



DIRECTV:

Fail Fast, Innovate Often

“We’re constantly looking at working as one organization, one company, on what our digital strategy is. I’m not a big proponent that you need to have a digital guru. I think you can do it with the roles you play, and we’ve done a pretty good job of laying out those roles and responsibilities, and built a pretty good partnership. In this case, the marketing organization, the product development organization, the technology organization, both IT and the engineering organization, built up a pretty good strategy for digital.”

– Mike Benson, CIO and Executive Vice President, DIRECTV

The Back Story

DIRECTV is one of the largest pay TV providers in the world. The company earns over \$30 billion in revenue and serves 38 million subscribers in both the United States and Latin America. The company employs over 24,000 people, including 15,000 field technicians supported by 45 call centers. The company’s goal is to “deliver the best video experience in the world, *anytime* and *anywhere* customers want it,” from a smart phone to a DVR (delivering content to any room in the house) to a tablet. Its philosophy to achieve this goal: Combine compelling and diverse content, technology and services to make DIRECTV a clear choice among consumers.

Relentless Focus on Innovation

DIRECTV was an early adopter of the Technology Business Management (TBM) methodology. Mike Benson, the company’s CIO, has been a proponent of TBM since the founding of the TBM Council in 2012. From that time, Benson put financial transparency at the center of his strategy for partnering with sales and marketing, field services, customer care and other business units to effectively govern IT. His view is that IT’s value is determined by the business, not by IT. As such, IT must enable value-based conversations with its internal business partners.

Early on, Benson chose to isolate demand management from his innovation “factory” which includes development, project management, and other functions. He organized his team into a demand function and a supply function, coupled with governance. His demand-side leaders work closely with the business units (e.g., sales and marketing) to identify innovation opportunities, prioritize them, and shape the portfolio. The team also works with IT finance to understand the impact of innovation on run-the-business costs.

In the last three years, Benson has been relentlessly focused on improving his IT team’s ability to innovate. This has been as much of a cultural change as anything else. His team had to learn to engage in rapid prototyping, partner more fluidly, embrace failure, and improve agility overall. To this end, Benson made changes that resulted in tangible outcomes.

Allocating Spend Accordingly

Like most organizations, DIRECTV allocates its IT capital budget by discretionary and non-discretionary spend. Non-discretionary can be defined as run-the business (regulatory, IT capacity, etc.) while discretionary spend is broken into two categories: Key Initiatives and Tactical. However, DIRECTV differs in its approach to capital investments through its bucketing:

- The majority of the IT budget is slated for discretionary spending; a much smaller percentage goes toward non-discretionary.
- All projects in the Capital Budget are linked to DIRECTV’s defined investment categories, which include customer experience, customer service and operations, and entertainment experience (core), and entertainment experience (digital).

DIRECTV also manages its run-the-business spend as a portfolio. This includes modeling and measuring the TCO of applications and services so that IT leaders and business partners can make decisions about where to invest or to cut based on a cost vs. value conversation.

The Road to TBM

Evolving the Current State

The pay-for-TV industry is in the midst of a rapid transformation brought on by several powerful factors, not the least of which is the rapid change in consumer viewing habits. Intense competition, powerful disruptors (Netflix is only one example), and digitization are only some of the additional factors. Where network and paid stations were once the only options for viewers, there are now endless options — from mobile, to prerecorded, to streaming. To meet these challenges, DIRECTV is reshaping its IT platforms and

capabilities to deliver and capture customer value. That means proactively managing IT demand, supply, and capabilities.

DIRECTV IT utilizes TBM software from Apptio to help organize and present service cost data to internal and external partners. This enables DIRECTV to better align its priorities and decisions to tangible business outcomes. “The model helps to drive a sourcing strategy for delivery,” said Benson. “We use data to focus on which applications we could promote to provide the fastest path to cost savings and efficiencies.”

Shaping the Future State

To shape the future state of its business — which is all about digital advances — DIRECTV IT has taken a “Fearlessly Focused on Failure” approach to innovation. This approach boils down to prototyping fast and failing (or succeeding) fast. The goals are multi-dimensional:

- Connect digitally with customers
- Build new digital partnerships
- Leverage technology for new sales channels and new sources of revenue
- Provide digital technology leadership to business executives
- Accommodate change
- Be agile
- Maintain technology independence
- Assess build vs. buy
- Treat data as an asset

DIRECTV is using TBM to show, in near real-time, the cost and resources necessary to accelerate this innovation. These changes have led to valuable new ideas, such as the use of blueprints and architecture, experimentation and prototyping, and the “focus on failure” approach. For example, Benson’s organization created a “Shark Tank” (like the reality TV show) competition whereby 10 team members pitched their ideas to the rest of the group. Benson then funded two of the best ideas. (The pitches were even filmed in the DIRECTV studio!) The team is using TBM metrics to track the development of these new ideas and they’re treated as experiments, not projects.

Benson’s group has also launched an Innovation lab that funds developer ideas. The goal here is to build new digital experiences — from visual design to low fidelity prototypes to functional products.

To find new innovative digital solutions externally, Benson and members of his team participate in frequent ‘startup speed dating.’ Through a company called Trace3, DIRECTV meets every few months with a group of pre-selected startups — chosen on the basis of challenges the IT department would like to solve. It rapidly tests those solutions that seem to be a good fit, rapidly jettisons those that don’t work and implements those that do.

IT as a Strategic Partner

DIRECTV IT supports more than 2,000 unique marketing campaigns each year. To better support these campaigns (and enable more volume) IT forged a deep partnership with the marketing organization, the group that handles DIRECTV's digital presence with customers. To find ways to better reach customers, IT has developed:

- A consumer app for NFL Sunday Ticket
- TV Everywhere that allows customers to watch video from a mobile device and remotely control their DVR
- A continuously evolving customer web portal

Another example of this marketing partnership can be found in IT's development of data collection capabilities that help it determine a "buyer's journey," or what it looks like when a customer buys or uses DIRECTV services. The goal: To figure out, from a digital perspective, how IT can track, measure, and further enhance the journey. This is also an area where IT strives to be agile by developing capabilities quickly, seeing what works and seeing what doesn't work. "When it fails, try something else and move forward with that," said Benson.

Outcomes

A Learning Organization

The "Fearless Focus on Failure" program has been a success at DIRECTV in a big way: It's changed the culture of the IT organization into one that embraces "lessons learned." According to Benson, "we want to celebrate and learn from our failures, we want to teach about our failures. I encourage my staff to participate and rally their teams."

Internal development projects have resulted in wins for the team like (but not limited to) the development of an addressable advertising platform that pinpoints advertising down to the zip code and is delivered on set top boxes. The resulting analytics have resulted in a tremendous boost to DIRECTV's bottom line.

"Advertising used to be in the double-digit millions," said Benson. "Now we're looking at tripling that and we'll grow this over the course of time. That's tremendous value."

Separately, the team developed a mobile field support system that reduced DIRECTV's customer service windows by half. The system enables technicians to search inventory and find equipment that's sitting on another technician's van in a nearby neighborhood. These enhancements helped improve customer satisfaction while reducing the cost of new installs or upgrades.

It's A Journey: Next Steps

Even though the United States pay-TV market is saturated, DIRECTV has realized a significant competitive advantage as a result of its digital innovation strategy, underpinned by TBM methodologies. A June 2014 Forbes article pointed out that "while cable companies have lost thousands of subscribers over the past few years, DIRECTV has managed to grow its subscriber base." According to the article:

'DirecTV's competitive advantage stems from exclusive programming of the NFL Sunday Ticket, which has also helped it command higher monthly subscription fees compared to its rival. However, DirecTV, along with other pay-TV operators, is witnessing headwinds from the rise of alternative video platforms.'

The strategy seems to be paying off. But DIRECTV also realizes its digital transformation, and its utilization of TBM to understand the fundamentals, is a journey and not a destination.

One of their major future plans is to continue to find ways to utilize the data coming in from digital channels to further define the customer journey. Benson framed the importance of finding additional insights from data: "We're trying to do a better job of getting the 360 view of the customer – that could be how they come on the system, or how they use DIRECTV in the course of a day, week, or month, and trying to depict what those journeys look like."



About the Technology Business Management Council

The TBM Council is a group of more than 1,200 CIOs and other business and technology executives who are passionate about applying business disciplines to better run their technology organizations. Founded by **Apptio**, the leading and independent provider of TBM solutions, the TBM Council is governed by an independent board of directors and is a nonprofit organization. Apptio remains the Council's **technical advisor**.

Our mission is to serve our members and the CIO profession by defining a decision-making framework that creates and sustains business value by balancing the supply of and demand for technology services. The Council's objectives are to publish a generally accepted set of TBM practices and facilitate benchmarking by business technology leaders against those practices.

The Council is open to any **qualifying** CIO or senior IT executive. Learn more at **TBMCouncil.org**.

¹<http://www.forbes.com/sites/greatspeculations/2014/06/25/how-are-directvs-u-s-operations-trending/>