

# Sweden's Ericsson posts historic losses

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Swedish telecommunications and network giant Ericsson AB has announced its first losses in 50 years and possibly the first ever losses in its 127-year history (records for the 1920s are missing).

On January 25 the company announced a pre-tax loss for 2001 of 21.1 billion kronor (\$1.97 billion). It also warned of further losses of 4.9 billion kronor (\$460 million) for the first quarter of 2002.

The figures stand in sharp contrast to 2000, when Ericsson made 9.373 billion kronor (\$878 million) profit, over the year. The company's market value fell by 61 percent (533 billion kronor or \$50 billion) in 2001. Sales collapsed by 32 percent and orders by 43 percent in the last quarter alone.

Ericsson's announcement marks the largest loss in Swedish industrial history. Its impact on the Swedish economy will be enormous, as the company is the country's largest corporation, and represents 18 percent of Sweden's share index.

The losses have been made in spite of savage cuts in Ericsson's global workforce, principally in North America and Europe. In total 22,000 workers lost their jobs last year, through a combination of redundancies, outsourcing and factory transfers. In addition to jobs lost directly, thousands of jobs have been lost amongst Ericsson's suppliers, consultancies, software houses and staff agencies in Sweden.

According to *Bloomberg*, the company expects to make more firings and other "cost reductions" in order to return to an operating profit, although no announcements have been made as to where these might be. By contrast, as reward for "cash flow achievements", 3,000 senior managers received bonus payments.

Ericsson's rapid decline again reveals the saturation and over-capacity in all areas of the telecom and network markets. Most of Ericsson's losses have been incurred in mobile phones, where the company has lost

out particularly to rival Nokia from neighbouring Finland.

Globally SonyEricsson—a joint venture with equally hardpressed Japanese based Sony—shipped 6.8 million mobiles in the last quarter of 2001. This was less than half of Sony and Ericsson's combined production in the same quarter the previous year. While SonyEricsson sales have slumped, Nokia returned a larger than expected profit and now holds around 37 percent of estimated total mobile sales of around 420 million units.

Telecom network sales are also under pressure. Ericsson is basing its calculations on a 10 percent fall in system sales this year. Chief executive Kurt Hellstrom said, "We are not talking about growth. We are talking about who is declining least right now. People can start talking about growth in the second half, but it's more wishful thinking than based on substance."

Real decline is likely to be much worse. A spokesman for Folksam Liv, which holds \$20 billion in Swedish equities, noted "It's doubtful whether it will be able to reach its targets. The only thing Ericsson can do is try to cut more costs." The company has also been hit by the economic crisis in Latin America, which generates 15 percent of its revenue and where sales of telephone systems have collapsed. Hellstrom described market conditions as having fallen "brutally".

As with all telecom companies, Ericsson is gambling on 3G third generation mobile phones and other devices, able to receive audio, video streams, as well as allowing web-browsing and other activities currently restricted to desktop PCs. It is also investing heavily in the network infrastructure designed to support 3G. Companies are desperate for 3G to provide profit levels comparable to those delivered during previous phases of mobile telephony and telecom expansions. Thus the vast sums already invested in 3G will bring intense

competition, guaranteeing that the global telecom industry will see ever-greater levels of chronic instability.



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