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Nokia's survival in question after 10,000 more job are cut

• Analysts foresee possible acquisition by Microsoft

• Company's last factory in Finland to close

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Nokia's Lumia smartphone, which uses Microsoft software, on sale in New York. The two companies' fortunes are closely intertwined. Photograph: Spencer Platt/Getty Images

Nokia's future as an independent company is hanging in the balance and Microsoft could be forced to rescue the business if chief executive Stephen Elop cannot resuscitate the group's smartphone business by the end of the year, analysts have warned. The Finnish mobile phone manufacturer announced 10,000 job cuts on Thursday and issued its second profits warning in nine weeks.

Nokia's shares dropped 18%, falling below the €2 mark for the first time since 1996, as it acted to stem massive losses by cutting a fifth of its handset workforce. A total of 40,000 jobs have gone at the company and its Nokia Siemens Networks joint venture since Elop joined in September 2010.

With Nokia still unable to dent Apple and Samsung's dominance in the smartphone market, Elop all but admitted the date of Nokia's recovery was impossible to forecast, saying in the second profits warning since April that the intention was to return to profit "as soon as possible".

"Stephen Elop is running out of time," said Francisco Jeronimo at telecoms research firm IDC. "If Nokia doesn't grow by the end of this year they will be in a very dangerous position. Many people are saying Microsoft will acquire Nokia."

With smartphones emerging as the personal computers of the future, and Nokia the only company attempting to sell significant numbers of those operated by Microsoft's Windows Phone interface, the US software company's prospects are closely entwined with Nokia's.

"A Microsoft takeover is within the realms of possibility," said analyst Janardan Menon at broker Liberum Capital. "Microsoft needs its Windows strategy on smartphones and tablets to work quite desperately, and desperate requirements could result in desperate moves."

Nokia is pinning its hopes of survival on the Lumia range of phones, its first to use

Windows software. But between the lavishly marketed global unveiling last November and March this year, the company had sold just 3m Lumias – a drop in the ocean compared to the 72m Apple iPhones sold since October.

Having lost its position as the world's biggest phone maker to Samsung earlier this year, Nokia is burning through cash. It has spent €2.1bn (£1.7bn) over the past five quarters, meaning that, without cost cuts, its €4.9bn reserves could be gone within a couple of years. The savings announced on Thursday are designed to address that problem. Analysts at JP Morgan forecast that operating losses combined with restructuring outflows will leave Nokia with €1.63bn at the end of 2013.

In what Elop said was a "hard day" for the company, Nokia announced it would turn out the lights at the Salo factory, its last in Finland: Nokia's home country will bear 3,700 of the job losses. Research and development facilities in Germany and Canada are being closed, and Nokia is retreating from non-key markets, so that it can concentrate its firepower on America, China, the UK and larger European economies.

The Vertu luxury phone business, which operates from Hampshire and produces jewel-encrusted handsets for the super-rich, is to be sold to Guernsey-based private equity house EQT, and further disposals of non-core assets are expected.

Asked why his strategy had not yet produced results, Elop said there was "frustration" because so few consumers were aware of Nokia's new products: "We have truly great products but aren't getting the traction that we would prefer."

The marketing department will now report directly to Elop, and a management reshuffle has seen key staff replaced and US executive Chris Weber – who, like Elop, previously worked for Microsoft – promoted to run sales and marketing.

The company is pinning its hopes on Windows Phone 8, the next version of the operating system and the first that Nokia has helped design. Microsoft is expected to unveil a test version next week, and Nokia phones running the system will be on sale for Christmas.

Although other manufacturers, such as HTC, make some Windows handsets, the software's share of the market is currently just 1.5% worldwide, leagues behind Google's Android, which is used on most non-Apple smartphones. Nokia's chief financial officer, Timo Ihamuotila, said Windows needed to reach 10% market share.

"They have got to show meaningful signs of turning the business around by the end of the year or there are going to be some big questions asked in terms of the management team," said Ben Wood, head of research at CCS Insight.

Both the Lumia phones and the Windows software appeal to consumers, said Carolina Milanesi at research firm Gartner. "There's a big party saying Nokia is dead. I'm not one of those. I still think there is a lot of value in Nokia."