Marconi job losses rise to 10,000

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Marconi plc announced July 4 that 4,000 of its workforce, including 1,000 managers, will lose their jobs. This is in addition to 2,900 job losses announced in April by the British-owned electronics firm. It means an overall “headcount reduction” of 10,000, when included with an outsourcing agreement for network production with US-based Jabil Circuits.

The job losses accompanied a report that Marconi’s expected sales in the year to March 31, 2002 are to be 15 percent lower than in the previous year, while profits will reduce by 50 percent. The news was in sharp contrast to the company’s previous claims that despite, “deteriorating market conditions” its core business remained healthy.

The company has not yet informed any of its 50,000 global workforce about where the redundancies will impact. Trade unions in Britain expect that at least 1,600 jobs will go at Marconi plants in Coventry and Liverpool, and a smaller facility in Poole, Dorset is likely to close. The Liverpool and Coventry plants, along with factories in Marcianise, Italy and Offenburg, Germany have been, or will be, sold to Jabil Circuits.

Prior to July 4, Marconi had not given any indication that its previous forecasts were hopelessly inaccurate. The day of the announcement, trading in Marconi shares was suspended. This was intended to maintain the sale price of its Marconi Medical Systems unit, sold for £780 million (US$1,100 million) to Royal Philips Electronics.

The suspension of trading triggered frantic speculation against Marconi, with its share price falling 54 percent when trading recommenced July 5—the largest ever fall on the British stock exchange—and by a further 9 percent on July 6. Some 10 percent of Marconi’s entire stock changed hands and the share price fell to less than its numerical value of 20 years ago, and to less than 10 percent of its real value just ten months ago.

The collapse, in addition to warnings issued by US chipmaker AMD and others, triggered large falls in general share indexes around the world, particularly in London, Frankfurt and Paris. European technology share indexes were hard hit. The London-based Techmark 100 index was down 10.5 percent during last week, the FTSE Eurotop 300 index down 12.5 percent, with the German Neuer Markt hitting an all-time low.

Marconi customers and competitors were also hit. US network giant Cisco lost 6.5 percent following the Marconi news, with similar falls hitting Nortel, Lucent, and Intel. Speculation has focused on whether Marconi has now become a takeover target.

Many economics correspondents have said that the origins of Marconi’s debacle lie in the personal misjudgements of the company’s leading executives and upper management, particularly Marconi CEO Lord George Simpson, who sits in the House of Lords for the Labour Party, and his Finance Director John Mayo.

More thoughtful pundits noted the collapse in US and European technology markets, and pointed to market saturation in key areas of Marconi’s work. The interconnected nature of the world economy means the Marconi crash has intensified the general crisis that is enveloping the high-tech telecommunications sector.

Formerly part of the giant industrial conglomerate and arms supplier GEC, Marconi was re-launched in 1999 as a telecommunications company and its military electronics wing was sold off to British Aerospace. Marconi sought to use its financial weight, electronics expertise, and late entrance in the market to win a leading position in global telecommunications—purchasing US communication company Fore Tech, and the Internet switching company RelTec.

The company’s aspirations were rather clearly expressed in the company’s 2000 annual report: “The

Internet boom is a high-tech gold rush, a latter day Klondike of bits and bandwidth. In that earlier gold rush, some prospectors struck it rich. Some went broke. But the people who consistently profited were the ones who supplied the prospectors with the picks, shovels and maps. That is Marconi's starting position."

Initially all went well. Marconi quickly won contracts to build optical networks for the major telecoms companies in the UK, Australia, China, France, Holland and Belgium, as well as providing Internet infrastructure for companies such as Cable & Wireless, UUNET Technologies, Level 3 Communications, MCI/WorldCom and Qwest. The company also began building a large range of data-management networks and servers.

Sales in networking technology rose by 60 percent in the first half of 2000 alone and by 89 percent over the year as a whole. Turnover increased from £4,090 million ($5,770m) in 1999 to £5,724 million ($8,076m) in 2000. Profit increased from £508 million ($716m) to £750 million ($1,058m) in 2000, including a 75 percent increase in the communications division.

Whilst the company's 2000 annual report reads like a breathless adventure, that of 2001 tells a different story. Although the 2001 annual report gave turnover figures of £6,042 million ($8,524m) and £807 million ($1.138m) profit, it was littered with nervous qualifications. The company warned of a "scarcity of capital to finance network development [which]..... has led to a slowdown in orders for communications equipment across the whole industry."

In the last months, Marconi, like many high-tech outfits, has been hit from several sides at once, with several major markets shrinking in a short space of time. In the US, companies such as Cisco, Lucent and Nortel, which during the peak of the "dot.com" stock exchange bubble were regularly investing in and supplying new software and network technology, have seen their profitability, share prices and capacity to raise investment capital drastically reduced. Marconi's most rapid growth had also been in the US.

At the same time, the growing recession in Europe, again most sharply expressed in the high-tech industries, has punctured corporate hopes that the continents economy would replace the US as the "engine" of world growth. In Europe, Marconi's clients are amongst those most seriously affected by the crisis in all areas of telecommunications, most seriously in mobile telephony. British Telecom, saddled with a gigantic debt because of the fortune paid out for "third generation" (3G) mobile telephony licences, is one of Marconi's major European customers. To ride out the 3G crisis, British Telecom has been forced to cut back or delay development to its fixed-line network, most of which is supplied by Marconi. Cable and Wireless in Europe, another Marconi customer, have issued a profit warning, cut 4,000 jobs and reduced investment by £600 million ($846m).

The *Financial Times* reported a Marconi spokesman stating, "The tap has been turned off very quickly... everything is now being referred to customers' finance departments and they are blocking contracts".

Marconi also supplies equipment to mobile phone and network producers Ericsson and Siemens, both of which have laid off tens of thousands of workers in the last months as a consequence of saturation in the mobile telephony market.

The crisis is not restricted to larger companies such as Marconi, Ericsson and the France's Alcatel, which is also sacking thousands of workers. Commenting in the same article on the problems facing smaller technology companies in Frankfurt's Neuer Markt, an analyst told the *Financial Times*, "The outlook is far from rosy... many of the small and mid-cap stocks on the tech-laden market are suffering the impact of reduced spending and profits among the sector's bigger companies."