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Tech tornado wiped out 21,000 jobs

Cuts went deep. Montreal sector poised to rebound once industry comes back to life

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The high-tech wreck that has been plowing through Montreal since early 2001 has devastated many once-burgeoning local firms, killing 21,000 jobs.

But despite recent gloomy news about the state of the computer-and-telecom sector, industry watchers say they are optimistic the city will maintain its place as a tech centre once a recovery materializes.

Layoffs have cut a wide swath in Montreal, hitting everyone from giant Nortel Networks, which was forced to sell its state-of-the-art St. Laurent plant, to tiny Zero-Knowledge Systems, a former Internet darling that was forced to scale back office space several times as it shed staff.

The latest firms to lay off were Hyperchip, EMS Technologies, Mitec Telecom and SR Telecom.

Around the world, telecom companies and other tech firms continue to struggle with a protracted downturn in demand for their products and services.

In Montreal last month, Statistics Canada said there were 93,500 computer-and-telecom jobs. This category includes computer and telecom-equipment makers, telecom-service providers and software-makers.

That's up from a low of 90,700 in the fall of 2001, but still well below the peak of 114,500 in September 1999.

The flow of venture capital has also slowed. Investors put \$167 million into Quebec companies in the third quarter, a 33-per-cent drop compared with the year-earlier period, but ahead of where it was at this point in 1999, said a fresh study from the Quebec Venture Capital Association.

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Despite the industry's continuing troubles, Quebec's unemployment rate has held steady. The province's jobless rate was 8.1 per cent last month compared with 8.5 per cent in October 2000.

Though Quebec saw its unemployment rate drop last month, the growth came in lower-paying part-time positions, while the number of higher-paying full-time jobs declined.

Employment levels in the high-tech sector "are still well down from their peak, but lots of other things, like construction and related services, are doing well and that is offsetting tech," Statistics Canada analyst Geoff Bowlby said.

Faraj Nakhleh, a local corporate financier and vice-president of the Information Technology Association of Canada, said the industry is starting to see light at the end of the tunnel.

"The information-technology sector has never grown by less than the Canadian economy as a whole, so even when we're in the pits, we're still growing," he noted.

And though big multinationals are still struggling, many if not most established small and medium-size players are "in stand-still mode or hiring," Nakhleh said.

The great majority of Canada's tech companies fall into this category - companies with up to \$50 million in annual revenue, he noted.

Among small companies hiring are SDP Components of Pointe Claire, Brossard-based MicroSlate and Montreal's Newmerical Technologies International.

It is still nearly impossible for start-ups to get financing, but venture capitalists are ready to jump back into technology via companies with revenue, customers and strong management, Nakhleh added.

"Montreal will do well again because it had less to fall from," he said. "We've had conservative, stingy investors and now this is their time to gloat and say: 'You see, we weren't wrong.' "

The city will be able to regain the jobs lost at companies like Nortel, which slashed more than 3,000 local jobs - but it'll take time, Nakhleh said. "You replace them with 100 small companies hiring 30 people each. It's not easy, but it's happening."

One reason for his optimism is the large number of people who did well during the industry heyday in the 1990s are using those earnings to bankroll new ventures.

"Some of the people who were laid off became entrepreneurs," he said.

"They got a (severance) package, they had gotten some options in the past, and they have an idea, so they started their own business."

Despite cutbacks at local high-tech anchors Nortel and Ericsson (which has laid off at least 211 workers here), those companies aren't about to shut down Montreal operations, said Iain Grant, managing director of Montreal-based high-tech research firm SeaBoard Group.

Ericsson, which counts Montreal as a global research hub, has two big customers in Canada - Montreal's Microcell Telecommunications and Toronto's Rogers-AT&T - that it wants to stay close to, he noted.

As for Nortel, one of its key clients is Montreal's Bell Canada, the country's largest phone company.

With Nortel's global aspirations dimmed, it needs Bell more than ever, Grant said.

"As long as Bell is doing interesting things here, its suppliers will do interesting things here and its suppliers will want to be closer to them," he noted.

"Bell is doing better than anyone expected. It survived most of the competitive onslaught and it has reinvented itself."

Canadians' "need for communications has certainly not declined," so there "are legs in Bell's business," Grant said, adding that this is good for the company's local suppliers, many of which are small firms.

The telecom industry "is still spending an enormous amount of money on capital goods and services. That's what most of the hysteria in the press has ignored," Grant added.

"And though Montreal has lost a lot of jobs, the people remain" to be scooped up by other firms.

It's also important to remember that some of the local carnage is not related to the global downturn in the tech market, Grant noted.

"The global telecom meltdown exposed some fundamental flaws that existed before in some of these firms."

Mitec Telecom, for example, was over-hyped by financial analysts and the company's management couldn't keep up with exaggerated expectations, he said. The company last month said it would lay off 150 workers.

EMS Technologies, which cut 325 workers over the past year, "was in trouble long before (previous owners) Spar Aerospace collapsed," Grant said.

"Much of Spar's business was Canada Inc. and insofar as Canada doesn't have a space program (any more), the company was almost fated to fail, whatever its ownership" and whatever the state of the industry.

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