

Ericsson outsourcing deal threatens 11,000 jobs worldwide

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Last week, Sweden's largest electronics and telecoms company Ericsson announced it was pulling out of mobile phone production, threatening 10,800 jobs in four countries. Formerly the world's third largest producer of mobile phones, in future all Ericsson branded phones are to be produced by Singapore-based Flextronics, who will carry out all aspects of the complex production process apart from design. Other work will be contracted out to Taiwanese firms such as Arima and GVC.

Ericsson currently employs 103,000 workers, including 41,000 in Sweden. By the end of 2001, the company aims to reduce the workforce in its consumer products division from the present 16,800 to 7,000. So far, Ericsson have only confirmed 600 workers will be laid off, but many more losses seem likely, including at least 1,700 workers in Basingstoke, in the UK.

Ericsson's decision, partially conceding the previously lucrative mobile phone market to Nokia, Siemens and Motorola, follows a year in which the company's consumer division lost \$1.2 billion. Overall, the company still returned \$223 million profit in the last quarter, down from \$655 million one year ago. Ericsson's phones have been unable to compete with the better designed and cheaper models produced by their rivals, particularly Finland's Nokia.

In addition, the mobile phone market has not grown as rapidly as expected, with all companies consistently reducing their market assessments. Despite this, Ericsson sold 43.3 million phones last year, and expects to sell 50 million this year. Ericsson has also been hit by lower than expected sales for so-called "WAP phones," which have limited access to the Internet and e-mail capacity.

Underlying Ericsson's sharp fall from profitability is the fact that its rivals appear to have moved their

production rapidly from Europe and North America to lower cost areas around the globe. Flextronics, which will take over most of Ericsson's production, already produces phones for Siemens, Motorola, and Nokia. The firm first began its American operations in 1969 as a tiny electronic component board assembly operation. Its first operations outside the US—in Singapore—began in 1981. Now one of the world's leading producers of mobile phones, it also produces a wide range of electronic goods—from server memory disks and tapes to the Hayes modem.

Although a global operation, until the early 1990s, Flextronics retained considerable capacity in the US. In 1995 however, following a US market downturn, the company set out to close most of its American facilities. The company's website boasts that 13 law firms were employed to dump the US plants without incurring redundancy costs, which was done by selling off the Asian operations as a separate firm, although with the same management. Flextronics crow, "The complexity and success of the deal could be taught in business schools."

Since 1998, the company has rebuilt a global operation based on "low cost locations" and now employs 27,000 workers on four continents. The company generally opens industrial parks convenient for cheap labour, where all aspects of production are concentrated, before shipping the finished product to its final buyer—be it Ericsson, Microsoft, Cisco or IBM.

It is expected that work contracted from Ericsson will eventually be carried out in China. Two of the company's industrial parks are in Doumen County, in the Zhuhai Special Economic Zone facing the South China Sea, near Macao. Flextronics' other industrial parks are in Hungary (where it has three), the Czech Republic, Poland, Brazil and Mexico. In the last year,

the company's operating income grew 93 percent. Total sales were put at \$3.2 billion in the last quarter.

News of the Ericsson decision caused a 13 percent fall in the company's shares, primarily since stock watchers had expected that the firm would completely abandon mobile phones to concentrate on other telephony infrastructure and network areas, where the company remains a world leader. Ericsson is one of the pioneers of so-called "Bluetooth" technology, which can provide constant high bandwidth local connections to mobile devices.



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