InformationWeek

June 26, 2006

A Serial Acquirer

BYLINE: Marianne Kobalsuk McGee

You might say Capital One Financial is a serial acquirer. Since 1998, the credit-card company has grown into one of the nation's largest and most diversified financial services companies through 10 acquisitions, seven of them in the past 20 months.

Information technology, and more specifically Capital One's informationbased strategy, has been a competitive weapon since the company's founding in 1988, with a mission of offering consumers highly customized financial products based on their demographics, credit risk profiles, and individual needs. It's not surprising that when Capital One considers acquiring a company, the target's IT is a huge consideration.

"A key to our M&A success is that IT is at the table in mergers and acquisitions planning and due diligence," says **Gregor Bailar,** CIO at Capital One, ranked the top company in last year's InformationWeek 500. "We need to know what the strategic advantage is powered by."

Capital One in 2002 created an M&A policy framework with repeatable processes that serve as an IT integration "playbook" and technology governance model to ensure a smooth transition. The company has a dedicated M&A team comprised of people from different functions, including Bailar. The team is charged with conducting due diligence and managing integration for mergers and acquisitions, investments, divestitures, and partnerships. It identifies similarities across deals that can expedite planning and helps business managers understand which integration options are available, Bailar says.

Beware the M&A scorpion's sting, Bailar warns.

Capital One has two basic types of M&A deals: expansion and diversification. The goal is to grow in scale or market share, delve into a new service area, or broaden geographically. The playbook helps planners decide whether an acquired company's systems should be integrated with Capital One's IT environment or replaced by it. In general, core systems such as human resources, finance, e-mail, and infrastructure of an acquired company are migrated to Capital One platforms. Key to easing the migration is the company's modular approach to systems design. Only about 4% of Capital One's PeopleSoft ERP software, including HR and financial applications, has been customized. So relatively few resources are needed to maintain the software or add new functions.

In assessing another company's systems, Capital One takes a best-of-breed approach. In general, for most expansion-driven deals, Capital One absorbs the systems of the acquired company. That's because the required functionality may not exist at Capital One or the acquired company may have functionality tailored for a specific market or geography. Likewise, diversification often creates requirements for new functionality, in which case Capital One absorbs the systems of the acquired company into its operations, Bailar says. In some cases, Capital One maintains the acquired system as a standalone operation, choosing to integrate only after "minimum business integration thresholds have been crossed," Bailar says.

KATRINA-PROOF

Such was the case when Capital One acquired Hibernia National Bank, based in Louisiana, in November to get into branch banking. Capital One was so impressed with Hibernia's deposit-transaction system that it decided to migrate its banking business onto Hibernia's mainframe running packaged software. The systems kept running even after Hurricane Katrina, which is "a testament to the resiliency of their systems," Bailar says.

Certainly, a key goal in all Capital One acquisitions is to make them seamless to customers. Many of the processes for acquisitions as spelled out in the IT integration playbook come from successes in earlier deals. Capital One's 2001 acquisition of PeopleFirst, an online provider of car loans, is one such deal. The goal of the acquisition was to combine PeopleFirst's online business model with Capital One's ability to process and service loans, says Brian Reed, managing VP of Capital One Auto Finance and former president at PeopleFirst. "The lending models were complementary," Reed says. Capital One Auto Finance provided loans through dealers, while the PeopleFirst model marketed directly to consumers.

Capital One retained PeopleFirst's direct-to-consumer application, connecting it to its own auto-financing platform and integrating it with Capital One's credit scoring and automated decision system. The companies centralized and standardized loan servicing by integrating PeopleFirst's back-end systems with Capital One Auto Finance's systems. Regardless of where an auto loan originates, once it's booked, customer service needs are the same, Reed says. PeopleFirst migrated its business applications, including payroll and general ledger, onto Capital One's platform.

The company is evaluating IT plans for its latest deal, the planned $14.6 billion acquisition of North Fork Bancorp, announced in March. If approved, it will make Capital One one of the 10 largest banks in the country when the transaction closes in the fourth quarter.

While its IT integration playbook has helped guide the company in its standardized approach to handling IT in mergers and acquisitions, there's always room for new chapters and other additions. "We continue to update the playbook," Bailar says. "I call it the odyssey-or the scorpion under the rock. Whenever you acquire a company, you'll always find surprises."