

DIGITAL LEADERSHIP

An interview with

James Patterson

Managing Vice President and Head of
Capital One Labs



***Bringing Ideas to Life – the Core
Principles of Innovation Centers***



James Patterson

Managing Vice President and Head of Capital One Labs

What was the rationale behind the creation of Capital One's innovation centers – Capital One Labs?

Capital One Labs was set up nearly four years ago. We're a group of just over a hundred product managers, designers, design thinkers, engineers and data scientists across three offices. We serve as the experimental product and technology arm of the company and our priority is to accelerate Capital One's product and business agenda. We conduct experiments and test new products and concepts that we know will be important for our business, but don't yet deliver revenues or returns on investment. We focus on areas that are disruptive or radically different from our current offerings. We take a 24-month horizon and spot potential disruptors that will have an impact on the areas where the business wants to grow in that timeframe. The business focuses on near-term improvements with relatively predictable, short-term results, while we concentrate on less predictable – yet potentially far-reaching – returns.

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Many innovation centers fail to make an impact because they are disconnected from the rest of the business. How are you tackling this issue at Capital One?

Capital One Labs is a natural extension of who we already are as a company. There is no disconnect between our team and the rest of the business because we share the same culture of entrepreneurship. Capital One is the largest founder-led bank in the country and is operating at this scale – over 65 million customers. At Capital One, innovation is not just for one team, but for the whole company. We have a strong culture of long-term investments in innovation and as a startup in the 1990s we transformed the industry by becoming the first bank to create mass customization of credit cards with a personalized APR. So our businesses and the Labs share the same understanding of what innovation truly means.

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How do you work with the business?

Business teams reach out to us whenever they have an insight or an idea that they feel we can help them grow. And vice versa, if we are working on something that can be a potential breakthrough for the business, we involve them at the right time. The key is to bring the right people along for the journey at the right time – not too soon, not too late – and having the right integrated teams that include the business working on ideas together.

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How is Capital One Labs placed within the broader Capital One organization?

We are in the technology and digital division that falls under the Chief Enterprise Services Officer, who runs all of enterprise technology and operations. Being in a centralized division versus being within any one line of business (LOB) gives us a unique advantage. It allows us to take an enterprise view and focus on holistic consumer experiences that may not fall neatly into any single LOB.



What is your level of investment in Capital One Labs?

I think the key here is more about independence than the absolute investment. We have the complete, independent budget to pay for all of the resources and people required to run alpha and beta tests and experiment with technology. Even if the business is integrated into an alpha test, we can self-fund it, so we do not have to ask the business for anything that we start.

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What are the key challenges you are facing in running Capital One Labs?

I think the biggest challenge is to scale something that's really compelling. Taking something from a prototype or market pilot to scale is extraordinarily hard to do. That's primarily because you are involving a totally different and expanded cast of characters to get to scale compared to just getting to pilot. It's not good enough to just have an idea and to get it in the hands of a few hundred people. I keep myself accountable to making sure that the ideas that go to pilot actually get to production. And that involves an enormous amount of coordination and collaboration across the company.

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Another key challenge is obviously talent. We are very careful and selective about who we bring in. We have incredibly talented people in our Labs but it takes a very long time to recruit the right people.

Are Capital One Labs helping create an innovation culture within the company?

As you bring new ideas into the company, you have to model what it means by doing as opposed to talking. The highest calling we have is to demonstrate the power of an idea or an insight through actually bringing that into reality rather than just talking about it. I think our 'learn by doing' approach versus what you might call a 'learn by PowerPoint' philosophy is getting a lot of traction across our business. Building a true 'maker' culture has been our most important impact on the organization.

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However, I question whether we would have had the same success in a different bank, even if we had exactly the same people and initiatives. I think our success is very much due to who we are as a company – an organization obsessed with innovation.

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Could you share some success stories?

One very good example is the launch of the Capital One Wallet that works with Apple Pay. This app helps you quickly verify your account balances and details and keeps you connected to your spending. The initial elements of this product were developed in Labs and served as the foundation for the product that was ultimately delivered by the enterprise. Another example is Second Look, which is a service that combs transaction data to look for anomalies in our customers' spending, such as an unusually high tips or a cable bill that is well beyond what it has historically been. The customer is alerted to the charge via a text message or email. It's one way we are looking out for the customer using information we already have available. This capability was incubated in Labs in partnership with our Card team.





Capital One is a **Digital Leader**, conducting more than **80,000 big data experiments** a year and processing **75%** of customer **transactions digitally**

Capital Ones Labs...



Is a network of innovation centers across **3 locations: San Francisco, New York and Washington D. C.**

Set up nearly **4** years ago



A team of just over **100** product managers, designers, design thinkers, engineers and data scientists



The experimental product and technology arm of Capital One

Getting the Basics of Innovation Centers Right



Focuses on a **24-month** horizon and **spot** potential disruptors with **less predictable** yet **far-reaching returns**



Has the **complete** and **independent budget** to pay for all **resources** and **people** required to experiment with technology



Fosters **connections** with the tech community by selectively working **with startups** to **accelerate** their product agenda

Key Success Stories



Capital One Wallet, a payment app that seamlessly **works with Apple Pay**



Second Look, a service that helps customers **spot anomalies** in their **spends**

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What are the key ingredients for making an innovation center a success?

Great talent, great culture, great ideas, and great relationships across the company and with the tech community are absolutely essential. It is also important to know the difference between true innovation and “innovation theater,” or shiny object syndrome. True innovation is unglamorous, incredibly hard to do, and requires persistence over many years. When we deliver a beautiful consumer experience, the bigger story is the immense amount of work that goes into building the capability under the hood.

Fostering connections with the tech community is also a key function of Labs. We selectively work with startups who can accelerate our product agenda. There are a lot of interesting startups out there. The important thing is to have a sound judgment as to which ones to spend time with. Not all startups are created equal. You have to strike the right balance between the talent that you have internally and the need to rely on startups.

Has Capital One acquired startups to kickstart innovation?

We have made several acquisitions. They have been smaller companies – we don’t try to acquire companies with really high valuations. We are particularly strong at integrating startups into our company and giving them the space, time, and resources to do their best work. Capital One is a mission-driven company and we are careful to engage only startups who believe in our mission and who complement our culture.

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We partner closely with our ventures team, Capital One Ventures, which is led by the former CEO of a startup that we acquired. We sit in the same offices and they help us identify and connect with the right companies

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How have Capital One Labs evolved since they opened?

The Capital One Labs team has been growing fast – we have doubled in size over the past three years. This is due to the pull we are getting from the business units. I think that is actually the best scenario when the business units themselves are asking for your capabilities and funding it. Also, many of the founding members of Labs have moved into the business and are driving major impact across the company.



James Patterson

Managing Vice President and Head of Capital One Labs

James Patterson is Managing Vice President and Head of Capital One Labs, the experimental product and technology arm of Capital One. Capital One Labs is a network of innovation centers located in San Francisco, New York and Washington D.C. Over the past four years, the network has involved over 100 entrepreneurs in reimagining the way 65 million people interact with their money. Established as a credit card company, Capital One is now a Fortune 500 company and one of the top 10 banks in the US. James Patterson is also involved in driving digital transformation efforts across the organization, with Capital One a recognized digital leader. 75% of its customer interactions are digital and it conducts over 80,000 Big Data experiments a year.

Capgemini Consulting spoke with James Patterson to understand more about the core building blocks of innovation centers in large enterprises.

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