

**THE POLISH BUSINESS ENVIRONMENT FOR LANGUAGE
SERVICE PROVIDERS IN VIEW OF THE PORTER'S FIVE
FORCES MODEL**

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ABSTRACT

After the Polish accession to the European Union in 2004, language services have considerably grown in importance. Intensive contacts with foreign companies and institutions coupled with information technology developments have increased the role of English as a linguistic medium of international cooperation. The overall aim of this paper is to examine the Polish business environment for Language Service Providers (LSPs) offering specialized English courses and translation services (EN-PL and PL-EN). LSPs should be distinguished from regular language schools and translation agencies whose service offering concentrates predominantly on General English courses and general translation. LSPs, in turn, operate to provide tailored English courses for specialists within different fields (e.g. business, law, medicine, engineering, etc.) and the translation of specialized texts/documents (e.g. financial, legal, medical, technical, etc.). The Polish business reality will be viewed from the micro perspective by means of the Porter's five forces model, which will help to assess the industry's attractiveness and market potential for LSPs.

Keywords: *Language Services, Services Marketing, Porter's Model, Market Entry Barriers*

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INTRODUCTION

Since communication plays a vital role in the globalizing and technology-based world, there is an increasing demand for language and translation services. Businesses operate on an international scale and the exchange of products and services becomes more flexible. Language and

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translation services reduce communication barriers and help to establish multilateral relations. According to the Report on Translation Services Industry presented by the research platform The Language Translation, the language services market is dominated by English. The research into EU translation examined the role of English as the lingua franca of Europe (Kjær, 2005). English underwent deculturalization by losing its cultural load and became an international language (van Els, 2006). Polish accession to the European Union and participation in numerous international organizations have considerably influenced the role of English as the language of international contacts. As a result, developing linguistic competences of employees from different sectors and company departments is becoming a top priority. Constant expansion of subsidiaries and inflow of investors to Poland have increased the number of contracts and transactions with foreign business entities. Therefore, there exists a niche for specialized language and translation services to be filled in by Language Service Providers (LSPs) which offer customized services (specialized English courses and translation) as opposed to regular language schools and translation agencies focusing on General English language services. LSPs serve specialists from different branches, including business, law, medicine, engineering, etc. and provide them with trade-specific English courses and specialized translation. However, in order for new LSPs to enter the Polish market, they need to examine its opportunities by conducting a micro environmental analysis of the Polish business reality, which will help them to determine critical factors affecting the strategy planning and development. A tool that will be used to check the industry's attractiveness and market potential is the Porter's five forces model.

For the purpose of this paper, the model will be used to answer the following questions:

1. *What challenges must LSPs face when establishing their language services companies?*
2. *What factors impact the LSPs' market entry?*
3. *Is there a place on the Polish market for LSPs offering specialized language services?*
4. *Is the Polish microclimate conducive for LSPs?*

THE ESSENCE OF THE PORTER'S FIVE FORCES MODEL

The Porter's five forces model is aimed to study the patterns within the industry. Michael E. Porter identified five forces shaping the market environment that is the threat of new entrants, bargaining power of suppliers, bargaining power of buyers, threat of substitute products or services, and rivalry among existing competitors (Porter, 2008). An

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application of the model helps to assess the industry's attractiveness and its profitability profile, analyze the competition, and enter the market with an appropriate positioning strategy (Fleisher & Bensoussan, 2007).

New competitors entering the market aim at gaining the market share, and hence, affect prices, costs, and investments required to remain competitive. Low entry barriers determine the high threat of entry while high entry barriers lead to the low threat of entry. Table 1 presents the sources of entry barriers a start-up business faces when entering the market.

Table 1: Sources of entry barriers

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- Supply-side economies of scale
 - Demand-side benefits of scale
 - Customer switching costs
 - Capital requirements
 - Incumbency advantages independent of size
 - Unequal access to distribution channels
 - Restrictive government policy
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Source: Based on Porter, 2008

Supply-side economies of scale appear when companies produce large amounts at lower costs since they use high technology or cooperate on good terms with their suppliers. Start-ups aspiring to enter the industry face the production on a large scale and at lower costs. Demand-side benefits of scale result from the assumption that customers may pay more for the products or services with the increase of the number of other customers valuing them. New businesses entering the industry are required to build the customer base since buyers prefer well-established companies than start-ups. Customer switching costs are incurred when a customer changes a supplier or market to another. The higher they are, the more difficult it is for a new business to acquire customers. Capital requirements may also deter entrepreneurs from establishing their businesses. It frequently happens that large financial outlays are necessary to compete in the marketplace. However, new entrants may appear with innovative ideas yet without substantial capital. Another source of entry barriers are incumbency advantages independent of size such as access to technology, good locations, well-established brands, or experience. Start-ups may also face unequal access to distribution channels. The fewer they are in the industry, the tougher it is for new businesses. The widespread use of the Internet has increased the role of electronic distribution channels which help to reduce costs and avoid charges commanded by intermediaries. Lastly, the government policy may help newly established companies by subsidizing

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them and funding research. However, restrictive legislation makes it more difficult to obtain licenses or comply with the safety regulations. In general, the lower the threat of entry, the more attractive the industry which cannot be easily entered by the competition. On the one hand, it is not easy for a start-up to find its place there; on the other, it may access the environment in which it is difficult to imitate products or services.

Another force shaping the market which new entrants wish to enter is the bargaining power of suppliers who deliver materials, labor, or facilities for companies. When they exercise little power to determine prices or conditions of business operations, the industry is more attractive. Suppliers are more powerful when their number is low so that buyers have fewer options at their disposal. They have stronger position if it is more expensive to change a supplier. Those of them who operate among many industries and offer differentiated products are more powerful.

A similar situation is observed in the case of customers who have considerable impact on prices and conditions of sale and make the industry less attractive. Customers are powerful when their number is low and companies cannot neglect their preferences and requirements. If customers can change a service provider or are served with standardized products or services, it is an evident sign for businesses that they must offer high quality at reasonable prices to satisfy them.

The low threat of substitute products or services makes industries more attractive, which means that products or services offered by other industries cannot easily replace those from the industry in question. It happens that another industry approaches customers with a more attractive product at more favorable price and customers may perceive it as a better substitution for the offer which is more expensive and potentially of lower quality. Moreover, if the switching costs are low, buyers tend to be more attracted to choose the competitive offering.

Rivalry among existing competitors also affects the way new entrants assess the industry attractiveness. The more fierce competitors offering discount prices and introducing new products and forms of advertising, the more difficult it is to make profits and the less favorable the industry looks like. Intensive rivalry appears when a great number of competitors of a similar size and power exist as well as when slow industry growth and high entry barriers are maintained. Moreover, the degree of competition is strong if companies are committed to their businesses and aspire high and if they have problems with analyzing and assessing each other's actions.

Porter's five forces model suggests that an attractive industry poses difficulties to enter, have weak buyers and suppliers as well as few competitors, and offers little substitutions. Although the conditions for making high profits in a favorable environment seem straightforward, the circumstances change over time and new opportunities arise. The customers

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have access to the Internet and can compare prices and offers, which upgrades them to a stronger position. The Internet has offered electronic distribution channels and enabled online businesses to flourish. The European Union enlargement opened new markets and reduced trade barriers. Stronger competition appeared and forced companies to improve their products' quality, command more reasonable prices, and work on constant improvements.

THE APPLICATION OF THE PORTER'S FIVE FORCES MODEL

In order to gain a deeper insight into the market potential of language and translation services in Poland, it is necessary to examine the industry and competition structure. New LSPs compete with the existing language schools and translation companies within the language and translation services market.

In order to enter the specialized language and translation industry, a start-up business is required to overcome relatively high entry barriers. The service providers offering specialized translation and courses must employ tutors and translators who are highly qualified and ideally possess two majors: English (specialization in translation) and studies within a chosen specialized field such as economics, finance, law, etc. This combination will allow LSPs to ensure the highest standards of quality. Since specialized courses require the tutor and customer to meet face-to-face (excluding E-learning services), the tutor is required to possess teaching credentials and specific personal predispositions.

Another entry barrier is the necessity to possess specific personal characteristics to conduct specialized language services and serve this specific segment. LSP's potential customers are well-educated and qualified employees who require value for money and expect the highest standards. They appreciate individualized approach, correct recognition of their needs, and professional service. Therefore, LSP is required to ensure the highest quality standards both in terms of teaching and translation norms and day-to-day communication with customers.

The LSP's offer focuses on a specific market segment and ensures highly individualized approach and needs recognition so that it can be differentiated from the existing language schools which target many segments with broad service offering. In this aspect, the LSP's offer is different and fails to imitate the language school services. The bargaining power of the LSP's potential customers is low since it will not be easy for them to change the language service provider and find the LSP's unique value proposition in regular language schools. LSP clearly specified its

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customers, understood their decision-making patterns and precise requirements which have to be compatible with the highest standards within the industry.

The LSP's suppliers include publishing houses selling teaching materials such as textbooks, reference books, dictionaries, encyclopedias, lexicons, etc. and electronic companies delivering the necessary equipment such as PCs, projectors, DVD players, etc. Their bargaining power is high since they are numerous on the Polish market and present a broad offering for buyers. As a result, changing a supplier does not pose considerable problems and does not involve additional costs.

Language schools and translation agencies compete with themselves on the market to attract new segments, maintain the existing customers and win those who use competitive services. Language schools offer standardized courses without individualized approach. In most cases, they focus on children, pupils preparing for different examinations or general courses for adults. Business, Legal, and Medical courses are conducted by tutors with linguistic competences yet in many cases without education in a specific field. Similarly, translation agencies employ or subcontract translators with perfect command of a foreign language yet without the knowledge of a specialized field. However, they have operated on the market for many years and built a well-established position. They generate high returns and can allocate considerable resources on promotion and marketing activities as well as offer discount prices.

In October 2010, Portal Badań Online (The Portal for Online Research) made a report presenting the Translation Market Analysis from the Perspective of Companies Ordering Translation Services. The report was based on the research comprising 241 Polish employees representing different companies from the private sector. 93% of companies in which the respondents are employed carried their operations abroad, either by exporting/importing products or cooperating with foreign business partners. 83% of companies examined in the study outsourced translation services. 80% of respondents chose English as the most common language of translation. Most respondents claimed that their companies cooperated with small translation companies operating locally. In most cases, the companies in which respondents work were recommended by the word of mouth or found in the Internet (trade forums, webpages). The most frequent problems in cooperating with translation companies were high costs, the lack of equivalence between the source and target text, difficulties in finding competent translators, and linguistic and stylistic mistakes in the target text. In addition, respondents expressed the need to use additional services offered by translation companies such text formatting, proofreading, audio transcription, and copying manuscripts and other documents so that they can be edited. The report proved that although there are numerous well-

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established translation agencies with their broad service offering, there still exists a niche for LSPs with their individualized offer. The companies which are potential recipients of translation services frequently prefer smaller local providers, value customized approach, and appreciate work performed by competent translators possessing both linguistic and specialized knowledge.

The threat of substitutes is low since the standardized offer of language schools cannot be compared with a highly specialized offer of LSPs. To ensure the highest standards, specialized translators and tutors performing their services are expected to be educated as linguists and specialists in a selected field. Only in this way can a translator understand and transmit the sense of the source text and the tutor explains the intricacies of the specialized language. Language schools with their standardized offer cannot meet the requirements of the target segment with specific needs and translator agencies cannot ensure the highest standards offering translations which are correct only from the linguistic point of view. The services offered by LSPs are complex and divergent which translates into a higher level of difficulty and customized activities in performing them.

CONCLUSION

Globalization and international trade require from Polish companies and individuals to use documents in English and communicate with investors, partners, officials, employees, and customers in this language. An increased number of business travels and conferences have led to a growing demand for translators and interpreters. International business operations, new platforms, media, software, and distribution channels have strengthened the role of language services in recent years. The micro environmental analysis conducted by means of the Porter's five forces model proved that there exists a niche for LSPs on the Polish market and that it is possible for them to successfully fit the industry structure, face the market challenges, and use the existing potential for specialized language and translation services. Although there is a wide choice of language schools in Poland, they predominantly offer general language courses and their services cannot be treated as a substitute for LSPs' specialized ones. Both regular language schools and translation agencies frequently employ people with only linguistic education. In order to ensure the highest standards, LSPs must employ individuals who are both linguists and specialists within their fields and have relevant teaching credentials and personal predispositions. The analysis also demonstrated that the LSPs' strategy to place their competitive advantage on targeting a narrow market segment (specialists in business, law, medicine, etc.) with an individualized offer is the right decision. A high level of

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customization will help to build a strong market position and differentiate LSPs from language schools and translation agencies.

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