

Move Quickly!

An Interview with Alfred T. Mockett, Chairman and Chief Executive Officer, American Management Systems (AMS), Fairfax, Virginia

EDITORS' NOTE Since taking the helm of IT giant AMS in December 2001, Chairman and CEO Alfred Mockett relates that he has "transformed the company from top to bottom," implementing a comprehensive change-management plan in order to "capitalize on the upturn when that transpires." After all, he points out, the information-technology industry has just been through "one of its roughest years in more than a decade," which means that "from here on out we will never have the privilege, nor perhaps the misfortune, of ever managing steady-state conditions." Thus, change is the order of the day at AMS, the chairman and CEO declares, reporting that the company's continued transformation will be anchored by five strategic priorities – achieving scale, growing revenues, opening its architecture, partnering (even with "our archenemies"), and moving the company toward annuity revenue streams. But while some things will change, others will stay the same, Mockett explains, noting that "an impressive customer base, a solid employee base, and a robust balance sheet" are constant attributes that immediately set AMS apart from the pack. Above all, though, AMS will keep and nurture its "unique business model, which is unashamedly a hybrid," Mockett asserts, as the company is "part software developer and part systems integrator." And while critics might prefer either one or the other, "the customers say, 'No. We love the hybrid model. That's what makes AMS special. That's why we select you.'"

Prior to joining AMS in December 2001, Mockett spent 10 years at British Telecommunications (BT) serving in a number of executive roles, including CEO of BT Ignite, president and CEO of BT Global, and managing director of the company's business communications and special businesses divisions. His previous experience includes executive roles at Memorex Telex and Texas-based General Computer Systems, and appointments with the Blue Circle Group and Arthur Andersen in the U.K. Mockett holds a bachelor's degree from the University of London.

COMPANY BRIEF Founded in 1970 and headquartered in Fairfax, Virginia, American Management Systems (AMS) is a global business and IT consulting firm offering a range of services focused on business reengineering, change management, and systems development, integration, and implementation. With 6,500 employees in 50 offices worldwide, AMS serves 44 state and provincial governments, a majority of U.S. federal agencies, and hundreds of Fortune 500 companies. Traded on the Nasdaq as AMSY, AMS reported revenues of \$986.7 million and net income of \$28.2 million in 2002.

The global business environment has changed considerably since you joined AMS shortly after 9/11. What challenges have you faced in your transformation of the company?

Last year didn't go exactly as I had anticipated, but I'm very pleased with our progress and with the way the company has responded to my initiatives. I came into an AMS that had a great heritage, and I made a commitment to the company to deliver it a great future. As such, 2002 was a year of rebuilding and restructuring and transition. My aim was to refocus and transform the company so it can capitalize on the upturn when that transpires. Last year we faced tremendous uncertainty on many fronts – political uncertainty, economic uncertainty, and the uncertainty of war – and our particular market underwent one of its roughest years in more than a decade. In fact, the IT industry has posted back-to-back down years, which is absolutely unprecedented. So considering that horrendous backdrop, AMS has fared remarkably well.

Within a few weeks of joining the company I launched a comprehensive change-management program that we code-named Project Chrysalis. We chose that name as a biological metaphor for the fundamental transformation of AMS from pupa to butterfly by year-end 2002, and that butterfly is about take flight.

What advice do you have for CEOs who face similar challenges?

I would pass on a lot of the advice I was given coming into this job. Move as

quickly as you can, because what you don't get done in the first six months doesn't get done. I found that advice to be very useful, and I'm glad I heeded it. Within six months one tends to get sucked into the institutional thinking of the company and become part of the fabric.

Another thing to remember is that there tend to be antibody mechanisms in every company that try to surround foreign agents and expunge them. Because of this, I advise all those embarking on a substantial change program to, first of all, make sure that the company is ready to change. At AMS, not only was everyone receptive to change, they were eagerly anticipating it. For me it's been like pushing an open door, and that has been very heartening.

AMS's image used to be a little tarnished. How have you managed to change that?

I came to find that, in fact, it was tarnished in the minds of very few people. We found this through several means, including my more than 70 visits to customers this year, and through one element of Project Chrysalis, for which we used individual third parties to objectively survey our customer base. The levels of customer loyalty are coming out 30 percent higher than the industry average. So our customer base is telling us there wasn't much tarnished about AMS, when the company's longer history is considered. I think the tarnish was probably more in the minds of employees than it was in the minds of customers and investors.

Now we have an opportunity to reposition the brand, and we are doing that diligently. Once you embark on a branding campaign, you have to feed it. In my opinion, delivering on promises is a key way to solve any brand problem, and we've managed to deliver on all our commitments to our customers and to the financial community, while turning the company through 90 degrees.

What are your priorities for the year ahead?

They are very similar to my priorities at the beginning of last year. At that time I established five strategic priorities, and they're still as relevant now as they were

back then. The first priority is achieving scale. As our customers grow, they expect us to grow with them. They need to know that we have the depth of resources to be able to do whatever is required. We aim to achieve scale through a combination of internal organic and inorganic growth, which will involve embarking on a series of acquisitions in a phase of inevitable consolidation for the industry.

My second priority is to grow. My vision is to restore AMS to its rightful place as a growth company. Additionally, we are a professional services business. Our assets leave the building every day in the elevator and we're reliant on them coming back the next morning. Company growth translates into personal growth, so it's very important we have a growth environment here.

My third strategic priority is opening up the architecture, which involves reducing our dependence on closed-architecture proprietary software solutions over time and embracing commercial, off-the-shelf software. We need to be able to mix and match that with our own custom offerings, and surround it with a systems-integration shrink map that makes each solution unique for each customer.

My fourth strategic priority is partnering, and by that I mean partnering at all levels: with customers, with our arch-enemies – our most difficult competitors – and with independent software vendors and suppliers. That allows us to achieve scale and to punch more than our weight.

And the fifth strategic priority is to move the company toward annuity revenue streams, embarking on multiyear contracting to underpin the financial performance of the company, which would lead to a more assured revenue stream, cash-flow stream, and profit stream. This involves moving into managed services, business-profits outsourcing, and applications-service provision. I'm glad to say we have made great strides in this particular area, having signed one of the largest contracts in AMS's history for the outsourcing of the Parking Violations Bureau in the city of New York, a contract that is worth \$156 million over seven years.

So those are my five strategic priorities. Ultimately, I think AMS is positioned well for growth and will capitalize on developments as the money comes. Nevertheless, the biggest challenges for us are always those elements outside our control.

Do you expect growth in each of your service areas?

In restructuring the company, I designed a three-by-three matrix. The three vertical market sectors on which we are going to focus are the consolidated public sector, the financial-services sector, and the communications and entertainment sector. Those are three vertical sectors where we have particular depth and breadth of domain expertise. The three horizontals, the three service lines that we provide, are in the areas of enterprise inte-

gration, managed services, and innovation and transformation – or change management, to put it another way. I consciously beefed up investment in the service lines this year because I wanted to increase the breadth of propositions we take to the customers, so we can provide a much fuller suite of solutions for them. That is where we are focusing investment, and I'm delighted that we're now seeing revenues being generated in those service lines.

How did you come up with your ideas for the restructure? Do you have a team working with you in this area?

Of the top 16 people in the company, I brought in eight from outside. Of the eight from the inside, seven are in different positions from a year ago. So we basically have a completely revamped leadership team, and it's a blend of the old and the new. It is a very high-horse-powered team that I put up against the best in class. We're just beginning to gel now as a management team, so I'm delighted with progress at that level.

AMS does a lot of business with the United States federal government, particularly the Department of Defense. Do you foresee U.S. govern-



Well, we've transformed the company from top to bottom and that includes the teams at the top. Our board of directors is now smaller and has a more streamlined decision-making process. We've adopted leading-edge principles of governance, and I'm very pleased with what we've done at the board level.

ment business playing an integral role in the company's future?

In the midst of what are quite pessimistic projections for the future of the IT sector, federal-government spending is the one bright spot. It is the one guaranteed year-on-year uplift, forecast at between 9 and 15 percent, depending on whose data

you believe. So there is a big opportunity there. AMS has a long history of dealing with the federal government, and we understand their business. After all, we've been doing it for 32 years, so we're very well positioned to capitalize on some of those opportunities.

AMS operates in a competitive marketplace. Can you differentiate?

AMS has an impressive customer base, a solid employee base, and a robust balance sheet. After that we have a unique business model, which is unashamedly a hybrid. We are part software developer and part systems integrator. There are those who would have us make our mind up, but the customers say, "No. We love the hybrid model. That's what makes AMS special. That's why we select you." It affords them improved flexibility, accountability, and end-to-end solutions in working with an IT business partner. As a result, we intend to continue pursuing the hybrid model.

In addition, we have a unique differentiator in our benefits-funded contracting with governments. This is a style of contract that is shared risk, shared reward. It allows governments to use what looks like off-budget financing, and we share in a percentage of the revenue uplift that results from our work. We don't get paid until we deliver results and governments like that. Because of this contracting approach, we have actually uplifted the revenue of state governments by over a billion dollars since we started the program.

So you're working not only with the federal government, but also with state and city governments?

We work across the board, and in nearly all federal civilian agencies. We are also in all service branches of the Department of Defense. We count customers in 43 out of 50 states, and we have hundreds of localities as clients too.

What about overseas business?

International business represents about 15 percent of our total revenues. I estimate that it will account for an increased portion of revenues over time.

Which countries offer the greatest opportunities for growth in the future?

Well, our focus has been on a 10-country patch. By addressing the United States and Canada and the eight major markets in Europe, we can cover 70 percent of the world's addressable market for IT services. Eventually we'd like to expand beyond that footprint, but for the moment our strategy is one of acute focus.

What happens in the AMS Center for Advanced Technologies, which is a working laboratory, and what do you gain from the AMS Best Practices and AMS Know How programs?

Our customers expect us to provide full leadership in the application of technology, so we need to invest in our own product development and in understanding the application of new methodologies and technologies. We don't do empirical

research: In terms of R&D, we only pursue the development, and we invest between 4 and 5 percent of our annual revenues in this area. That's part of being a hybrid model. We're not leading edge when it comes to technology; we are a fast follower. We specialize in the pragmatic application of technology in the here and now.

Is your laboratory working on new ways to deliver services to clients through technology?

We're always working on new ways to deliver services to customers. An up-and-coming technology called grid computing is a case in point. Grid computing is a technology that allows one to utilize all the spare capacity on large volumes of PCs and servers that are networked together as if those devices were one virtual device. It replaces a huge mainframe. As a result, in our laboratories, we have been looking at how our applications would run under grid computing. We have found out that in terms of hardware expenditure, it is possible to get an 80 percent cost savings on the overall application using grid computing rather than traditional methods. This tells us that we are on the threshold of a discontinuous change. So the way I see it, there is going to be a fundamental shift of value added, away from hardware and toward software, systems integration, and applications.

With the recent spotlight on integrity in corporate governance, do you ever worry about AMS's reputation?

The first time I was required to sign a certification under the Sarbanes-Oxley Act [of 2002] I had no hesitation whatsoever. I know my company, my employees, and my numbers. I have a clean balance sheet. I have a clean company that has been built on a bedrock of honesty and integrity. We have governance procedures in place that are leading edge. For example, our subcommittees of the board are staffed exclusively by non-executive directors. My board is staffed two-thirds by non-executive directors, and it is independent and objective. We have rigorous processes in place for our audit, compensation, and governance committees. Consequently, I'm confident that we stand up against the best in class.

AMS has always had a significant amount of repeat business. Nevertheless, you recently added a sales force to develop a more sales-oriented culture. How is that working out?

AMS has long had excellent capability in relationships and relationship management, and that's still the case. That's why we get so much repeat business. Considering that this business is largely dependent on project revenue, which tends to be discretionary, the amount of repeat business we get is particularly remarkable.

Nevertheless, I recruited a 100-person sales force as part of my transformation of the company, and I've been delighted with the early results. Normally, in this industry it takes six to nine months for a salesperson

to come up to speed in the commercial sector, 12 to 15 months in the public sector. But because we recruited a young, high-energy group of hunter/gatherers on highly leveraged, open-ended compensation plans, we've been able to focus them on new account activity and new service-line activity, leaving the more traditional business developers and relationship managers to work with the repeat business. We've seen remarkable results. We have signed 70 new-name accounts in the first 12 months, in one of the worst years in the industry's history. So that's a great win for us.

Being responsible for so much sweeping change within the corporation, did you ever encounter resistance to your ideas?

I would say that from here on out we will never have the privilege, nor perhaps the misfortune, of ever managing steady-state conditions. The market is such that we will just have to live with constant change management – and not just get used to it, but become accomplished at it. The company has been very receptive to the changes. Of course, there have been some skeptics, and some people worried that we were moving too fast. After all, it's one thing to embrace change at the theoretical, hypothetical, and strategic levels, but you never know whether the company's going to accept it until the change gets personal. We had to implement change one person at a time, throughout our 6,500-person professional services unit. I approached it one individual at a time.

You had a very successful career at BT and you could have stayed there for the rest of your life. Yet you left and took this very serious challenge, putting yourself on the line, so to speak. Have you ever regretted that decision?

No, I haven't regretted it one bit. I was eager to take on the challenge. One of my unfulfilled ambitions was to go somewhere where I could really make a difference and where I could run a public company. Being at AMS has afforded me the opportunity to make a huge difference.

What are you going to do next?

First of all, on the current course, it's steady as she goes. I think this will be a year of immense consolidation within our industry sector. As the economy turns, the sector will become ripe for consolidation, and I intend to be a consolidator, not a consolidatee. I've been on the wrong side of that equation before and it isn't much fun. I don't intend to repeat that experience.

How do you deal with the pressures of the job?

Ballroom dancing is one of my favorite ways to relax. But other than that, I tend to get to my desk early and I break the day into two. In the middle of the day I generally go and work out, and that allows me to zero base and start again. So, by clearing my head in the gym and the sauna at lunchtime, I get two days out of one. ●