelance suppliers

From English to	Median	Min	Average	Max	Into English from	Median	Min	Average	Max
Arabic	0.050	0.030	0.049	0.060	Arabic	0.065	0.030	0.066	0.095
Bengali	0.040	0.035	0.047	0.065	Bengali	0.038	0.035	0.038	0.040
Chinese Mandarin	0.070	0.035	0.061	0.080	Chinese Mandarin	0.070	0.035	0.065	0.085
Czech	0.063	0.050	0.061	0.070	Czech	0.068	0.050	0.066	0.080
Dutch	0.075	0.045	0.075	0.100	Dutch	0.085	0.045	0.082	0.120
Finnish	0.080	0.060	0.082	0.100	Finnish	0.110	0.070	0.110	0.150
French	0.078	0.045	0.072	0.085	French	0.075	0.045	0.066	0.080
German	0.070	0.055	0.073	0.090	German	0.070	0.055	0.074	0.110
Italian	0.060	0.045	0.061	0.075	Italian	0.068	0.045	0.063	0.070
Japanese	0.100	0.060	0.098	0.140	Japanese	0.095	0.060	0.090	0.110
Korean	0.088	0.065	0.085	0.100	Korean	0.088	0.065	0.085	0.100
Malay	0.075	0.060	0.078	0.100	Malay	0.070	0.060	0.077	0.100
Polish	0.065	0.045	0.059	0.070	Polish	0.063	0.045	0.065	0.090
Portuguese	0.058	0.040	0.056	0.070	Portuguese	0.065	0.040	0.063	0.080
Punjabi	0.055	0.030	0.056	0.085	Punjabi	0.035	0.030	0.035	0.040
Russian	0.065	0.040	0.065	0.090	Russian	0.070	0.040	0.069	0.090
Spanish	0.058	0.040	0.059	0.075	Spanish	0.055	0.040	0.058	0.080
Swedish	0.100	0.060	0.093	0.105	Swedish	0.083	0.060	0.084	0.110
Turkish	0.043	0.035	0.048	0.070	Turkish	0.070	0.035	0.068	0.095
Urdu	0.040	0.030	0.046	0.075	Urdu	0.040	0.030	0.045	0.065
<b>across all languages</b>	<b>0.067</b>				<b>across all languages</b>	<b>0.069</b>			

Source: ATC Survey

Results show that rates paid to freelancer suppliers are not very different compared to our 2015 survey. Agencies pay freelancers on average £0.067-0.069 per word, and rates vary significantly according to the language combination.

- **Some of the more expensive languages to translate into and from** are in the Nordic and Asian groups: Swedish, Finnish, Dutch, Japanese, Korean and Malay

- **Lower-cost languages** are African (Punjabi, Bengali and Urdu), Arabic, Spanish, Portuguese and Turkish
- The lowest rate paid was recorded at £0.03 per word, while the highest was £0.11 per word.

It is slightly more expensive on average to translate into English, since in-country native speakers of English who also know source languages well enough to work on specialised texts are harder to find. In contrast, translators from English into their native languages abound on the Internet. The challenge then for vendors and project managers is to test them.

Compared to last year freelancer rates for translation from English are slightly lower, down 5% on average, but we believe this could be a result of a different set of respondents.

### Rise of marketing managers

Translation companies are starting to invest more into marketing, and are hiring dedicated marketing staff. One third of respondents had a dedicated marketing person, while almost every company above £300,000 in revenue hired salespeople. Most LSPs had only one dedicated marketing manager. Capita TI, Wolfestone, Asian Absolute and ALM Translations have more than one on the payroll.

Marketing people might play a more prominent role in the future with the advent of so-called inbound marketing, or content marketing. They also help LSPs differentiate and get found on the internet.

# Standards

## ISO 17100 gets accepted

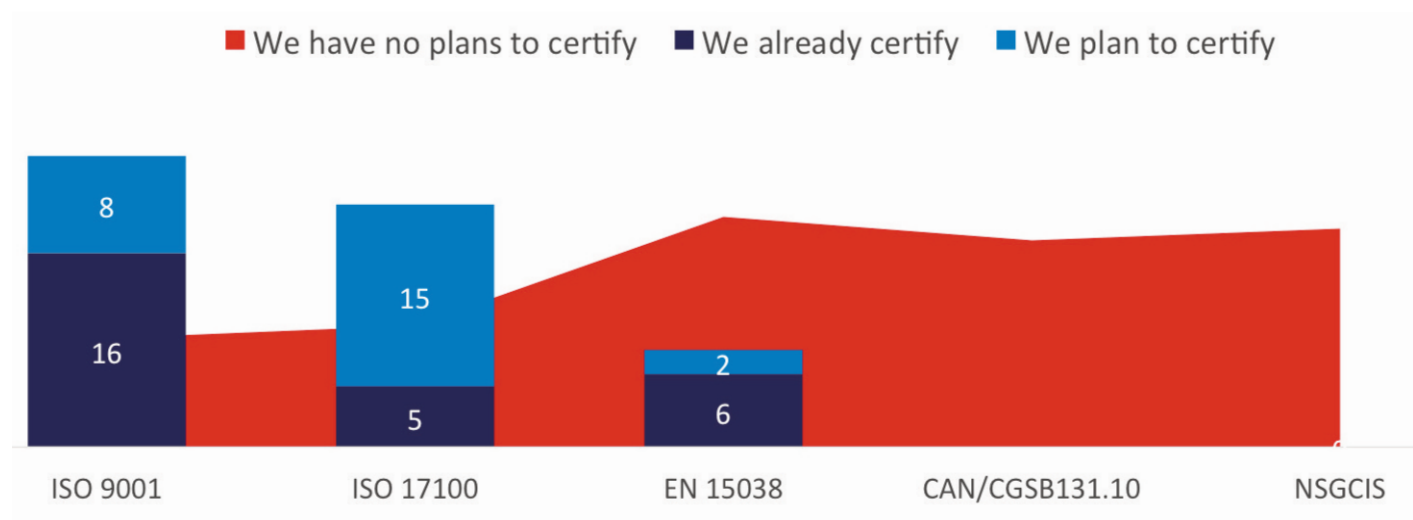
In 2015 when ISO 17100 had just been introduced, it received a somewhat chilly welcome from UK LSPs, with the majority respondents to our last survey indicating they have no plans to certify.

In the current instalment, the number of sceptics has significantly reduced, there are already five companies in the survey sample certified: STP, RP Translate, Robertson Languages, Constructive Translations, Comms Multilingual, and many more are considering certification.

ISO 17100 is quickly replacing its predecessor, EN 15038, but because it is an industry-specific standard the number of LSP certified, and the number of customers aware of it is still smaller than those of the generic quality management standard ISO 9001.

**Figure 27**

### Attitude to industry-related standards



Source: ATC Survey

# Technology

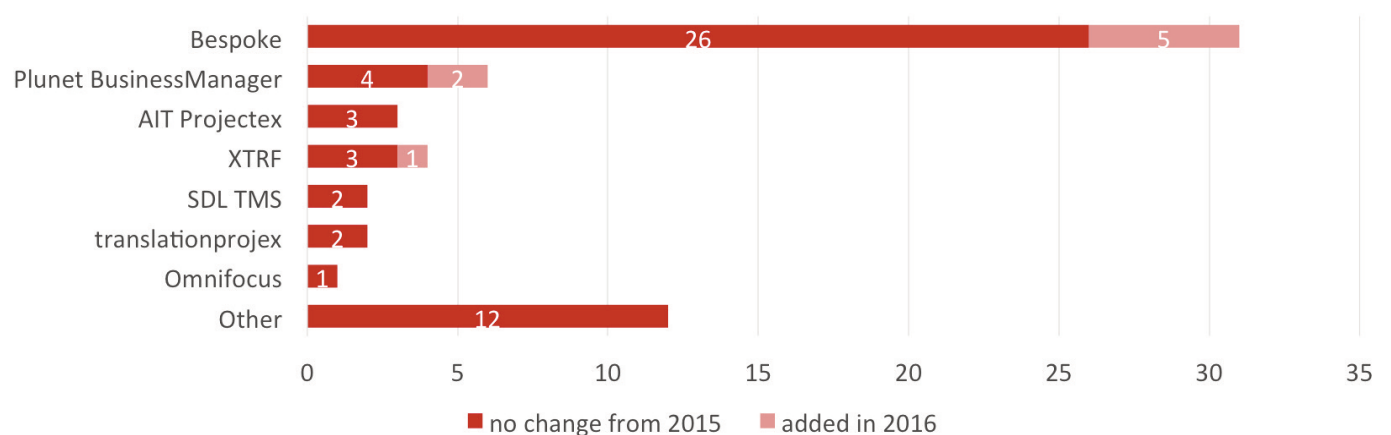
In the technology tables we combined new data from 2016 with the information from the previous year.

Most of the new survey takers use the 2015 version of SDL Trados Studio and bespoke translation management systems. There has been some moderate growth in the use of memoQ, XTM, Memsource, and Plunet BusinessManager. One company used OmniFocus task management system, introducing it to the table for the first time. Another uses Smartling and Wordfast occasionally, adding these to CAT tools listing for the first time.

Migrations: during the period under review there have been some migrations from one system to another. These were: one change from XTRF to Plunet, and one upgrade from desktop tool to a server tool.

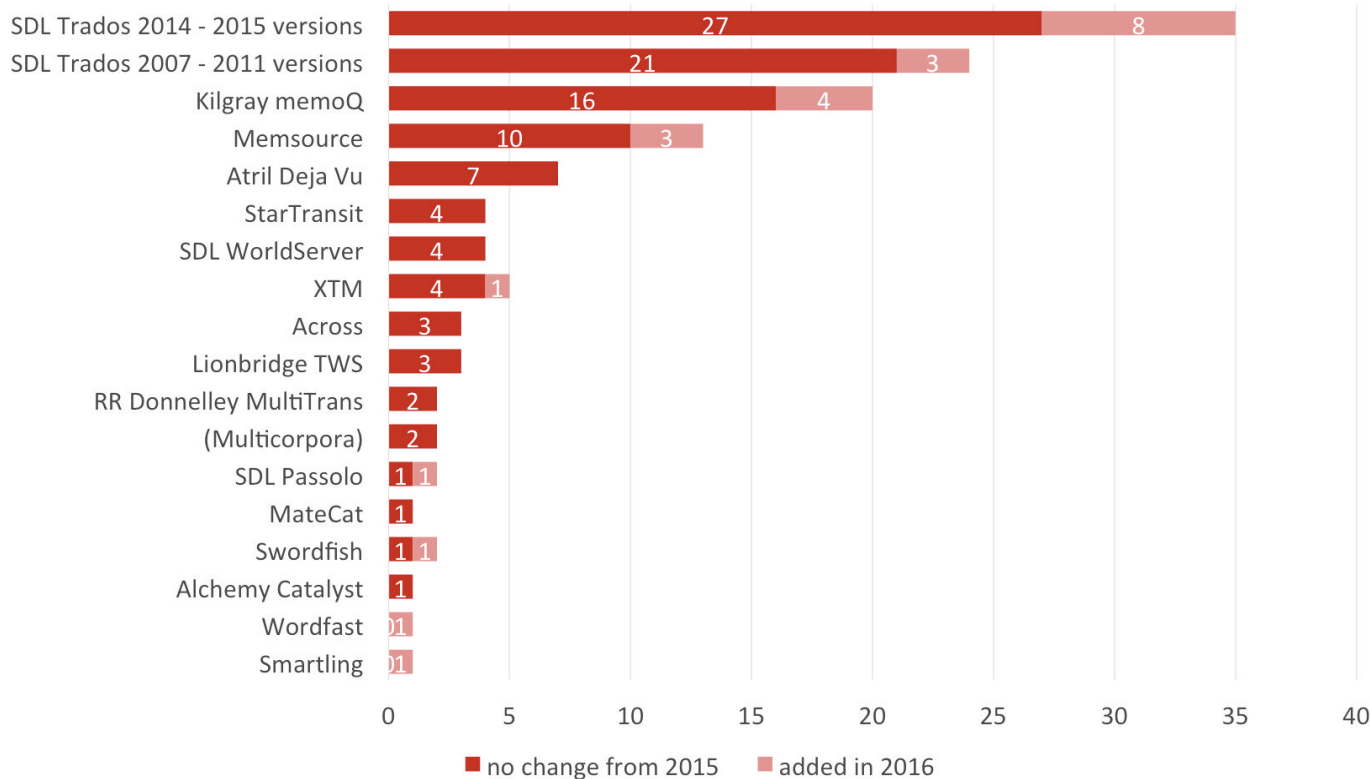
Solutions: a number of companies are now able to offer to their customers an interface to order translations online, either through a web page, or via a dashboard in their TMS. It is especially easy with mature off-the-shelf management software, such as XTRF, Plunet, Memsource or others. With customer portals, background process automation and multiple offices around the world some LSPs organise 24/7 delivery. However, having this option available does not

**Figure 28** Top translation management systems



Source: ATC Survey

**Figure 29** Top CAT tools



necessarily mean customers will use it. Many find sending files over email more convenient, as indicated by comments in the survey. The next challenge is embedding their translation offering into the customer systems, for instance into web CMS for website translation. At the moment, few LSPs have good connectors to CMS, and even fewer offer translations via the application programming interfaces (API). Those that do can differentiate themselves from the competition.

**Figure 30** Technical solutions offered to customers

Solution	Resp
A dashboard with order history, statistics	12
A customer TMS	8
24 / 7 delivery	8
An interface to buy translations online	6
Connectors to content management systems, such as Wordpress and Drupal	6
On-demand human translation platform	5
Translation over API	4
Machine translation engine training and customization	4

Source: ATC Survey

# Future challenges

High competition, the need to deliver quality under increasing price pressure and margin erosion remain the key business challenges for LSPs. However, Brexit overshadows them all as the number one issue.

According to respondents it is making the future of many programmes, relationships and business models uncertain. A side effect of the uncertainty around the terms under which the UK will decouple from the EU, has been the impact on currency exchange levels, which has further helped to push Brexit to the top of the LSP challenges chart this year.

The most interesting new entrant to the future concerns chart is meeting requirements for 24-hour support. It is an innovation which might grow in importance as customers become more global and more demanding. Currently companies respond by opening offices in different time zones. However, the challenge might go deeper than just geographical expansion, as organisations need systems and practices in place to ensure information transfer needed for a 24-hour customer experience, not just support.

**Figure 31** Top challenges faced by LSPs in the future

1. Brexit: complete uncertainty about the future
2. Competition, market consolidation
3. Prices, margins, cost versus quality
4. Staff recruitment and retention
5. Sourcing quality suppliers at good rates
6. Exchange rates
7. Technology and development
8. Sales
9. Growing in-costs
10. 24-hour support

Source: ATC Survey

## Acknowledgements

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