HSBC SPOTLIGHT ON US TRADE

A REGIONAL PERSPECTIVE OF INTERNATIONALISATION AND PERFORMANCE

MIDWEST

Written by the Economist Intelligence Unit

EXECUTIVE SUMMARY
MIDWEST

HIGHLY INTERNATIONAL COMPANIES IN THE MIDWEST BOASTED PROFIT MARGINS NEARLY SIX PERCENTAGE POINTS GREATER THAN THOSE OF THEIR DOMESTICALLY FOCUSED PEERS.

PICTURE the American Midwest, and automobiles and sweeping cornfields probably come to mind. But like many other regions of the US, the country's breadbasket is branching out into other industries, specifically high-growth sectors, including technology and defense. The Midwest is also going global with highly profitable services sought the world over, such as specialized healthcare. Which begs the question, is there a link between international expansion and corporate prosperity?

To answer that question, the Economist Intelligence Unit (EIU) studied levels of internationalisation in a sample of companies across the Midwest between 2007 and 2012, as part of a national HSBC-sponsored study. For actionable insights, the EIU also spoke to trade experts and globalising companies.

Many of them spoke of the downturn, which weighed on the region more heavily than other regions, as evidenced in the bailout of the auto industry. But hard times may have spurred many cities in the country's interior to tap into their characteristic resilience by looking outwards for growth. "Chicago gets it. We know your granddaddy's economy has gone away. Every other word that [Chicago mayor] Rahm Emanuel says is *global, global, global*," says Richard Longworth, senior fellow at the Chicago Council on Global Affairs.

Highlights from the Midwest portion of the study follow.

ABOUT THE REPORT Spotlight on US trade is an Economist Intelligence Unit internationalisation study and report series sponsored by HSBC. The study assessed the link between global expansion and profitability in five US regions.

To access the report online, visit:
https://globalconnections.hsbc.com/us/en/articles/midwest-report

To access the series online, visit:
https://globalconnections.hsbc.com/us/en/special-features/spotlight-us-trade

Detailed methodology is located at the end of this report.

The purpose of this research is to analyse the following themes with regard to international trade in the region:

- The impact of international trade on the top companies in the region. The difference in profit margins between companies with international trade and those that primarily sell products and services in the US
- Strategies for continued global expansion and success stories relevant to other business leaders

MIDWEST HIGHLIGHTS

Highly international Midwestern companies consistently outperformed their domestic peers every year

GLOBALLY FOCUSED MIDWEST COMPANIES HAD:

BETTER PROFIT MARGINS: In the Midwest, globally oriented companies enjoyed profit margins nearly six percentage points greater than those of their US-focused counterparts. The corresponding national difference was still impressive, but lower. On average, companies across the country with a high level of internationalisation had profit margins five percentage points greater than those of their more domestically oriented peers.

PROFIT MARGINS OF GLOBALLY FOCUSED CONSUMER GOODS COMPANIES SHINE: Companies in the consumer goods sector dominated the Midwest sample, with the more internationally focused companies in this sector outperforming their domestically oriented peers by a wide margin. Highly international consumer goods companies enjoyed profit margins that, on average, were four percentage points greater than those of their domestically oriented peers.

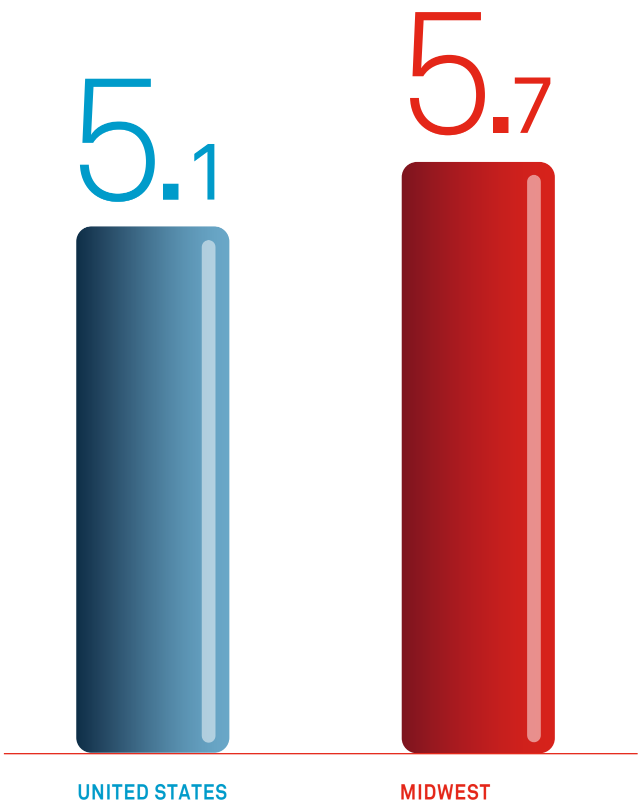
STRONGER YEARLY PERFORMANCE: Year-on-year profit margins of highly international Midwestern companies remained consistently higher than those of their domestically oriented peers. While low international companies saw their average annual profit margins fall as low as -0.5 in 2009, highly international companies in the Midwest never fell below 7.1.

NATIONALLY, THE CORRELATION BETWEEN HIGH INTERNATIONAL AND HIGHER PROFIT MARGINS HELD TRUE: The relationship between high profit margins and greater levels of internationalisation was evident in all of the sectors in the study: healthcare, consumer goods, industrials, and information and communications technologies.

REGIONALLY, GLOBALLY ORIENTED COMPANIES ALSO OUTPERFORMED: When compared with other regions, those that were more internationally oriented enjoyed higher average profit margins.

Collectively, these findings make a strong case for going global, for both diversification and better profit potential. Details of, and the methodology for, the study follow.

DIFFERENCE IN AVERAGE PROFIT MARGINS BETWEEN HIGH- AND LOW-INTERNATIONALISED COMPANIES
PERCENTAGE



DOES GOING GLOBAL BOOST PROFIT POTENTIAL?

Profit margins of highly international Midwestern companies were nearly six percentage points above those of their US-focused peers.

COMPANIES that go global do so for new markets, to leverage different production methods, and to capitalise on costs that are lower than those at home. Amid fierce domestic competition, arriving before one's peers in a new market can help solidify a company's leadership position.

The steel mills and agricultural fields of the Midwest conjure up images of America's heartland, a vast area without coasts and few international borders. But these industries have long tied their fortunes to global consumption, and have served as a springboard for the region's expansion into higher-margin areas. Today, Midwestern companies are shifting their focus outwards and upwards, abroad into China, and into such growth areas as pharmaceuticals and the aerospace industry. Along with this shift come new ways of collaborating and communicating. "More of our customers have become truly global, and they expect us to serve them in consistent ways around the world," explains Jim Keane, president of Steelcase, which makes office furniture, one of the region's many export industries.

To further understand the connection between international expansion and corporate prosperity, the EIU, with sponsorship from HSBC, studied the level of internationalisation at a variety of companies in five US regions, including the Midwest.

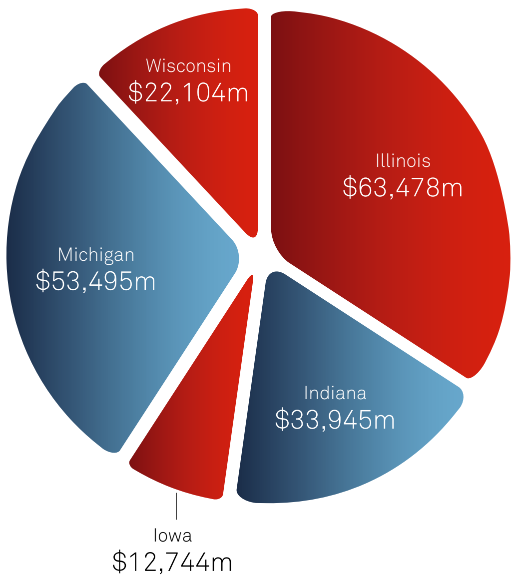
The findings show that on nearly every level of analysis, companies with a greater international focus enjoyed higher average profit margins than their domestically oriented peers.

With few exceptions, this pattern—that companies with a higher concentration of international sales, operations or a combination of both generally perform better—held true, nationally, regionally and by sector.

The gap in profit margins is also noteworthy in every grouping. Taken as a whole, highly internationalised firms had average profit margins five percentage points greater than those of their domestically focused peers. Globally oriented companies in the Midwest surpassed the national average, enjoying profit margins just less than six percentage points over those of domestically oriented firms.

Collectively, these findings make a strong case for going global, for both diversification and better profit potential. Details of, and the methodology for, the study follow.

STATE GDP DERIVED FROM EXPORTS
EXPORT VALUE IN $ MN, 2012



Source: US Bureau of the Census/Haver Analytics.

OVERVIEW OF ANALYSIS

IN BRIEF, the study tested the relationship between companies' international presence and profit margins. The analysis drew on the hypothesis that more internationally oriented companies often benefit by either gaining access to new markets or by producing goods with cheaper inputs.

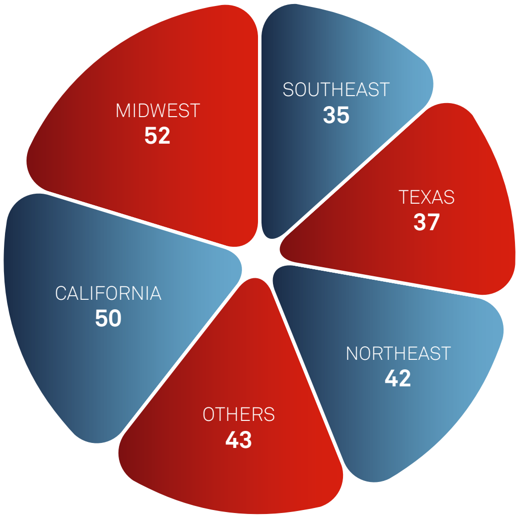
This study measured the level of internationalisation for a sample of 259 publicly listed US companies in four sectors (consumer goods, healthcare, industrials, and information and communications technologies, or ICT) and in five regions (California, the Midwest, the Northeast, Southeast and Texas). These measures consider both international sales and international operations, and categorise each company as having a high or low level of internationalisation, based on its global orientation relative to its national, sectoral or regional peers.

The study focused on sales and international operations to more fully understand a company's international presence.

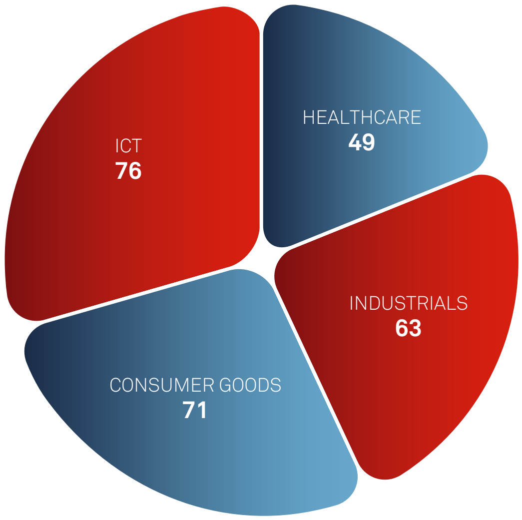
Different business models require a different mix of international sales and operations. For instance, some companies in the sample, such as Fluor and Qualcomm, have high international sales but relatively small overseas operations. By contrast, companies such as the Gap and Gannett earn much of their revenue domestically, but have a large percentage of their operations abroad. To ensure the most robust and accurate classification, both metrics were considered, individually and in combination, when analysing the dataset.

Companies were then compared with their peers at the national, sectoral and regional levels, based on average yearly profit margins from 2007 to 2012. Profit margins, an important measure of profitability, allow the analysis to infer the relationship between firms' performance and their levels of internationalisation. The study's hypothesis was that higher levels of internationalisation should be correlated with higher profit margins. As the results of the analysis indicate, this hypothesis was strongly supported by the data.

NUMBER OF COMPANIES IN US, BY REGION



NUMBER OF COMPANIES IN US, BY SECTOR



INTERNATIONAL OPERATIONS

IN MEASURING internationalisation, considering the level of a company's international operations is crucial. In analysing operations, the study considered two variables: the percentage of international sites and the percentage of international employees. Consideration of both variables allowed the model to robustly classify companies regardless of their business models. For instance, some companies, such as Diodes and Columbia Sportswear, have strategies that result in a high percentage of sites, but a low percentage of employees abroad. By contrast, the Gap and Freeport-McMoran, for instance, have a relatively small percentage of their employees in the US, but most of their sites are within its borders. By incorporating both of these variables, the model is able to capture this difference in business strategy.

At the national level, the average company in the study had 44% of its sites and 23.9% of its employees outside the US.

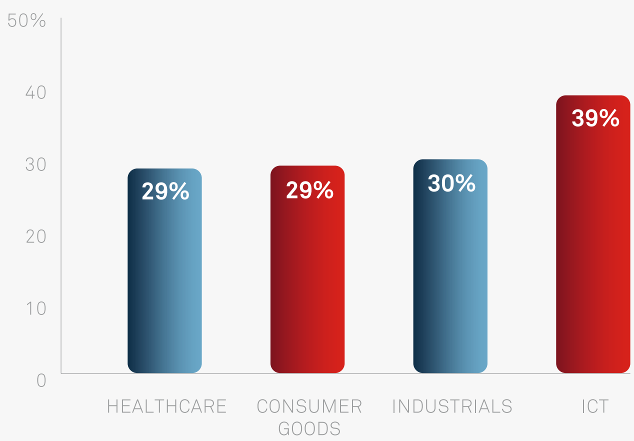
Not surprisingly, these figures varied by sector. In terms of sites, the consumer goods sector was the most international, with the average company having 50.1% of its sites abroad. By contrast, the average industrials company had just 40.2% of its sites abroad. The average percentage of international employees was more closely aligned among the sectors, ranging from 23.1% for industrials to 24.4% for ICT.

Considerable variation also existed among the regions for both variables. Firms in Texas had the least internationally oriented operations. The average Texas company had just 31.2% of its sites and 19% of its employees located abroad. By contrast, Midwest companies had the highest average percentage of international sites (50.4%), while California companies had the highest average percentage of international employees (27.2%).

INTERNATIONAL SALES

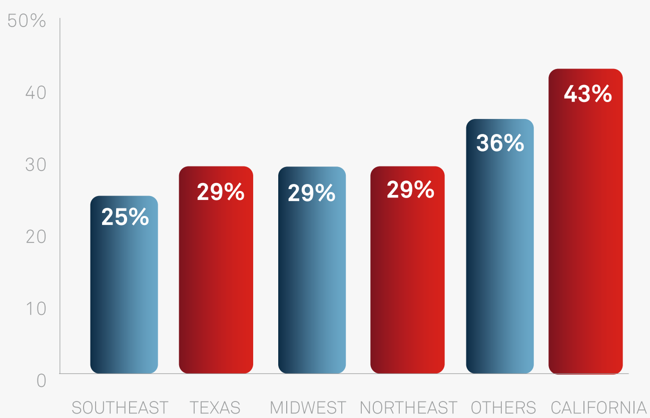
AVERAGE LEVEL OF INTERNATIONAL SALES (2007-12)
BY SECTOR

Of all sectors, ICT had the highest percentage of sales abroad.



AVERAGE LEVEL OF INTERNATIONAL SALES (2007-12)
BY REGION

Of all regions, California had the highest percentage of sales abroad.



ONE INDICATOR of a company's level of internationalisation is its international sales figures. Highly internationalised firms will often realise a substantial portion of their revenues from non-domestic sources. In the study, a company's level of international sales was determined from the percentage of its revenues derived from non-US geographies between 2007 and 2012.

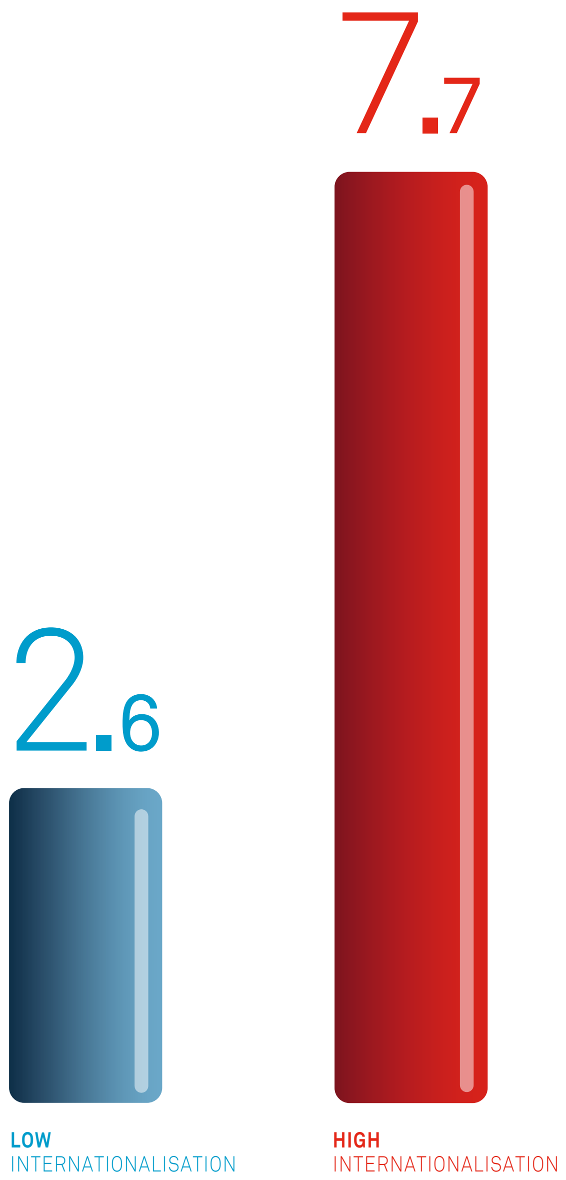
Nationally, the average company earned slightly more than 32% of its revenues from international sources. However, this figure varied considerably within different sectors and regions. ICT, for example, was the most international sector, with the average company earning more than 39.1% of its revenues abroad, while healthcare was the most domestic, with the average company receiving only 28.8% of its revenues from international sales.

Likewise, considerable differences were evident in international sales by region. Of the five regions, California was by far the most internationalised. The average California-based company received more than 42% of its revenues from outside the US—much more than that of the least international region, the Southeast (25%).

NATIONAL RESULTS

PROFIT MARGINS FOR GLOBALLY FOCUSED COMPANIES WERE ALMOST TRIPLE THOSE OF THEIR US-ORIENTED PEERS.

PROFIT MARGINS, BY LEVEL OF INTERNATIONALISATION
NATIONAL AVERAGE 2007-12, %



THE PRIMARY analysis compared all companies in the national set (that is, the combined pool of all companies in the four selected sectors). This portion of the study aimed to provide a national framework for the US. The resultant analysis revealed a powerful relationship between the level of internationalisation and profit margins. Nationally, companies with a high level of internationalisation dramatically outperformed their peers.

Over the relevant period (2007–12), highly internationalised companies boasted an average profit margin of 7.7 versus an average of 2.6 for low-internationalised companies. The highly internationalised firms achieved a level of performance nearly three times greater than those companies with a low level of international presence.

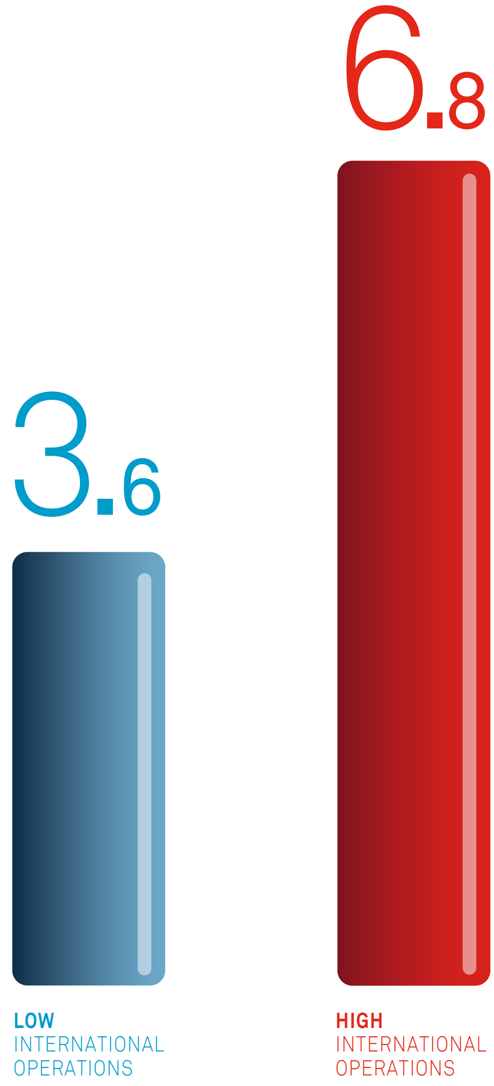
This held true not just for internationalisation but, individually, for both international sales and international operations. When analysing both of the sub-metrics of internationalisation, the results remained robust. Profit margins of companies with highly internationalised operations were nearly double those of companies with low-internationalised operations (6.8 to 3.6), while those with highly internationalised sales outperformed by an average of 5.9 (8.3 to 2.4). Whether a company was international in terms of operations or sales (or both) did not seem to matter—a more global business model was strongly correlated with higher profit margins.

While the study did not attempt to address the causal mechanisms of this relationship, such a strong result has significant implications for business managers. Greater internationalisation implies broader access to markets, both for inputs and final products, thus allowing businesses to more effectively source inputs and diversify their customer base. By widening their options, companies are able to operate more efficiently and reduce the risks of overexposure to one particular market. This may explain why companies with higher rates of internationalisation were more profitable, particularly during the recession.

PROFIT MARGINS OF GLOBALLY FOCUSED COMPANIES WERE MULTIPLES HIGHER THAN THOSE OF THEIR US-FOCUSED PEERS, BASED ON BOTH THEIR LEVELS OF INTERNATIONAL SALES AND OPERATIONS.

PROFIT MARGINS, BY LEVEL OF INTERNATIONAL SALES
NATIONAL AVERAGE 2007-12, %

PROFIT MARGINS, BY LEVEL OF INTERNATIONAL OPERATIONS
NATIONAL AVERAGE 2007-12, %



SECTORAL RESULTS

GLOBALLY FOCUSED COMPANIES OUTPERFORMED THEIR US-ORIENTED PEERS IN ALL FOUR INDUSTRIES.

IN ADDITION to studying the national landscape, the analysis explored four major sectors: consumer goods, healthcare, industrials, and information and communications technologies (ICT). In this portion of the analysis, which confirmed the results of the national analysis, companies in each sector were compared only with their peers, to allow for more meaningful apples-to-apples comparisons. For instance, what may be considered a high level of internationalisation for a healthcare company may actually be low for an ICT company.

As noted, the pattern observed on the national level proved true within all four sectors. On average, companies in these the sectors demonstrated profit margin spreads between companies with high and low levels of internationalisation of 6.2. However, considerable divergence was observed among the sectors. The less-mobile industrials sector had the smallest spread. Highly internationalised industrial companies had an average profit margin of 5.5—nearly double the performance of low-internationalised industrials (3.0).

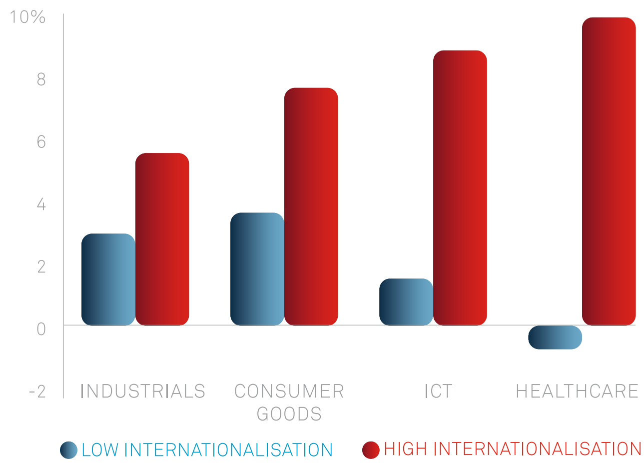
Average profit margins were, in general, higher in the consumer goods sector. Highly internationalised companies had an average profit margin of 7.6, compared with 3.6 for their domestically oriented peers. As with industrials, this indicated that profit margins were roughly double for companies with a substantial international focus.

Despite such a strong story for the industrials and the consumer goods sector, their results paled in comparison with the massive divergence between domestically focused and highly internationalised companies in the ICT and healthcare sectors.

In ICT, companies with a low level of internationalisation had, on average, a rather low profit margin of 1.5. By contrast, their peers with a highly internationalised orientation had an average profit margin of 8.8. This nearly sixfold increase makes clear the importance of an international focus for ICT companies. While low-internationalised ICT firms were barely getting by with some of the lowest average profit margins, their internationally oriented counterparts enjoyed tremendous results.

The healthcare sector told an even more forceful tale, pitting the worst performing group against the best. This sector had the largest spread between high and low internationalisation (10.7). Highly internationalised healthcare companies had the greatest average profit margins (10.0), while those that focused primarily on the US market had negative average profit margins (-0.8).

PROFIT MARGINS, BY LEVEL OF INTERNATIONALISATION
SECTORAL, AVERAGE 2007-12, %



This relationship and these results, though, were evident not only during the relevant period (2007–12), but showed an extremely consistent trend year-over-year. Not only did every sector demonstrate this trend during this period, but the divergence between the performance of low-internationalised and highly internationalised companies was observed in nearly every individual year as well. In just one instance (2008 for industrials) did low-internationalised companies, on average, narrowly outperform their more internationally oriented peers (2.1 to 1.7). In all other sector-years, profit margin spreads ranged from 1.6 to an astronomical 37.2.

Such a large and consistent performance gap between companies with low and high levels of internationalisation provides convincing evidence of the relationship between internationalisation and profit. The robustness of the results, when comparing similarly situated companies in a given sector, not only reaffirms the national results, but also provides meaningful information for companies seeking to understand the successes and failures of their competitors.

REGIONAL ANALYSIS

MORE INTERNATIONAL REGIONS HAD HIGHER AVERAGE PROFIT MARGINS THAN LESS INTERNATIONAL REGIONS.

ALTHOUGH the national and sectoral analyses provide substantial insight into the relationship between internationalisation and company performance, the study also analysed the issue in a regional framework. The regional analysis, which confirmed the national and sectoral results, was conducted to develop an understanding of how, for instance, Midwestern companies performed vis-à-vis companies in other regions.

Regions may have unique characteristics—for instance, differences in climate or legislative environments—that could affect corporate performance or internationalisation levels. Accordingly, the study divided the US into five regions—California, the Midwest, the Northeast, the Southeast and Texas—with the remaining states grouped into a sixth regional category, "Others".

Despite examining the dataset from a perspective that was very different from the national and sectoral analyses, the regional analysis showed the same clear and reliable relationship between profit margins and internationalisation—higher profit margins were associated with higher internationalisation. This was readily apparent on both a cross-regional and an intra-regional basis.

On a cross-regional basis, a very strong relationship (correlation = 0.7) was evident between the two variables—regions with higher average profit margins also tended to be more international. Of all the regions, California had companies with the highest average profit margins. The average California company enjoyed a profit margin (12.1) that was nearly double that of companies in the next closest region, the Midwest (6.4).

It's not surprising that California was also the most internationally oriented region. The real regional laggard was the Southeast, with an average profit margin of 1.2; it just barely beat Texas as the least international region. The remaining regions fell between the Southeast and California in both average profit margins and their levels of internationalisation.

The trend from domestically oriented regions with low average profit margins to internationally oriented regions with high average profit margins reveals characteristics that are related to corporate success. Regions that are more international, whether due to politics, sector composition, incentives, trade pacts, geography or other factors, are also more profitable. Shying away from international markets seems to imply shying away from high profits.

MIDWEST

HIGHLY INTERNATIONAL MIDWESTERN COMPANIES CONSISTENTLY OUTPERFORMED THEIR PEERS EVERY YEAR.

THE REGIONAL analysis not only highlighted the relationship between internationalisation and profitability when comparing across regions, but also when examining the performance of companies within a given region. On a very consistent basis, highly internationalised companies once again outperformed their low-internationalised peers.

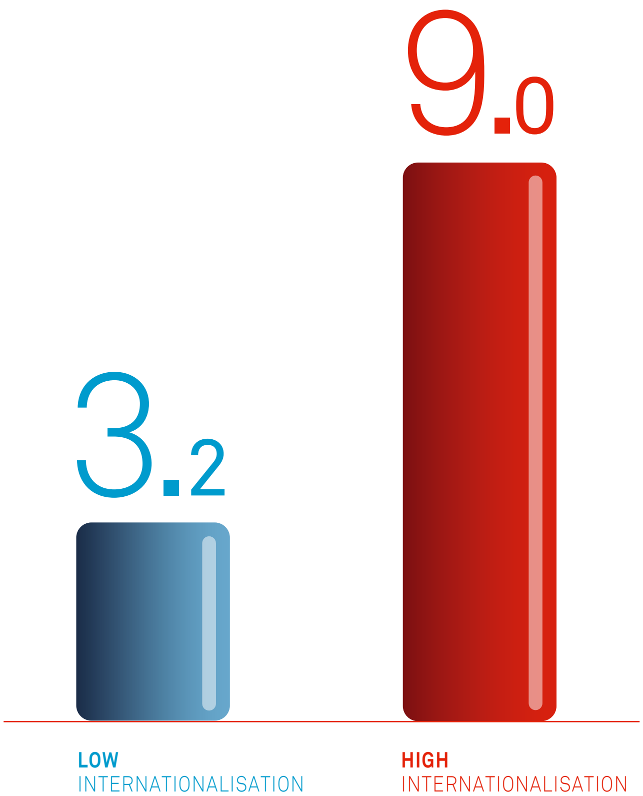
As the region with the second highest profit margins and the third highest level of internationalisation (including "Others"), the Midwest demonstrated one of the largest performance spreads for highly international companies. Highly international Midwestern companies had average profit margins of 9.0 between 2007 and 2012, surpassing their low-international peers by 5.7, a nearly threefold performance improvement. The average profit margin figure for highly international companies was the highest for any region outside of California.

The profit margin spread between high- and low-international companies remained consistent on an annual basis during the relevant period. The spread was widest in 2007 (8.3), before the recession narrowed it in 2008 to 4.9, as profit margins fell for both groups. While profit margins continued to plunge for low-international companies in 2009, highly international companies experienced a quick rebound. From 2010 to 2012, both groups continued apace, with low-international companies underperforming every year by approximately 4.5.

The consistent difference in profit margins between the highly international and domestically oriented companies speaks to the significance of the relationship. Midwestern companies appeared to benefit tremendously from an international focus. Despite a poor economy, profit margins of highly international Midwestern companies never dropped below 7.1, while those of low-international companies fell to -0.5 in 2009.

These results are not surprising for the Midwest, which is dominated by consumer goods companies (nearly 52% of the sample were in the consumer goods sector). A consumer goods company with greater access to international markets could, perhaps, better manage a domestic downturn or drop in consumer spending than could its domestically oriented competitors. This appears to have played out across the Midwest, and contributed to the success of highly international companies in the region.

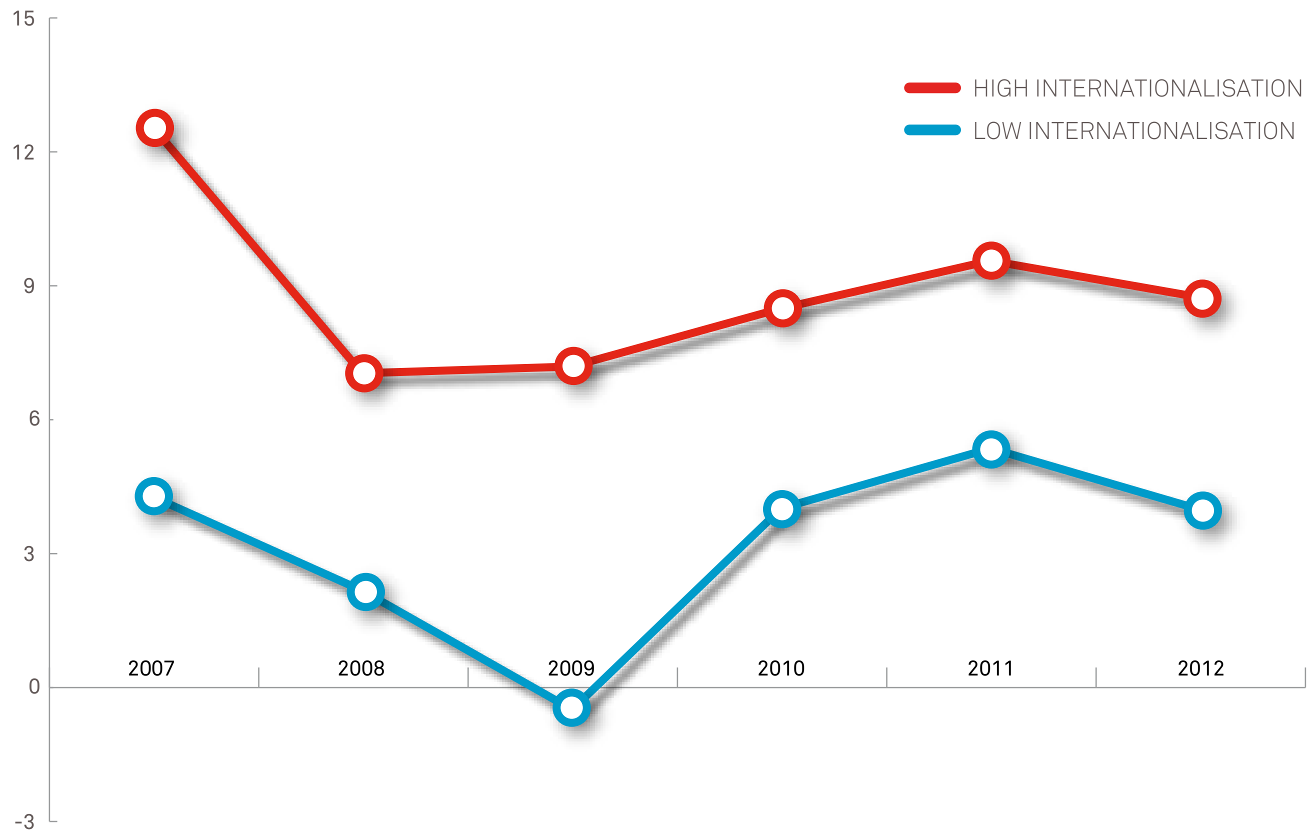
PROFIT MARGINS, BY LEVEL OF INTERNATIONALISATION
MIDWEST AVERAGE 2007-12, %



CONCLUSION

INTERNATIONALISATION COULD BE A SOURCE OF COMPETITIVE ADVANTAGE FOR MIDWESTERN COMPANIES.

PROFIT MARGINS, BY LEVEL OF INTERNATIONALISATION
MIDWEST 2007-12, %



BUSINESSES undoubtedly have much to gain from greater internationalisation. A global approach provides access to more markets and lower-cost resources. Companies that have chosen an international business model appear to be reaping the rewards in their bottom lines. In nearly every way the relationship between profit margins and internationalisation was analysed, highly internationalised companies tended to outperform their domestically oriented peers. These results suggest that internationalisation may be a source of competitive advantage for US companies.

SPOTLIGHT ON THE MIDWEST

Healthcare and technology lead the Midwest's global reinvention

AROUND THE WORLD, America's Midwest has made an indelible impression for its two main industries, manufacturing and agriculture. In the region's glory years of manufacturing after the second world war, Midwestern factories bustled with activity, creating millions of jobs in states such as Michigan and Ohio, and turning out billions of dollars in goods, from automobiles to home appliances.

Meanwhile, vast farms in Iowa, Minnesota and Wisconsin were verdant with fields of corn and soybeans, and herds of dairy cows, nourishing the nation and providing export crops to the world.

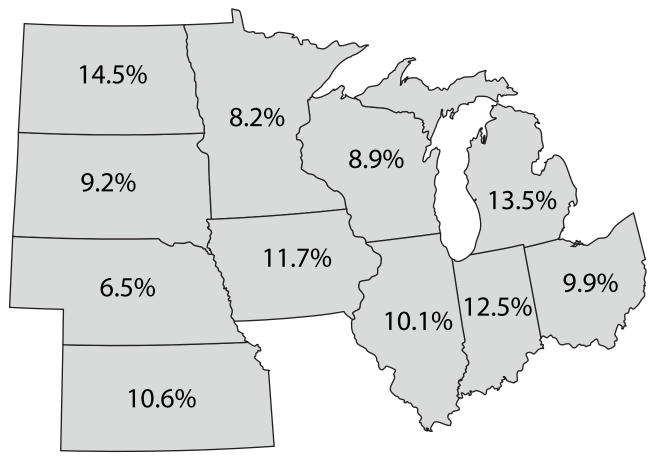
But the Midwest has always been susceptible to boom-and-busts, while foreign competition in the past two decades has caused it to fall behind other parts of the United States in global power.

Now, the self-reliant Midwest is undergoing a global reinvention, looking for new business sectors to replace jobs lost in factories and steel mills. Like the West and Texas, cities like Chicago and Detroit are developing fledgling technology sectors, while Cleveland is working to change its image from factory town to healthcare powerhouse.

In tandem, major corporations, such as automakers General Motors and Ford, are putting an increasing emphasis on global operations, to generate profit and revenue, and to shake off insulated business practices.

> *Midwesterners... understand globalisation. Companies here are ... nimble and global.*
>
> **WILLIAM TESTA,**
> CHIEF ECONOMIST FOR THE FEDERAL RESERVE BOARD IN CHICAGO

APPROXIMATE PERCENTAGE OF STATE'S GDP THAT IS BASED ON EXPORT ACTIVITY (2011)
Exports in many states nudge or are above the double digits



Source: Business Roundtable

"Midwesterners are aware [of] and understand globalisation as much as anyone," says William Testa, chief economist for the Federal Reserve Board in Chicago. "The companies that are here are pretty nimble and global."

Still, the region takes a backseat to other parts of the country in sheer export terms. According to the Business Roundtable, an association of US CEOs, exports range from 11.8% of Michigan's economy to just 4.5% of South Dakota's.

That compares with the national average of 12% of GDP, according to a report by the research firm Brookings Institution. Exports support around 400,000 jobs in Chicago, but just 20,000 in Des Moines.

This low base means Midwest-based companies that sell products and train executive teams abroad feel the impact of globalisation more significantly. These companies are also incorporating ideas generated overseas across their operations, for both new designs and new methods of interacting inside the company.

APPLYING INNOVATION ELSEWHERE

Ideas born abroad are relevant at home

THAT'S PARTICULARLY TRUE at Grand Rapids, Michigan-based Steelcase, the world's largest manufacturer of office furniture, which is credited with inventing modular offices (also known as cubicles or cubes). The 101-year-old company's global approach began in the 1970s, when Steelcase launched a joint venture with French manufacturer Strafor-Facom. This cleared the way for the production of Steelcase chairs in France, and opened markets in Europe, says Jim Keane, Steelcase's president. "Even then, I'd say we were still like a lot of companies are today. We had international operations, but each business ran on its own," he says.

Since then, Steelcase has been on a mission to become a globally integrated company.

"More of our customers have become truly global companies and expect us to serve them in consistent ways around the world," he says. "Yes we're local. But we're also global. We have to have a common brand message."

Interestingly, Steelcase's globalisation efforts make it more aware of local preferences. For example, although Steelcase's cubical innovation is now an American standard, Mr Keane says customers in other parts of the world, especially Europe, prefer an open office plan.

"Sometimes you spot a trend in one market, and realize it's a trend everywhere," Mr Keane says. "Sometimes things become apparent outside your home market. We can pick up on things more quickly than before."

> *Sometimes you spot a trend in one market, and realize it's a trend everywhere. Sometimes things become apparent outside your home market. We can pick up on things more quickly than before.*
>
> **JIM KEANE**,
> PRESIDENT, STEELCASE

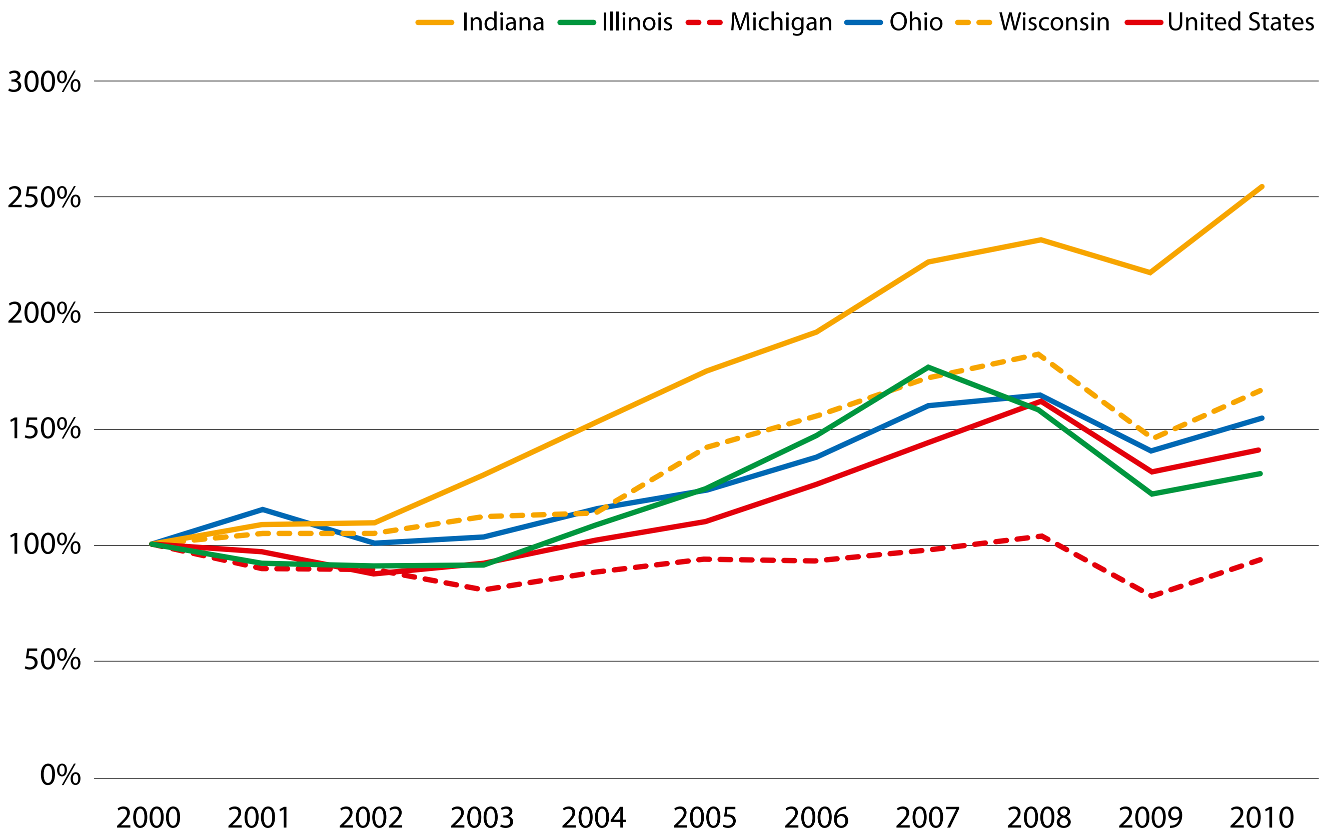
Innovations in technology, such as tablet computers, and an increasing reliance on mobile devices mean that individual workers are no longer tied to their desktop computers, or even their desks. Now, Mr Keane says, companies are favouring less-traditional office environments where that technology can be easily incorporated. That has led to the development of Mediascape, a Steelcase system that allows meeting participants to share material from laptops and tablets on a single display. They can also include participants from other locations, through video conferencing, with a much simpler system than in the past.

Steelcase's global focus has allowed it to recruit executives from around the world, some of whom work abroad, but many of whom are based in Grand Rapids. While the city is often described as politically conservative, with a strong Dutch influence, it is known as a melting pot of immigrants from Eastern and Western Europe, Russia and more recently, Spanish-speaking countries such as Mexico.

CHANGES IN EXPORTS TO THE EU IN SELECTED MIDWESTERN STATES

EXPORTS TO THE EU27, 2000–2010

Exports rose steadily and rebounded in nearly all Midwestern states after the financial crisis



Source: WiserTrade

INSIDE PERSPECTIVE

WHIRLPOOL

The appliance giant's deep global roots hasten its international expansion

GLOBAL OPPORTUNITIES are ever present for appliance manufacturer Whirlpool, which is based in Benton Harbor, Michigan, not far from the Indiana border.

In August, Whirlpool agreed to become a majority shareholder of China's Heifei Sanyo, in a $552 million transaction. By next year, it will replace Sanyo in the venture, which produces refrigerators, washing machines and microwave ovens at lower price points than those sold by Whirlpool.

The move allows Whirlpool "to build on, complement, and grow its position in the emerging Chinese market, and to leverage our global enterprise for greater efficiencies," says Jeff Fettig, the company's chairman and CEO.

> *Our Heifei Sanyo purchase allows Whirlpool to build on, complement, and grow its position in the emerging Chinese market, and to leverage our global enterprise for greater efficiencies.*
>
> **JEFF FETTIG,**
> CHAIRMAN AND CEO, WHIRLPOOL

The deal was a natural one for Whirlpool, which has competed in international markets since 1936. Then known as The Nineteen Hundred Corporation, Whirlpool began a partnership that year with Sears International that led to sale of its products in England and Sweden. An alliance a year later with the American Steel Export Company followed. This enabled distribution of Whirlpool's Kenmore line in Europe and South America.

Two decades later the company launched a joint venture in Brazil that kicked off an aggressive international expansion into Latin America. The region is now its largest global market, followed by Europe and Asia. While North America remains Whirlpool's biggest single market, international sales make up almost half of the company's $18 billion annual revenue, Mr Fettig says.

Like others, Whirlpool faces challenges, which vary by region. They include high home appliance penetration rates in North American households. So in that region the company focuses on replacement appliances, white goods for new home construction, and side products such as consumer appliances and water filters.

As those markets mature, Latin America and Central and Eastern Europe offer Whirlpool "first-time buyer opportunities" Mr Fettig says.

HEALTHCARE TAKES OFF

Cleveland Clinic puts city on global medical services map

THE MIDWEST'S STATUS as an industrial capital is fading and, as a result, several places are shifting their focus. One such state is Ohio, where Cleveland has built its vast medical centre into a worldwide selling tool.

Five years ago, the Clinic's director made international expansion a key focus for the medical institution. Now, thousands of patients from outside the US come to the Cleveland Clinic for specialty treatment. The Clinic now has operations in Toronto, and will open a branch in Abu Dhabi next year.

Meanwhile, Ohio's biggest Fortune 500 company, Cardinal Health, based in Dublin, Ohio, is aggressively pushing into China.

In 2010, Cardinal, a hospital and pharmacy supply firm with $101bn in annual revenue, bought China's biggest pharmacy supplier, Yong Yu. Two years ago, it branched into the retail healthcare market. Cardinal now has warehouses in Beijing and Shanghai, and more than 800 employees across China.

The acquisition of Yong Yu came about after Cardinal assessed a variety of scenarios in China. "We saw an enormous market, something that is critical for a scale player. We saw attractive growth rates, and the sustainability of those growth rates, driven by population, demographics and ongoing healthcare reform," says Jeffrey W. Henderson, Cardinal's chief financial officer.

Subsequent sales seem to reflect that potential. Yong Yu's annual sales have doubled to $2B since Cardinal bought the company, Mr Henderson says.

"It's a great big deal, and it's global as hell," Richard Longworth, senior fellow at the Chicago Council on Global Affairs, says of the region's new emphasis on healthcare. He points to the Mayo Clinic in Rochester, Minnesota, as another example of how the Midwest has been able to tout healthcare as a global asset.

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JEFFREY W. HENDERSON,
CHIEF FINANCIAL OFFICER, CARDINAL HEALTH, OF THE OPPORTUNITY IN CHINA

INSIDE PERSPECTIVE

FORD EMBRACES ITS OUTER MATRIX

NO MIDWESTERN BRAND is better known globally than Ford Motor Company. And, in its 110th year, Ford has realigned itself according to a global matrix.

Ford's global ties were forged in its first days of business. Just four years after its 1903 birth, the US's sixth car company boasted agents in France, Germany, Belgium, Spain, Holland, Italy, Denmark, Austria, Poland and Russia.

By 1911, Ford had set up its first manufacturing plant in Manchester, England. This precipitated a vast vehicle assembly network in almost every corner of the globe, despite Ford's Dearborn, Mich. center of operations, where its headquarters remain.

Today, non-US revenue makes up about half of Ford's annual revenue, up sharply from 35% a decade ago. And, reflecting the company's growing focus on overseas markets, the automaker is moving towards an organization it calls One Ford.

Bob Shanks, the company's chief financial officer, demonstrates on a tablet how the system works. The company's operations are divided into four regions: North America, Latin America, Europe, the Middle East and Africa, and the Asia-Pacific.

In each region, the same "skill teams" oversee manufacturing, design and finance. Senior executives manage down and across to increase transparency which is up significantly from the siloed days of the past. With a tap on his tablet, Shanks can get the latest update on any region or skill team.

"We were very much a North Atlantic company," Shanks says. "Now, we are very much a global company – global in terms of our investment, global in driving a consistent strategy across the region, global in terms of product."

> *"We are very much a global company – global in terms of our investment, global in driving a consistent strategy across the region, global in terms of product."*
>
> **BOB SHANKS,**
> CHIEF FINANCIAL OFFICER, FORD MOTOR COMPANY

Shanks describes Ford in an earlier incarnation as "a confederation" in which each part of the company operated independently. "Before, we had area rugs," he says. The current version of Ford is a tapestry, with interwoven operations.

Although Ford used the same names for vehicles around the world, they rarely shared common parts or even drove the same way. These days, he says, "it's the same vehicle," except for changes aimed at the local market, such as right-hand drive in England.

Despite Ford's growing global focus, Shanks says the family influence still permeates Henry Ford's company. Ford "carries its Midwestern values right through the organization. We all feel very much that we're in a family company. That sense of caring and connectedness among us is very, very special," he says.

TECH CLUSTERS CROP UP IN THE HEARTLAND

PayPal and Twitter concepts born here – if only they would stay!

OTHER CITIES, such as Chicago, are trying to compete on a global scale in the technology sector. Officials acknowledge that they are well behind places like California's Silicon Valley; Austin, Texas; and the knowledge corridor near Boston in entering the fray. But the ideas behind big names like PayPal, Twitter and Groupon hail from the Midwest.

Technology has been a primary focus for Rahm Emanuel, Chicago's mayor, and he has vowed to lift his city into the ranks of the world's leading municipalities. Mr Emanuel wants to transform Chicago into a "high-tech hub", pointing to a business incubator in the city's Merchandise Mart, with more than 100 technology start-ups.

Says Mr Longworth: "Chicago gets it. We know it's a different economy. We know your granddaddy's economy has gone away. Every other word that Rahm Emanuel says is *global, global, global*."

The mayor hopes to encourage new companies to stay in the city, rather than move to the West Coast. PayPal and Twitter later relocated to California.

Mr Testa at the Chicago Federal Reserve asserts that the growth of information technology provides more opportunities for places like Chicago, since innovators no longer need to be located near the "hardware centers" of the past, such as Silicon Valley.

> *Chicago gets it. We know your granddaddy's economy has gone away. Every other word that Rahm Emanuel says is global, global, global, global.*
>
> **RICHARD LONGWORTH**,
> SENIOR FELLOW AT THE CHICAGO COUNCIL ON GLOBAL AFFAIRS

INSIDE PERSPECTIVE

THE SKY IS THE LIMIT

Electronics maker sells to Europe and South America

TECHNOLOGY HAS BEEN KEY to the global success of major aviation supplier, Rockwell Collins, based in Des Moines. The company, which specialises in communications and electronics equipment, has had international operations for years. It was founded in 1933 as Collins Radio, and has been an instrumental US space-program supplier, providing technology for astronauts in the Mercury and Gemini programmes, as well as Skylab.

But Colin Mahoney, senior vice president of international and service solutions, says the company created his unit in 2008 to put "a more intense focus on pursuing key global aerospace and defense markets".

Rockwell Collins opened offices in Dubai, Abu Dhabi, Hyderabad and Delhi, and expanded its positions in Asia and Latin America. It has picked up business in Brazil, China, the Middle East and Australia, and boasts major customers including aircraft manufacturer Embraer and longtime European customer Airbus. "We have more content on the [jet airliner] A350 than we've ever had on an Airbus platform," he says.

Rockwell Collins' international revenue has shot up to 36% from 29% in 2010, and is expected to reach 40% by 2015, Mr Mahoney says. Despite that growth, the majority of the company's operations remain in the Midwest. However, as Rockwell Collins branches out internationally, there will be more opportunities for employees to gain cross-cultural experience, Mr Mahoney says.

Long term, the company is focusing on raising its international profile, increasing business with global partners and developing the right products for international markets, he adds.

Major universities, such as Northwestern in Evanston, Illinois; the University of Michigan in Ann Arbor; the University of Wisconsin at Madison; and Ohio State University in Columbus have turned those learning centres into talent centres, both for their students and faculty, Mr Testa says.

Even as Midwest companies divide their focus between North America and other regions, Mr Longworth of the Chicago Council on Global Affairs says the region still needs to come to grips with its place in the global economy. For one thing, its geography in the centre of the country insulates it from the immediacy of world markets. “If you’re in New York or Los Angeles, you take a deep breath, and it smells like the ocean. I can swim across the ‘ocean’ here,” he says, referring to Lake Michigan, “and I’m still in the Midwest.”

The region has lost more than jobs, Mr Longworth says. But by going global, its companies have dispensed with the long-held practice of putting the Midwest first.

“Once upon a time, their main focus was the US, because employees were all here, and the market was mostly here,” he explains. Now employees and the market are worldwide, and they’re more interested in China. We have lost our society that was based on these companies. It’s gone global, and we are just beginning to replace it.”

METHODOLOGY

1. A sample of companies was constructed by screening the full set of publicly listed US companies by relevant sectors, regions and data availability (n=259).

2. Companies were classified by their level of international sales.

a. Annual thresholds were derived using the average percentages of international revenues. These thresholds were then aggregated to calculate a period cutoff level for 2007 to 2012.

b. Each company was classified as having low or high international sales, depending on its performance relative to the period cutoff level.

3. Companies were classified by their level of international operations.

a. Companies were grouped into quartiles by the percentage of international sales.

b. Companies were grouped into quartiles by the percentage of international sites.

c. Using equal weights for the percentages of international sites and international sales, a score was calculated for each company.

d. Each company was classified as having either low or high international operations based on its score.

4. Companies were classified by level of internationalisation.

a. A macro-score, which equally weighted international sales and international operations, was calculated for each company.

b. Each company was classified as either low- or high-internationalisation based on its macro-score.

5. Average profit margins (net income/net sales) for all companies in the relevant group were calculated on annual and period bases, by level of international sales, international operations and internationalisation.

6. This process was repeated for both the regional and sectoral analyses. Unique thresholds, cutoff levels and quartiles were calculated for each region (eg the Southeast) and sector (eg consumer goods) to ensure that companies in a given region or sector were compared only with their relevant peers.

Note: Each company received a total of nine scores: a national, regional and sectoral score for each of international sales, international operations and internationalisation.

REGIONAL DEFINITIONS

REGION	TERRITORIES
CALIFORNIA	CALIFORNIA
MIDWEST	ILLINOIS, INDIANA, IOWA, KANSAS, MICHIGAN, MINNESOTA, MISSOURI, NEBRASKA, NORTH DAKOTA, OHIO, SOUTH DAKOTA, WISCONSIN
NORTHEAST	CONNECTICUT, DELAWARE, MAINE, MARYLAND, MASSACHUSETTS, NEW HAMPSHIRE, NEW JERSEY, NEW YORK, PENNSYLVANIA, RHODE ISLAND, VERMONT, WASHINGTON DC
OTHERS	ALABAMA, ALASKA, ARIZONA, ARKANSAS, COLORADO, HAWAII, IDAHO, KENTUCKY, LOUISIANA, MISSISSIPPI, MONTANA, NEW MEXICO, NEVADA, OKLAHOMA, OREGON, TENNESSEE, UTAH, VIRGINIA, WASHINGTON, WEST VIRGINIA, WYOMING
SOUTHEAST	FLORIDA, GEORGIA, NORTH CAROLINA, SOUTH CAROLINA
TEXAS	TEXAS

LEVEL OF INTERNATIONALISATION NATIONAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
HIGH	129	7.50	4.70	5.80	9.12	10.16	8.70	7.67
LOW	130	1.97	-4.14	2.48	5.89	4.33	4.81	2.56
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONALISATION, REGIONAL LEVEL, MIDWEST

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
MIDWEST	**52**	**8.89**	**4.89**	**3.80**	**6.52**	**7.71**	**6.64**	**6.41**
HIGH	29	12.57	7.06	7.21	8.51	9.58	8.76	8.95
LOW	23	4.26	2.16	-0.50	4.01	5.35	3.98	3.21
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONALISATION, SECTORAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
CONSUMER GOODS	**71**	**6.97**	**2.41**	**4.00**	**7.34**	**6.93**	**6.22**	**5.65**
HIGH	36	8.18	5.80	6.47	8.66	8.44	8.15	7.62
LOW	35	5.72	-1.08	1.46	5.98	5.39	4.23	3.62
HEALTHCARE	**49**	**2.41**	**-5.43**	**9.05**	**8.81**	**7.37**	**8.76**	**5.16**
HIGH	27	5.24	11.28	10.94	10.84	11.07	10.50	9.98
LOW	22	-1.06	-25.95	6.73	6.32	2.84	6.61	-0.75
INDUSTRIALS	**63**	**4.78**	**1.97**	**0.67**	**5.60**	**5.57**	**5.50**	**4.02**
HIGH	26	6.38	1.72	3.34	7.29	7.35	7.09	5.53
LOW	37	3.65	2.14	-1.20	4.41	4.33	4.38	2.95
ICT	**76**	**4.08**	**0.52**	**3.95**	**8.38**	**8.81**	**6.98**	**5.45**
HIGH	41	9.01	1.27	7.29	12.39	13.64	9.32	8.82
LOW	35	-1.70	-0.37	0.04	3.68	3.15	4.24	1.51
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL SALES, NATIONAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
HIGH	119	7.98	4.49	7.25	10.07	10.57	9.25	8.27
LOW	140	1.96	-3.33	1.49	5.32	4.41	4.62	2.41
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL SALES, REGIONAL LEVEL, MIDWEST

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
MIDWEST	**52**	**8.89**	**4.89**	**3.80**	**6.52**	**7.71**	**6.64**	**6.41**
HIGH	27	11.71	6.67	5.53	7.10	8.35	7.85	7.87
LOW	25	5.86	2.97	1.94	5.89	7.02	5.34	4.84
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL SALES, SECTORAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
CONSUMER GOODS	**71**	**6.97**	**2.41**	**4.00**	**7.34**	**6.93**	**6.22**	**5.65**
HIGH	33	9.58	6.16	7.81	10.12	9.40	9.46	8.76
LOW	38	4.70	-0.85	0.69	4.93	4.79	3.41	2.94
HEALTHCARE	**49**	**2.41**	**-5.43**	**9.05**	**8.81**	**7.37**	**8.76**	**5.16**
HIGH	24	4.43	11.73	11.40	10.32	11.62	11.39	10.15
LOW	25	0.48	-21.91	6.80	7.37	3.30	6.23	0.38
INDUSTRIALS	**63**	**4.78**	**1.97**	**0.67**	**5.60**	**5.57**	**5.50**	**4.02**
HIGH	29	6.53	1.34	4.92	6.96	7.89	7.40	5.84
LOW	34	3.28	2.51	-2.95	4.44	3.60	3.88	2.46
ICT	**76**	**4.08**	**0.52**	**3.95**	**8.38**	**8.81**	**6.98**	**5.45**
HIGH	37	8.85	0.23	5.58	11.61	12.43	8.95	7.94
LOW	39	-0.45	0.79	2.40	5.32	5.38	5.12	3.09
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL OPERATIONS, NATIONAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
HIGH	121	5.44	2.92	5.95	9.16	9.39	8.07	6.82
LOW	138	4.10	-2.07	2.54	6.05	5.35	5.59	3.59
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL OPERATIONS, REGIONAL LEVEL, MIDWEST

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
MIDWEST	**52**	**8.89**	**4.89**	**3.80**	**6.52**	**7.71**	**6.64**	**6.41**
HIGH	25	9.04	7.06	7.01	8.42	8.88	7.95	8.06
LOW	27	8.76	2.88	0.83	4.76	6.63	5.43	4.88
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

LEVEL OF INTERNATIONAL OPERATIONS, SECTORAL LEVEL

CATEGORY	COUNT	PM 2007	PM 2008	PM 2009	PM 2010	PM 2011	PM 2012	AVERAGE 2007-12
CONSUMER GOODS	**71**	**6.97**	**2.41**	**4.00**	**7.34**	**6.93**	**6.22**	**5.65**
HIGH	29	6.33	1.35	5.52	7.79	7.25	7.19	5.90
LOW	42	7.40	3.14	2.96	7.03	6.72	5.55	5.47
HEALTHCARE	**49**	**2.41**	**-5.43**	**9.05**	**8.81**	**7.37**	**8.76**	**5.16**
HIGH	25	0.87	10.66	13.32	12.42	12.27	10.50	10.01
LOW	24	4.03	-22.19	4.61	5.05	2.27	6.94	0.12
INDUSTRIALS	**63**	**4.78**	**1.97**	**0.67**	**5.60**	**5.57**	**5.50**	**4.02**
HIGH	19	5.71	-1.15	3.19	6.28	7.28	6.50	4.63
LOW	44	4.37	3.32	-0.41	5.30	4.84	5.07	3.75
ICT	**76**	**4.08**	**0.52**	**3.95**	**8.38**	**8.81**	**6.98**	**5.45**
HIGH	42	5.61	-1.82	2.27	8.07	10.52	8.01	5.44
LOW-	34	2.18	3.41	6.02	8.76	6.70	5.71	5.46
GRAND TOTAL	**259**	**4.72**	**0.26**	**4.13**	**7.50**	**7.24**	**6.75**	**5.10**

SOURCES

- Bloomberg
- Dun & Bradstreet
- Osiris
- Selected corporate SEC filings and annual reports
- Selected corporate websites
- US Census Bureau

THE HSBC PERSPECTIVE: CONSIDERATIONS FOR COMPANIES IN THE MIDWEST

Today's economic landscape is constantly shifting, and old paradigms of stability and growth no longer hold true. Emerging populations and fresh demands have buoyed companies partnering with international markets, as evidenced by higher growth rates and increased revenue.

The research shows that companies that have expanded internationally frequently are more successful in finding new revenue streams, capturing loyal new customers and becoming inspired by ideas in other markets.

In looking towards the future of Midwest business, consider what participating in the global economy can do to unlock the growth potential that emerging markets offer businesses. Research prospective countries and tap the right strategic partners, including tax, legal and financial services, to make sure you get the best advice and hands-on experience in determining the opportunities that will strengthen and build your business.

ABOUT HSBC COMMERCIAL BANKING Commercial Banking, a division of HSBC Bank USA, N.A, together with the other members of the HSBC Group, serve more than 3.5m customers worldwide, from small enterprises to large multinationals, in over 60 developed and emerging markets around the world. Whether it is working capital, trade finance or payments and cash management solutions, the Commercial Banking team provides the tools and expertise that businesses need to thrive. With a heritage stretching back nearly 150 years, and a global network covering three-quarters of global commerce, it makes HSBC the world's leading international trade and business bank.

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HSBC's new $1bn international loan programme is open to new and current HSBC customers with annual revenue of $3m to $500m and interest in cross-border trading or global expansion. Dedicated HSBC international relationship managers will help interested companies manage the application process and connect them to the right solutions for global growth opportunities. Only applications for new business loans will be accepted and all of HSBC's usual credit and lending criteria apply. The programme is available for 18 months beginning in July 2013.

For more information on HSBC's international loan programme, please visit us.hsbc.com/accelerate

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