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HARRIS CORPORATION: FINANCIAL BENCHMARKING

Leon Shivamber, vice president of supply chain management and operations, had been with Harris Corporation (Harris) about three years. Since joining the company, many exciting changes and initiatives had been undertaken throughout the organization, contributing to an excellent few years of financial performance. Shivamber, however, felt his part of the organization was poised to make an even bigger contribution to Harris's success than it had to date. He wanted his people to be more in sync with the company's long-term financial goal of creating shareholder value, and not just with year-over-year improvement against their local budgets. To accomplish this, he wanted to establish a clear "line of sight" from his group's supply chain activities to the enterprise-wide metrics of return on sales (ROS) and return on equity (ROE). To be useful, that line of sight had to highlight the supply-chain levers most in need of improvement through a group of benchmark companies.

Company Setting[1]

Harris, based in Melbourne, Florida, was a century-old, publicly held company with just over $4 billion in 2007 revenues and just under $500 million in net income. Revenues had more than doubled over the prior four years, and net income had increased eightfold during the same period. Harris manufactured, sold, and serviced an array of technical communications products, programs, and systems for both the government and commercial markets in more than 150 countries. Its products included tactical military field radios, high-speed network encryption terminals, and high-definition servers and editing workstations. U.S. government customers included the Census Bureau, the Federal Aviation Administration, the National Reconnaissance Office, the Air Force, the Army, and General Services Administration; various television and radio broadcast organizations were also customers. About two-thirds of the company's revenue was from sales and services to the U.S. government. About 90% of its 16,000 employees were located in the United States, and approximately 7,000 of those employees were engineers and scientists. Competitors included companies such as General Dynamics, ITT Industries, Boeing, Lockheed Martin, Nokia, Raytheon, Rockwell Collins, and L-3 Communications.

[1] Information in this section is drawn from the Harris Corporation annual report, 2007.

The Challenge

Harris CEO Howard Lance envisioned a company whose revenues approached the $10 billion mark in the not-too-distant future. He and his executive team, which included Shivamber, were dedicated to making that a reality while also improving the company's profitability. Accomplishing this would require every department and every business unit to make substantial contributions. In his role leading manufacturing and supply-chain activities, Shivamber felt a viable starting point for going forward in the direction of further improvements, required the development of some useful, robust, financial benchmarks. Specific benchmarks would then facilitate the quantification of targeted improvements and the scaling of resources needed to make the desired contributions. In essence, he wanted the benchmarks to help him answer the question of how Harris measured up to some of the world's best companies and what any differences could be attributed to.

Identifying the Benchmark Companies

It was clear to Shivamber that he wanted the benchmarking companies to be the world's best. There was no point in simply looking at a random cross-section of New York Stock Exchange companies, or the Dow Jones Industrial Average companies, or even a sample of the S&P 500 companies. He wanted Harris to be in the elite category and sought a means for identifying an elite group of companies with which to compare Harris. Shivamber settled on the following three-phased approach for identifying the initial group of comparison companies, which generated a group of 44 benchmark companies.

1. Latest AMR Research list of the top 25 supply-chain companies[2]—AMR's ranking was based on three key financial measures (return on assets, inventory turnover, and annual revenue growth) and the opinions of a set of experts and peers. The relative weightings for these two components were 60% and 40%, respectively.
2. Competitors not in the top 25 supply chain companies listing that had generally strong financial performance
3. High-performing, but small (less than $10 billion in revenues) technology and/or growth companies that closely resembled Harris in this regard. By high-performing, he meant showing a five-year growth rate in net income and/or sales that exceeded the company's respective industry averages. Shivamber used the financial information presented on the MSN Money web site for this analysis.[3]

[2] K. O'Marah, "The Top 25 Supply Chains," *Supply Chain Management Review* (September 2007): 16–22. Note: Tesco and Samsung were dropped from the final benchmarking list because of a lack of available financial data for the prior five years at the MSN Money web site, Shivamber's primary data source.

[3] Interested readers can go to http://www.moneycentral.msn.com and then, in sequence, click on the following tabs: Stock Research, Financial Ratios, and Key Ratios (accessed on May 29, 2008).

Creating the Data File

Using the MSN Money web site's publicly available financial data, the benchmarking companies' most recent balance sheets and income statements were captured. In addition, a number of financial performance metrics were also extracted, or calculated, and posted for each company. **Exhibit 1** presents an example of the data assembled for the 44 companies; Shivamber was particularly interested in the 10 financial ratios bolded in **Exhibit 1**. Those were gross margin as a percentage of sales:, ROE: ROS; revenues (sales) per employee; gross margin per employee; selling, general, and administrative expenses as a percentage of sales; receivables days; inventory days; payable days; and net-working-capital (NWC) days, which was the sum of the three other days' related ratios.

Each company was then categorized into one or more of the following nine groups:

1. Small companies with sales < $10 billion
2. Competitors
3. Profit leaders (i.e., companies whose five-year net income growth rate > their industry's average.)
4. Sales leaders (i.e., companies whose five-year sales growth rate > their industry's average.)
5. Growth leaders (i.e., companies appearing in categories #3 and #4)
6. Member of the Top 25 Supply Chains list
7. Elite companies (i.e., those appearing in categories #5 and #6)
8. Small, elite companies (i.e., those appearing in category #7 and with sales < $50 billion)
9. Big, elite companies (i.e., those appearing in category #7 but not in #1)

The grouping of companies that resulted from the application of these criteria is depicted in **Exhibit 2**.

Next and by group, Shivamber used the composite data from the companies in each of these nine groups, plus all 44 companies together as a single group, to calculate 10 fictional companies whose data equaled a group's averages. Those composite averages constituted the fictional benchmark company for that group category against which Shivamber compared Harris. Those composite benchmarks are depicted in **Exhibit 3**. In addition, **Exhibit 4** highlights the two best-in-class companies for each of the 10 focal ratios. This second-level benchmark data provided Shivamber with specific company profiles (as opposed to fictional composite company profiles) for comparison with Harris. With the **Exhibit 3** and **Exhibit 4** data, Shivamber began the methodical comparison of Harris to the benchmarks, striving to identify the key differences and to develop a high-priority set of managerial foci for immediate action in getting Harris to the elite level of firms.