IBM announces 13,000 job cuts

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International Business Machines announced plans May 4 to eliminate up to 13,000 jobs, or 4 percent of its workforce, primarily in Western Europe. IBM has approximately 100,000 employees in Europe, the Middle East and Africa, and 319,000 overall in some 170 countries worldwide. The company is the world's largest in the field of information technology; its 2003 revenues were $89 billion.

IBM officials told analysts during a conference call May 5 that they hoped the job cuts would save the firm $300 million to $500 million this year, and two and a half times that amount in 2006. The job elimination is the most serious at IBM since May 2002, when some 15,600 posts were wiped out.

The cuts come in the wake of IBM's disappointing first-quarter earnings, which sent "shockwaves" through Wall Street in mid-April. At the time the company reported an increase in revenue of 3.3 percent over a year earlier, but more than two-thirds of the rise was due to currency shifts. IBM reported per share earnings of $0.84 (up from $0.79 a year ago), only 50 percent of the increase analysts had predicted. Investors proceeded to punish the firm's stock, which fell 14 consecutive days last month; its price is down 22 percent for the year.

IBM officials attributed the disappointing earnings figures to troubles it experienced in closing deals; sales of mainframe computers were also down by 16 percent. Samuel Palmisano, IBM chairman and chief executive officer, commented in April that "we had difficulty closing transactions in the final weeks of the quarter, especially in countries with soft economic conditions." The latter comment presumably referred to Western Europe in particular. Palmisano pointed to the company's gains "in the emerging markets of China, Brazil, India and Eastern Europe."

The information technology giant began laying off workers in Western Europe even before the earnings report was issued; 500 Swedish workers were dismissed in March, 9 percent of the workforce in the area. That same month IBM reported that 580 jobs would be cut from two locations in Germany, Schweinfurt and Hannover.

IBM officials claimed this week that the plan to slash as many as 13,000 jobs was not a response to the April earnings "bombshell," but rather part of a plan to increase global efficiency. In fact, the move may be a response to both short-term investor unhappiness and longer-term economic tendencies.

At a press briefing Thursday, IBM's Chief Financial Officer Mark Loughridge refused to say where jobs would be slashed. He merely indicated that Europe would bear the brunt of the cuts and that the first workers to go would clear their desks by the end of June. "We anticipate that most of these objectives can be achieved through voluntary programs," he asserted. Various press commentators noted that European labor rules would make the task of eliminating positions somewhat more time-consuming and costly. The company is relying on the various trade unions and works councils to suppress opposition to the job cuts, which sparked protests in Germany and strikes in France in April.

A spokesman for Britain's white-collar union Amicus complained about IBM's dragging out the uncertainty. One of the facilities rumored to be threatened is in Greenock, Scotland. The union official told the *Register* in Britain, "This is another example of a company whose staff are staring into the void while their jobs are hanging by a thread. It [the press briefing] was merely a re-run of yesterday's announcement and made purely for the benefit of business analysts and not staff."

If the jobs announcement was intended to bolster IBM's share price, it failed on its first day at least. Company shares fell nearly 2 percent May 5. Wall

Street expects IBM revenue to grow by only 2.5 percent this year. *Reuters* cited the comments of Mark Stahlman, an analyst with Caris & Co: "IBM is going to have to demonstrate, not just describe, significant top line growth in order for investors to run back into the stock."

No doubt relentless global economic processes are also taking their toll on the Armonk, New York-based company. In January IBM began to eliminate administrators "at its decades-old European headquarters in a Paris suburb" (*Reuters*). The *New York Times* commented May 5, "The job cuts, the company said, are primarily in administrative offices in European countries that were set up in the postwar years to serve those markets, which were growing rapidly. IBM executives said those national and regional administrative centers were being dismantled. That older style of multinational corporation, they said, is being replaced by a leaner global operation, with work being sent digitally across the Internet to where it can be done most efficiently."

The company intends to create teams that work across borders and more directly with customers. IBM's Loughridge told the press, "In this new European model there is no longer a need for a pan-European management layer."

IBM is less dependent today on manufacturing, notes the *Times*, than it was "in the heyday of mainframe computers.... Increasingly, IBM researchers and software programmers are put to work for customers redesigning and automating business tasks like procurement, accounting and customer service."

The company faces severe competition from low-cost rivals like Dell, as well as outsourcing companies in India.

IBM realized less than $293,000 in sales per employee in 2004, compared with $891,000 for each worker at Dell, $529,000 at Hewlett Packard and $320,000 at Sun Microsystems.

According to Redherring.com, a number of large outsourcing clients complain that traditional firms such as IBM have retained inefficient delivery methods, despite numerous opportunities to standardize and save money. "Some, like General Motors, have threatened to take the initiative and break up their large contracts into smaller, more manageable pieces rather than make available the large multibillion-dollar, soup-to-nuts contracts that have become the staple of the industry."

The job cuts in Western Europe target a "slower-growing market," where IBM's first-quarter sales increased by only 2 percent, but also an area where wages are among the highest. IBM, notes *Le Monde*, is eliminating jobs "in countries where salary costs are high, whether it be Germany, France or the UK ... in order to add them in others where they are lower, such as Poland, Hungary and the Czech Republic."