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What's In Capital One's Wallet?

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IN ONE OF THE NUMEROUS project rooms at Capital One Financial Corp., a business-technology project is undergoing its final shakeout. The walls surrounding the eight employees in the room are full of charts depicting assignments, deadlines, and other project details. The most important is the "burn-down chart," showing the number of steps remaining in the project: The goal is to get from 400 steps to zero in 30 days.

IT managers at Capital One are part of the team that makes planning decisions, CIO Bailar says.

The project, involving the outsourcing of a core business process, has been a painstaking one, lasting more than eight months and costing more than $3 million. For Capital One, the No. 1 company in this year's InformationWeek 500, the business values more than justifies the cost. Yet what distinguishes the project is its use of the Agile programming methodology, in which process owners and developers work together throughout the duration of a project. The methodology, published by the Agile Alliance, a nonprofit group of software developers, emphasizes breaking projects into small, manageable modules and using a highly iterative development approach. It has resulted in a 30% to 40% productivity hike in Capital One's IT-development efforts.

This project and hundreds like it typify the financial-services company's knack for tapping into its most precious resources-information and people. In what is essentially a commodity business-lending money-Capital One has thrived by giving employees the tools they need to perform their jobs and rewarding them for excellence.

While some of its credit-card competitors have been acquired by larger financial institutions, Capital One has moved aggressively to expand the breadth of its offerings. "Capital One has done an excellent job in diversifying beyond credit cards to become a provider of a full suite of financial services," says John Gould, partner at PrepaidAdvisory, a card-industry consulting firm.

What distinguishes Capital One from the rest of the formidable pack in this year's InformationWeek 500 is its information-based strategy, which joins all areas of its business - marketing, credit, risk, operations, and business technology-into a single, flexible decision-making structure.

From its roots as a credit-card division of Virginia-based Signet Bank, Capital One has pursued technology innovation with laser like intensity, to the point where it now ranks sixth among U.S. credit-card issuers. Along the way, it has diversified to become a full-service provider, with 49 million accounts and $83 billion in loans outstanding, and a product portfolio spanning auto loans, savings, home loans, health-care finance, insurance, and small-business financing.

In an intensively competitive market, Capital One has managed to post impressive financial results. Net income after taxes in the company's second quarter was $531 million, up 30% from $407 million a year earlier. In its core U.S. card business, net income after taxes was $432 million in the second quarter, up from $384 million a year earlier.

Capital One CIO **Gregor Bailar** traces the company's success to its information-based strategy, which gives IT managers a seat at the table whenever planning decisions are made. "Since everything we do is electronic, technology is the vortex of the company," he says.

Top IT execs are embedded within the businesses they support. For example, Katherine Busser, divisional CIO of the U.S. card division, divides her reporting time between Catherine West, the division's president, and Bailar. "Most companies talk about having IT people at the table, but we're there from the beginning to the end," Busser says.

This approach helps ensure that IT and business staffers are in lockstep. The result is higher productivity. During the last half of 2004, for example, Capital One delivered more than 100 IT projects-50% more than expected.

The cross-fertilization of IT and business talent is visible in the company's Future of Work program, in which traditional offices and cubicles have been replaced by a wireless environment that lets people work wherever and however they choose. Capital One acknowledges the mobile reality of most of its employees' work: More than 1,000 IT workers are assigned to a single building at Capital One's 316-acre campus outside Richmond, Va., yet only 250 to 300 are usually present at any one time. The rest are working in other parts of the campus, tapping into Wi-Fi and voice-over-IP technologies.

On each floor, large red signs indicate mobile workspaces, which are available on a first-come, first-served basis. Green signs indicate rooms with videoconferencing facilities. There are creative spaces such as conference rooms with couches and rocking chairs that are ideal for impromptu meetings or strategy sessions, quiet rooms for work requiring intense concentration, and enclave rooms for one-on-one private meetings. The closest things to a traditional office setting are anchor cubicles, reserved mainly for administrative assistants.

The informal atmosphere helps overcome the traditional divide separating IT and business workers. "They're not just here to create Java code," Bailar says of the IT workers. "They're here to understand what business users and customers are all about."

Technology and business units work in such close proximity that it's often hard to distinguish one from the other. "The goal is to have at least one person from the business side here every day," says Mark Mushinsky, leader of the business-process-outsourcing project. This is Mushinsky's first exposure to Agile programming, and he says he'll never revert to conventional programming methods. "Agile recognizes that requirements can change throughout a project and allows change to happen in a constructive way," he says.

His project is a large one, involving two primary teams and a third extended team. One primary team, with 12 people, is building and testing the components needed to send customer data to a third-party processor. The other, with 10 people, works from the processor's site in Atlanta; its purpose is to build, test, and enhance systems for processing data received from Capital One. The extended team consists of 20 workers who are brought in as needed to provide subject-matter expertise.

Also vital to Capital One's success is its ability to assimilate acquired businesses in rapid-fire succession. In January, for example, it bought Onyx Acceptance Corp., a California auto lender. The integration of Onyx into Capital One's auto finance business is scheduled to be completed next month. Within that period, all of Onyx's systems and business processes have to be converted to Capital One's auto finance platform.

One of the keys to easing systems migration is a modular approach to system design. Capital One's PeopleSoft ERP platform, which includes modules for accounting, procurement, travel and entertainment, asset management, and human resources, is intentionally kept simple and easy to maintain: Only 4% of the platform has been customized. The plain-vanilla approach has yielded benefits that include decreased maintenance costs and fewer resources needed to add new functions such as self-service modules.

The Onyx acquisition is one of several made by Capital One since it entered the auto-finance business in 1998 by acquiring Summit Acceptance Corp., which became Capital One Auto Finance. The auto-finance business has flourished, and its growth has ratcheted up the demands on the IT organization to serve up information not only within the auto-finance division, but for the company as a whole. Capital One aspires to have a single view of customers throughout the company, says Dick Daniels, divisional CIO at Capital

One Auto Finance. This means the auto-finance group needs to be able to tap into data from the credit-card business and vice versa. Capital One has an extensive data warehouse that helps it create the right offers for prospects, and the company is expanding the warehouse to provide an integrated view of customers with multiple accounts.

Divisional CIO Busser has been with Capital One almost since the start, working in different departments.

The focus isn't only on growing the auto-lending business, but on building a base of talent that can be shared throughout the company. Divisional CIO Busser's career personifies this strategy. Busser has been with Capital One almost from its start 10 years ago. During her first eight years, she worked in marketing and analysis on the credit-marketing side of the business. She then managed business strategies for risk operations. After that, she managed credit operations, and two years ago assumed her current post. "The fact that we're open to keeping the walls low is a competitive edge for Capital One," she says.

Summing up Capital One's recipe for success, Bailar cites a lesson he learned while working at Hewlett-Packard earlier in his career: "If you enable people to both do their jobs and have fun, they will shine." -STEVEN MARLIN (smarlin@cmp.com)

The cross-fertilization of IT and business talent is visible in the Future of Work program, which lets people choose where and now they work.

Capital One's Vendor Equation

The financial-services company's vendors must be motivated to deliver beyond expectations, the CIO says

WORKING WITH VENDORS is as much art as science, says Capital One Financial Corp.'s CIO, **Gregor Bailar.** Vendors need to be motivated, much like employees, to deliver beyond expectations.

Relationships with vendors tend to be cyclical. During the dot-com boom, Capital One was besieged with sales pitches; after the bubble burst, the pitches subsided to the point where Capital One had to proactively tease out vendor-based solutions. "You have to seed [ideas] with vendors to encourage them to innovate," Bailar says.

One of Bailar's strategic goals is to keep vendor costs down without sacrificing quality. Capital One took a giant step in that direction last year by leveraging E-commerce software from Perfect Commerce Inc. in its supply-chain-management operations for requests for proposals. The software also was used to conduct the largest reverse auction in Capital One's history (more than $100 million) and its first ever in the services category. By commoditizing the services Capital One was requesting, the reverse auction created a competitive market that resulted in a 16% reduction in costs and a reduction in sourcing cycle time.

The requests for proposals were issued using a beta version of Perfect Commerce's Perfect 7 online sourcing platform. When the project uncovered flaws in the platform, Capital One analysts built a spreadsheet that exported data from the online system, allowing for manual scoring of data. The flaws were corrected in the final release.

The reverse auction used Perfect Commerce's Perfect Bid platform, an established reverse-auction tool used previously at Capital One. The auction generated more than 3,000 bids in two hours. The volume of bidding overwhelmed the platform because of previously unrecognized memory limitations at the host servers. Working with the Perfect Commerce support crew, the Capital One project team paused the auction while the problem was fixed.

Perfect 7 and Perfect Bid have become the sourcing platforms of choice for Capital One. The lessons learned have led to the platform's refinement and serve as a case study within Capital One's supply-chain-management group. -STEVEN MARLIN

Focus On What Really Matters

Don't ignore long-lasting technologies for the latest fads, the CIO of Capital One warns

AS CAPITAL ONE FINANCIAL CORP.'S CIO, **GREGOR BAILAR** serves as the company's technology strategist, focusing on the information architecture that supports the company's information-based approach, business-technology planning, and development of IT-financial strategies to drive business.

Bailar joined Capital One in 2001 from the Nasdaq Stock Market, where he had served as CIO and executive VP for operations and technology since 1998. Most of his career has involved leading large and complex organizations. He joined Nasdaq after four years at Citibank, where he served as managing director and VP of advanced development for global corporate banking. Before that, he served in various capacities at Hewlett-Packard, Next Computer, Perot Systems, and Trirex Systems. He earned a bachelor's degree in electrical engineering from Dartmouth College.

Innovation for its own sake has little value, Bailar says.

Bailar's management philosophy has been heavily influenced by the high-powered managers with whom he has worked. At HP, he realized the value of enabling people to do their work and have fun at the same time. At Citibank, he learned about scale and dealing with things in a procedure-oriented way. At Nasdaq he gained expertise in urgency-the need to be "up," with millisecond response times. Working with Steve Jobs at Next taught him the value of perseverance. "Steve set the bar high; he knew you could do more than you thought you were capable of doing," Bailar says. And working for Perot taught him the value of salesmanship and drive. (He does a dead-on impersonation of Ross Perot: "Got to get out there and sell something, boy!")

Innovation for its own sake has little value; it's being able to incorporate innovation into processes that drives business value, Bailar says. Many companies make the mistake of becoming enamored with the latest fad technologies, overlooking those that are less glamorous but more long-lasting. Says Bailar, "I'm not interested in technologies, I'm interested in creating great systems." -STEVEN MARLIN