Ericsson plan 17,000 more job losses

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Swedish based telecom manufacturer Ericsson AB intends to slash a further 17,000 jobs over the next two years. Job losses will take effect both in Sweden and internationally, although as yet there are no further details of exactly where they will occur. The announcement came after Ericsson posted larger first quarter 2002 losses than expected, following 2001 figures which saw the 127-year-old company lose money for the first time in its history. In the first months of this year Ericsson lost $527 million, worse than their expected $469 million loss. Total sales fell from $4.86 billion, in last years opening months to $3.68 billion this year. New orders fell from $6.77 billion to $4.09 billion over the same period. News of the losses, along with falling sales predictions from rival Nokia, triggered a selling spree across the world's technology markets. Ericsson stock fell 24 percent on the Stockholm stock exchange. Commentators suggested that Ericsson's fall alone would have a significant effect on the Swedish economy, as the company accounts for 15 percent of Swedish exports.

Ericsson's response is to slash its workforce. It intends to save more than $1.9 billion over the next two years, while pushing aggressively into the Chinese market. The company recently appointed Michael Treschow as board chairman from Swedish consumer appliance manufacturer Electrolux, where he acquired the nickname "Mike the Knife" on account of brutal cost cutting.

Treschow and Ericsson are hoping to attract corporate investors with a new share issue intended to raise $2.93 billion in new capital by reducing its labour costs. The new shares will be so-called "Class B" shares rather than "Class A" shares, which have 1,000 times more voting rights—to ensure that Ericsson remains dominated by Investor, the investment wing of the Swedish Wallenberg family. Under conditions of a global slump in sales of telecom networks, mobile phones and infrastructure, Ericsson aims to acquire sufficient resources to be able to fight in their corner without risking loss of control of the company.

Underlying Ericsson's moves is the continuing instability in all areas of the world's telecom industries. CEO Kurt Hellstroem explained to the world's press, "I do not dare to say that the bottom is reached. We are in a stretched out downturn and almost no operators are signaling that things are turning upwards."

In the decade up the year 2000, growth rates in the mobile phone and infrastructure markets were as high as 40 percent annually. Rapid technological development, combined with consumer enthusiasm for mobile telephones, provided a profit bonanza for all the mobile phone producers and network providers. Both long established and new companies flooded into the market, which rapidly became saturated. All the major players are facing simultaneous drops in demand and loss of profitability. Market leader Nokia recently downgraded its predictions for this year's total industry sales from 420 million to 400 million units, a figure only slightly up from last year—the first time that mobile phone sales fell in 20 years of production. Nokia's own sales were down 12 percent on the first quarter, and annual growth was also expected to be less than initially predicted.

For a while, the manufacturers have been able to offset this by utilising ever more advanced phones and network systems to encourage consumers to continually upgrade their handsets. This tendency too is slowing down, however. Analysts at the JP Morgan investment bank told the *Guardian* newspaper, "We believe that Nokia's handset business is showing extreme signs... of consumer apathy for next generation devices accompanied by a... change in the subscriber mix (from affluent early adopters to a larger proportion of lower end, pre-paid users). This lowers underlying replacement demand."

Translated this means that fewer people are buying new mobile phones and those that do are poorer and keep hold of them longer. They are less interested in the newest, most expensive, glamorous, and most profitable devices, preferring a working phone at low cost.

Days after Ericsson's announcement, German based Siemens declared its intention to cut 6,500 jobs globally, mostly outside Germany. The company has already drastically reduced the number of production sites. CEO Heinrich von Pierer told the *Guardian*, "We have experienced... a deeper slump in our carrier business than expected a year ago.... The entire industry is in a dramatic state marked by collapsing demand and eroding prices."