

THE BUSINESS OF INNOVATION
EPISODE 3: New Tricks & Old Dogs
Master Transcript

OPEN MUSIC

MARIA BARTIROMO: HI ...I'M MARIA BARTIROMO..AND THIS IS "THE BUSINESS OF INNOVATION."

THESIS PIECE

ROGER SCHANK: Can you ask somebody what they really want?

Schank: This is Marketing 101. Ask your customers what they want. Has to be the wrongest move there is.

ANNOUNCE VO: Wait a minute... I thought the customer always knows best.

ROGER SCHANK: Give me a break. I can only imagine the day they were inventing cell phones. "And would you like to have a cell phone, sir?" "No, that sounds stupid. What do I need it for? My regular phone is good enough." "Gee I wish I had a cell phone... I wish I had a computer... I wish I had a search engine."

Schank: You know why there are psychiatrists? 'Cause people don't know what they want.// They don't know what they want in a girlfriend! They don't know what they want in a house! They don't know what they want in their lives! People don't know what the hell they want!!!

ANNOUNCE VO: **Ok, okay....geeze... but what if I want to teach those old dogs some new tricks?**

Schank: The most important thing you can do with a customer is to understand what he really, deeply wants, which he may not understand.

ANNOUNCE VO: that's pretty deep. What exactly are you getting at?

ROGER SCHANK Don't listen to what your customers say... watch what they do. Watch people's behavior. See what they do in real life. Observation is everything. When you follow what customers are doing, you need to understand that they are valuing their own experiences more than anything else. Experiences are about learning.// people love to learn 'cause they understand they're growing and changing.// and So providing new experiences turns out to be pretty exciting to them.// And a lotta people in the business world think that altering somebody's world, you won't be accepted. They're very conservative. No. Actually people like that kinda of change.

MARIA BARTIROMO:

Roger Schank, our resident guide to the subject of innovation, and an expert on learning. This seems to be one of the keystone issues effecting any business, right Roger? What do your customers need?

ROGER SCHANK:

Well, the problem of course is the customers don't know what they need. (LAUGHTER) And if you ask them, they're going to tell you, and they'll be wrong. So, really, it's very important to figure out what the real issues are, and asking your customers may not be the right way.

MARIA BARTIROMO:

Right, so into those, you're saying there's a big difference between what your customers want, right, and-- and what they actually understand they need?

ROGER SCHANK:

Well, if you ask a man or a woman what they want in a spouse, they'll tell you. And they marry somebody else entirely. (LAUGHTER) It-- it really doesn't matter what they say.

MARIA BARTIROMO:

Uh-huh (AFFIRM) And, you know, you think about some of the-- big innovations out there like cell phones. We didn't know we needed a cell phone. We didn't know we needed a blackberry. These are all great innovations. And we didn't necessarily know we needed them.

ROGER SCHANK:

Not only didn't you know you need them, but you would have-- asked anybody, they probably would have told you they didn't want them. Look, I was around in-- at the time of the invention of the personal computer, and I was a computer guy. And I couldn't figure out why you'd want it.

MARIA BARTIROMO:

Right.

ROGER SCHANK:

I mean, I think now-- what do I-- how come I couldn't figure it out? Cuz it's hard when you're in the world, you don't always see the world in-- at-- from an outside point of view.

MARIA BARTIROMO:

So how do you figure out what your customer needs? You have to know what the void is in the market place? Or you need to have feedback with your customers.

ROGER SCHANK:

I think you have to actually stand apart from the world you're in, and look at it and think: "What's odd here? What-- what doesn't work? Why-- why is this function this way?" You have to ask questions about everything that seems so basic to you in life. But maybe-- you know, maybe you ask a new question and in a new way and you get a new answer.

MARIA BARTIROMO:

That's a really good point. Let's put some of these thoughts to our CEO, is-- which again includes some of the world's brightest business leaders.

INSERT CEO PROFILE (MARIA VOICE OVER)

WHATEVER IT IS, E-BAY SEEMS TO OFFER IT. AND COMPANY PRESIDENT MEG WHITMAN IS THE IT BUSINESS WOMAN OF TODAY.

JOINING THE COMPANY WHEN IT HAD 30 EMPLOYEES SHE'S LED EBAY TO BECOME A GLOBAL E-COMMERCE ENGINE WITH SALES THIS YEAR EXPECTED TO BE IN THE ONE AND THREE-QUARTER BILLION DOLLAR RANGE.

WITH 9-THOUSAND EMPLOYEES AND TENS OF MILLIONS OF USERS WORLDWIDE, EBAY CONTINUES TO SET THE STANDARD FOR COMMERCE ON THE INTERNET.

LOANING MONEY TO PEOPLE WHO HAVE NOTHING MAY NOT SOUND LIKE A SMART BUSINESS MODEL BUT VIKRAM AKULA IS DOING JUST THAT AND TURNING CONVENTIONAL WISDOM ON ITS HEAD.

AKULA IS THE FOUNDER OF SKS MICROFINANCE....A BUSINESS HELPING INDIAN WOMEN BREAK THE SHACKLES OF POVERTY BY LOANING THEM SMALL AMOUNTS OF MONEY TO START THEIR OWN BUSINESSES.

FOR HIS WORK IN MICROFINANCE...VIKRAM WAS NAMED ONE OF TIME MAGAZINE'S 100 PEOPLE OF THE YEAR...

DICK POSEY KNOWS A THING OR TWO ABOUT YOUR MORNING SHOWER. AS PRESIDENT AND CEO OF MOEN INCORPORATED, DICK OVERSEAS NORTH AMERICA'S LEADING MANUFACTURER OF FASHION PLUMBING PRODUCTS, FROM FAUCETS TO SHOWER HEADS.

AS FORMER CEO OF HAMILTON BEACH/PROCTOR-SILEX, DICK HAS HAD A LONG CAREER BUILDING UP SOME OF THE WORLD'S MOST RECOGNIZABLE CONSUMER BRANDS, AND NOW CARRIES ON THE INNOVATIVE IDEAS OF FOUNDER AL MOEN.

MARIA BARTIROMO:

Dick Posey, Vikram Akula, Meg Whitman, welcome. Nice to have you. Meg, when talking about E-Bay, I've heard you say in the past that you provide the marketplace. But, it's the users who build the company. Tell us a bit about that approach.

MEG WHITMAN:

Well, you're exactly right. We provide the trading platform. But, it is our community of users that list items for sale everyday and our community of buyers that buy-- everyday.

So, we watch what they do. And then, try to make them successful at doing it.

MARIA BARTIROMO:

And-- and, that's your goal, to get the feedback from the users.

MEG WHITMAN:

Exactly. And, the feedback-- to Roger's point, doesn't come necessarily verbally in terms of them telling us what they want. It is what they do with the platform and the innovation that they do in their everyday businesses that allows us to optimize the platform-- for the very broad group of users that we now have on E-Bay.

MARIA BARTIROMO:

And, you know all about that, right Dick? Because at Moen we've heard that you actually have engineers watching people taking showers, watching people using things in the bathroom to get that feedback, right?

DICK POSEY:

That's exactly right. We-- we do all kinds of research, Maria. We're a very consumer focused company. And-- for us, it's incredibly important to understand what the consumer is-- desiring in products. And-- and, as Roger said earlier, the consumer can't really articulate-- very well exactly what they're looking for. So, we employ a lot of research techniques.

MARIA BARTIROMO:

Yeah, it makes perfect sense. Vikram, do you also use that sort of user feedback? I mean, lending, you know, micro credit to-- to people in impoverished areas, you must've learned about what they need. How do you see it?

VIKRAM AKULA:

Absolutely.

And, what we find, to Roger's point, is that in fact they will say something different from what, through these participatory exercises, we actually realize that they actually want. So, that does give us a window into actually, you know, what co-- customers are looking for.

MARIA BARTIROMO:

So, it's critical, Roger.

ROGER SCHENK:

Well, you know, people don't actually have a real good model of their own minds. They have the conscious mind and the unconscious mind. And, the unconscious mind wants-- does what it does. The conscious mind says what you should want. So, if you keep talking to the conscious mind, you're gonna get rationalizations. And, that won't help.

MARIA BARTIROMO:

You know, Meg, Roger has been saying that customers don't actually know what they want, right? I mean, your success at E-Bay may indicate otherwise. What do you think about using your customers to actually innovate? Because what if they don't know that they necessarily need something?

MEG WHITMAN:

Well, it's interesting. We have a community of entrepreneurs who are optimizing their own business on E-Bay. And, if we watch carefully, then we can optimize the marketplace for a whole. And, let me give a very brief story.

Back in n-- 1999 people listed on E-Bay die cast cars. You know those little cars? And-- one day, we saw them listing real cars on E-Bay. And, I remember it very clearly. Our Head of Strategy came in and said, "Meg, they're listing real cars on E-Bay." And, I said, "They are not listing real cars on E-Bay."

But, sure enough, there was a Ferrari and a Jag and a BMW. And so, what we did is we said, "Clearly, the users are wanting to do that on our platform. Our platform is

sub-optimized for that-- operation." And, we built E-Bay Motors which is now our largest category on E-Bay.

MARIA BARTIROMO:

Largest category. That's amazing.

MEG WHITMAN:

Yeah.

ROGER SCHENK:

But, you know, the thing is-- you-- you have to realize E-Bay is a-- absolutely brilliant idea, okay. But, what's more brilliant about it than the obvious about why it's brilliant is that the human beings in it can and will dictate what's going on. That doesn't happen typically.

VIRKAM AKULA:

If I can jump in, it-- I-- I think to Roger's point, it's not that customers don't know what they want. It's rather they don't say what they want.

MARIA BARTIROMO:

Well, that's a really good point because some people, they're afraid. They're shy. They don't want to necessarily say really what's on their mind. So, you have to get-- cut through that.

DICK POSEY:

Which is one of the reasons we use this ethnographic research because it allows us to watch how the consumers are interfacing with the products. So, for example, in the showering research we've done-- we came in with a couple key insights. And, it was simply by watching what was going on.

MARIA BARTIROMO:

You know, it brings up another issue though. I mean, do you-- do you worry that there's a risk of having your customers run your business?

DICK POSEY:

No, I don't think so. I think, you know, we're looking-- we're-- we're watching what the consumers are doing. And, we're looking at how they interact with our products, for insight in developing products.

But, I don't think we-- you know, we look at that information. And then, we use other information, our own knowledge of the market, our intuition, our instincts. And-- and, we put all that together. And, we-- and, we say, "This is then what we should go do. We should develop a product like this."

So, research is really, really important. But, it doesn't give you the answer. It's an aid in decision making. But, it doesn't make the decision for you. You still have to use other, you know, avenues as well.

ROGER SCHENK:

But, you have a situation where you have an existing product. And, you're-- you're gonna examine how people use that existing product. And, I think that's wonderful. It's a great thing to do.

But, it doesn't get-- so, it's modi-- modification. But, it doesn't get you to the next step. And, the next step would be suppose they didn't want showers at all? How would you find that out?

MARIA BARTIROMO:

Meg?

MEG WHITMAN:

Maria, I think there might be two kinds of innovation. There is the revolutionary innovation, which is what Roger was talking about. You know, what if people wanted something completely different than showers?

Often, we see that innovation coming from entrepreneurs. You know, think about it. People who just think outside the box like Pierre Omidyar who founded E-Bay. You know, like Jerry Yang and David Filo who founded Yahoo in our internet space. Just complete revolutionaries and visionaries. True visionaries.

MARIA BARTIROMO:

Real lightning in a bottle.

MEG WHITMAN:

And then, there's what we call-- yeah, lightning in a bottle. And, very few people actually have that skill. And-- and, it's-- it's entrepreneurs. It's-- it's the-- it's the greatest entrepreneurs in the world who have that skill.

Then, there is evolutionary innovation which is, okay, we have this fabulous platform called E-Bay. What else can we do? How can we enable the users?

MARIA BARTIROMO:

Great. Great, great points. And-- and, as we've heard companies that start to really listen to their consumers have to make some very serious decisions. But, when the end users are kids, or even teenagers, will they actually implement their consumers' ideas? And, if they do, what corporate changes will that set off? Here's CNBC's Mary Thompson.

INSERT LEGO PIECE

MARY THOMPSON VOICE OVER

(VO)

LONG TIME LEGO FAN CHRIS SMITH WAS MORE THAN HAPPY TO GIVE THE COMPANY A LITTLE ADVICE WHEN IT ASKED FOR IT.

S-SMITH (**Chris Smith, Lego Fan**)

(SOT)

"I really felt lucky".

VOICE OVER

(VO)

LAST YEAR, HE BECAME ONE OF A HUNDRED MINDSTORM FANATICS LEGO REACHED OUT TO, TO TEST THE NEXT GENERATION OF THESE PROGRAMMABLE ROBOTIC KITS.

HE AGREED, WAIVING ANY CLAIM TO HIS IDEAS.

S- SMITH

(SOT)

"any input we could give them would only better our chances of getting something better out of LEGO."

VOICE OVER

(VO)

BRAND RELATIONS MANAGER MICHAEL MCNALLY SAYS LEGO BEGAN TURNING TO ITS CUSTOMERS FOR IDEAS,

(VO)

AFTER THE THE PRIVATELY HELD COMPANY'S EXPANSION BEYOND ITS CORE LINE OF BUILDING BLOCKS, COLLAPSED.

Micheal McNally (SENIOR BRAND MANAGER)

Lego

(SOT)

"suddenly we realized that innovation could really come from the people who are using our product every single day of their lives."

▣ MARY THOMPSON STAND UP

MARY STANDUP

(STANDUP)

AT LEGO INNOVATION IS DEFINED BY MUCH MORE THAN JUST BUILDING BLOCKBUSTER TOYS LIKE MINDSTORMS

S-MCNALLY

(SOT)

for us, innovation doesn't necessarily mean technology and it doesn't necessarily mean having a hot toy. It means having a really great construction set in the box for people who love it the most

VOICE OVER

(VO)

ONE WAY THE WORLD'S SIXTH LARGEST TOY COMPANY MINES THE MINDS OF ITS FANBASE, IS THROUGH ADAPTIVE CONVERSATION SOFTWARE FROM INFORMATIVE.

IT LETS LEGO RUN A KIND OF ONGOING, ONLINE POPULARITY CONTEST OF IDEAS FROM THE COMPANY AND CUSTOMERS. IDEAS THAT ARE CONTINUOUSLY RE-RANKED ACCORDING TO CUSTOMER VOTES.

SOT

Ed Sarraille

CEO, Informative

(SOT)

basically they have a reporting dashboard so they see each idea received and they also see how that idea is received by others

VOICE OVER

(VO)

ONE IDEA CUSTOMERS RANKED HIGH... A LARGER BUILDING EXPERIENCE.

FROM THAT, THE DENMARK BASED FIRM CREATED THE IMPERIAL STAR DESTROYER, A MORE THAN THREE FOOT LONG MODEL COSTING ALMOST THREE HUNDRED DOLLARS.

IT SOLD OUT IN FIVE WEEKS.

(VO)

THE TOY INSIDER'S JONATHAN SEMET, SAYS LEGO'S DECISION TO EMBRACE THE CUSTOMER EARLY ON, GIVES IT A MUCH NEEDED LEAD ON RIVALS.

SOT

Jonathan Samet

The Toy Insider

(SOT)

"It's extraordinarily competitive whenever there is an opening, a trend, a glimpse of success there is a number of companies that will jump in

VOICE OVER

(VO)

SO BY THROWING A LINE TO FANS LIKE CHRIS SMITH,

LEGO EXPECTS TO PULL AHEAD OF THE COMPETITION.

V-MCNALLY SOT

(SOT)

if involving the people who know us the best, to help us do what we do best is the right business model then that's what we're going to do.

MARY THOMPSON CNBC FOR THE BUSINESS OF INNOVATION

MARIA BARTIROMO:

This is a really interesting model. Let me put this actually to all of you. The-- the model used by-- by Lego-- with the strong customer input, does this diminish the role of CEO?

MALE VOICE:

No, I don't think so.

MEG WHITMAN:

Oh, no. I don't think so at all.

MARIA BARTIROMO:

You don't think so, Meg, either?

MEG WHITMAN:

No, I think it actually makes the role of the CEO really fun, which is how do you capture the power of all of us? The employees, the customers-- to create something that is better than either group could create on their own.

DICK POSEY:

Right. And, in any case, I-- the CEO simply doesn't have all the answers, right? And so-- I think for any leader I think you need to involve your customers on the one hand, but really importantly, all the people in your company too because you've got ideas and good gray matter throughout the organization. If you don't let that bubble up, then you're not gonna be innovative. And, you're not gonna be very successful. So, no. I don't think it diminishes CEO role at all.

MARIA BARTIROMO:

Yeah, but how often is some of this information not necessarily good information? I mean, do you-- is there a risk, Vikram, that you know is all of this information flow that you're just getting too cluttered?

VIKRAM AKULA:

Well, I mean, in our case, it's-- it's a social business. And, our aim is to do what's right for the customer. So, in our case, not only the CEO's role, the whole organization's role is facing towards the customer and trying to figure out what the customer wants and truly desires.

MARIA BARTIROMO:

So Roger, do you agree that there's not really a lot of risk in terms of putting all of that power into the end customer? Even if it is kids like-- like the Lego story?

ROGER SCHENK:

Yeah, I mean, businesses are not all the same. So, you try to make these generalizations, doesn't always work. When you're dealing with E-Bay, for example, you're talking about an evolving thing which hasn't been around very long and people don't know what it ought to be.

The same thing is true of your product. They don't really know what it ought to be. Shower heads on the other hand, have been around for a really long time. So, the-- the-- there's a question of the kinds of questions you ask. And, I think you ask different questions in those different environments. If I'm dealing with a product that's been around a long time.

MEG WHITMAN:

I think the other--

ROGER SCHENK:

I want to know what kind a new thing could there be. And, you're not gonna ask the customer to get that.

MARIA BARTIROMO:

Meg?

MEG WHITMAN:

I think, Maria, there's also a different risk profile. You know, when Moen develops a shower head or, you know, something that-- there's probably a fair amount of upfront capital investment to this. They may be making molds and-- and, you know, they've got a long lead time. In businesses more like Vikram's and mine, we can change on a dime.

You know, the risk profile of doing something that didn't work is-- is not very high relative to something-- you know, I used to work in the toy business. The capital intensity of the molds and the nine month lead time to bring a product to market makes you a little bit more cautious in terms of, you know, moving very, very quickly.

MARIA BARTIROMO:

You agree with that?

DICK POSEY:

Well, there's definitely more-- capital investment and there is more risk in the kind of products we deal and then-- than in Meg's business, for instance, or in Vikram's business. But, we try to move pretty swiftly anyway. And, you, I-- I-- I go back to, you know, another example of just going out and-- and listening to what the consumers, and observing what the consumers are doing.

And so, we developed another line of products, bath safety products. And, here again, it was observational. We went in and we looked. And---- and-- individuals, perhaps elderly people, or people that have illnesses, or maybe are injured, they have to take their showers in a-- sitting in a-- a shower seat, okay? And, when we watch what they were doing, what we found was that, you know, the soap might be someplace over here. The wash cloth might be someplace over there. They'd have to lay down the hand shower some place. And, if they did, it would you know be jumping all over the shower stall. So, they were-- they were holding it between their knees to keep it steady.

And, we looked at that kinda stuff and we said, "You know, we can do a lot better than that."

MARIA BARTIROMO:

Let's take a look now at another company that has made a dramatic and substantial use of their customer feedback, recreating itself over and over with the direct help of its users. We're talking about Callaway Golf. Every CEO's favorite candy store. Here's CNBC's Jane Wells.

CALLAWAY PIECE BY Jane Wells

nats: hits ball...

JANE WELLS VOICE OVER: PHIL MICKELSON IS ONE OF THE BEST THERE IS... BUT BEHIND HIS TALENT...

NATS: hits ball again

JANE WELLS VOICE OVER: IS A CONSTANT SEARCH FOR THE BEST EQUIPMENT.

PHIL MICKELSON, Professional Golfer sot: if i have a club that's heel weighted for draw bias or tow weighted for fade bias that's going to change the way i have to come into the golf ball to hit good shots.

JANE WELLS VOICE OVER: WHO CAN HELP HIM DO THAT? ROCKET SCIENTISTS. REALLY.

sot; so i was working on warheads and bombs and missiles.

Jeff Colton/Callaway SOT: whats your degree in? applied physics. (me) you're a physicist? (him) yes, don't tell anyone.

music (opening guitar riff from red hot chili peppers 'snow')

JANE WELLS VOICE OVER: AT CALLAWAY GOLF AN ENTIRE GROUP OF SELF-DESCRIBED AEROSPACE REFUGEES HAVE BEEN HIRED WITH A SIMPLE MISSION:

nats: so your golf club is fading right now

JANE WELLS VOICE OVER: ...CREATE THE BEST GOLF EQUIPMENT WITH THE MOST PLEASING DESIGN...

Jeff Colton/Callaway sot: well, golfers are fanatics, they're nuts.

JANE WELLS VOICE OVER: JEFF COLTON HEADS CALLAWAY GOLF'S RESEARCH AND DEVELOPMENT, WHERE PATENTS ARE ENSHRINED IN A SMALL MUSEUM... WHERE INNOVATING CAME FROM THE TOP... THE LATE FOUNDER ELY (E-LEE) CALLAWAY. THE COMPANY STRIVES TO CREATE GOOD EQUIPMENT WITH A PLEASING FEEL AND DESIGN, EVEN USING PSYCHOLOGISTS...WHO, LIKE WATCHING GORILLAS IN THE MIST...OBSERVE GOLFERS.

sot; trying to uncover their unvoiced needs and desires.

JANE WELLS VOICE OVER: FOR PRO CUSTOMERS... IT'S A CONSTANT PROCESS OF TWEAKING. EXAMPLE, MICKELSON DIDN'T LIKE HIS WEDGE PLAY THIS YEAR... CALLAWAY SUGGESTED A CHANGE.

PHIL MICKELSON, Professional Golfer sot: let's put a little ridge in the middle so that it dige and it slides so that's what he di and ever since he did that my bunker play has been excpetionally better.

JANE WELLS stand up: ; AND IN the grueling work of innovating members of the r-and-d department have to go out and practice every day on the driving range.

JANE WELLS VOICE OVER: TAKE THE LOWLY GOLF BALL.

nats:hit

JANE WELLS VOICE OVER: CONTROLLING ITS FLIGHT PATH IS HARDER THAN BUILDING AN AIRPLANE.

sot: the dynamics around th egolf ball are very very complex.

JANE WELLS VOICE OVER: MIKE YAGLEY IS A FORMER BOEING AEROSPACE ENGINEER WHO NOW OVERSEES PRODUCTION OF CALLAWAY'S GOLF BALLS.

Mike Yagley/Callawaysot: so we spent probably 15 million dollars on our end alone and thousands and thousands of man hour to make a better golf ball.

JANE WELLS VOICE OVER: THE RESULT... A THREE PART BALL MADE UP OF RUBBER AND PLASTIC AND A SPECIAL THIN OUTER LAYER.

sot: it's about 18-thousands of a ball thick. and that's all you need to make the golf ball spin a lot around he greens.

nats: you can see it's a bit of an unconventional shape...

JANE WELLS VOICE OVER: THIS MONTH, THE COMPANY IS RELEASING A NEW DRIVER, THE F-T ONE... FUSING A TITANIUM FACE WITH A LIGHTER NON-METALLIC BACK. THE HOPE IS TO HELP YOU HIT THE BALL FARTHER BUT ALSO STRAIGHTER, WHICH MAKES YOU FEEL BETTER. AND THAT'S HALF THE MARKETING BATTLE.

Jeff Colton/Callaway sot: golfers need confidence when they get up over that golf ball. and so the shape, and feel and look, aura of the product that they get, you know, it needs to be very positive and give them that confidence and it often leads to good shots.

JANE WELLS VOICE OVER: MAKING THE CREATION OF GOLF EQUIPMENT A MIXTURE OF ART AND SCIENCE...

nats: hit

JANE WELLS VOICE OVER: ROCKET SCIENCE...IN CARLSBAD CALIFORNIA JANE WELLS, CNBC, FOR THE BUSINESS OF INNOVATION.

MARIA BARTIROMO:

Well, that's innovation. Roger, it looks more and more companies are really listening to customer. What did you think of that innovation?

ROGER SCHENK:

Well, it is innovation. But see, the really hard part about innovation is asking the right questions. And, some questions you can't imagine anyone would ask, which is "How do I loan money to poor people?" That's a great question. I'm amazed anyone thought about it.

Or, "How do I make a marketplace on the internet." Great question. I'm not sure why it's obvious. It isn't. But, it's always obvious to make a golf ball go further. I mean, that's a question you could ask all the time.

MARIA BARTIROMO:

Yeah, but I mean, from the business standpoint, this is a golf ball that probably had great margins. It's an expensive product. And, it's making the company money. And, it's--

ROGER SCHENK:

Well, I'm not-- I'm just not real excited about it. I mean, I'm happy they're doing that. That's very nice. And-- I think-- if they employ physicists, that's a good idea 'cause that's who's gonna answer the question. But, I just don't think it's a fascinating question.

MARIA BARTIROMO:

Any similarities to your business here in terms of the-- the-- innovative technique?

DICK POSEY:

You know, we ask questions all the time too of our customers. And-- and-- and, I've given a couple examples. But, you know, we also do some other things too. And-- and, that's where we just have a basic understanding of the market. And, we look at how products are used. And so, for example, if you're trying to replace a faucet, if you've ever-- have you ever tried to replace a faucet?

MARIA BARTIROMO:

You know, I can't say I have.

DICK POSEY:

You haven't? Oh, you've really missed something. (LAUGHTER) Okay, well if-- if-- in-- in a lot of cases, it's kinda difficult 'cause you got to take everything apart, and you got to take the valves off from underneath the deck and everything. But, we developed a system called Impact.

And, with that, you-- you put the valves in underneath the deck. And now, you-- you do it one time. And now, you've got common valving. And, from then on, you can change all the trim on top of the deck. And, you could do it in two minutes.

So, if you got tired of a design, or a finish, or something like that and you wanted to go to another mold and design, you could just unscrew them, take them apart, put the new ones on. And so, that's I think an example. I think it's a great innovation that our engineers came up with. But, they came up with it again by watching how consumers are using it, and the degree of difficulty of--

ROGER SCHENK:

Well, let me tell you why I like that, okay? I like that because that's a great-- again, a crazy question. How do we make people want to replace their faucets easier? You never replaced a faucet. I never replaced a faucet. It's a crazy question. But, once they come with it, it seems very cool.

MARIA BARTIROMO:

And-- and, one of those questions often is: What's not working? What don't you like?

ROGER SCHENK:

You know that seems like an obvious question. You know how rarely it's asked? I mean, there-- that's the issue here. You have some people here who are asking. That's wonderful.

But, out there in the real world people don't ask it about almost every institution they deal with on a daily basis. They never ask the question: How come this thing is the way it is? And, what's not working? They just accept it.

MARIA BARTIROMO:

The statue quo. It'll hurt ya.

DICK POSEY:

It's death. (LAUGHTER)

VIKRAM AKULA:

I think it's difficult-- it's-- it's difficult for companies. It's-- you know, especially companies that have-- that have been successful. This is the innovator dilemma, right, if things work and you want to keep going. And, I think it is smaller companies, newer companies, the E-Bay's as when they started, you know, other companies that are brand new in the market, which will cause these types of questions to be asked, and then change the way business is being done.

MARIA BARTIROMO:

Really interesting. Thank you so much for that. We appreciate it. Dick Posey, Vikram Akula, and Meg Whitman. Good to have you on the program. Thank you. And, we'll be right back.

TEASE SEGMENT 2

====ANNOUNCE====

NEXT...WHAT'S THE SECRET TO SUCCESSFUL INNOVATION?

===SOT FRESTON===

_ you really just got to take a lot of shots. And hopefully, something's gonna break through. The thing that breaks through usually is something that most people said, you know, "That'll never work."

====ANNOUNCE====

THAT'S WHEN THE BUSINESS OF INNOVATION CONTINUES...

END SEGMENT 1

EPISODE 3 SEGMENT 2

====ANNOUNCE VO====

THIS IS THE BUSINESS OF INNOVATION... HERE'S MARIA BARTIROMO.

MARIA BARTIROMO:

If creating new products for new customers is one way businesses can innovate, then you can find no better example than this.

FEMALE VOICE:

I want my MTV.

MARIA BARTIROMO:

Before Tom Freston helped create the campaign at MTV, what teenager knew they needed music television? And, after that, what teenager could live without it. For 25 years Freston helped grow and mold the network into the power house that it is today expanding the brand to other networks such as VH1, Nickelodeon, and Comedy Central. This past September Tom resigned from Viacom and is now a major funder in a new lifestyle network, Plum (PH) TV. Tom, great to see you.

TOM FRESTON:

Nice to be here, Maria.

MARIA BARTIROMO:

Thank for being here.

MARIA BARTIROMO:

So, when you were really beginning this, growing and-- and-- beginning MTV, you really tapped into what the youth wanted. How did you know what they wanted? How did you innovate based on that feedback?

TOM FRESTON:

Well, we-- we knew that there was two things that they really liked. They like television and they like music. By putting those things together, I mean, you really tapped in in presenting music in a different way on television. You tapped into a sort of a mother load of enthusiasm. And, it worked like a charm.

MARIA BARTIROMO:

were you tapping into people and finding out, you know, getting feedback from-- from kids and-- and finding out what they wanted? What they liked?

TOM FRESTON:

We did a lot of research--

MARIA BARTIROMO:

You did.

TOM FRESTON:

--in the early days. But, you know, not-- in retrospect, compared to sort of what's done now, not that much. But, we-- we also had a group of people who were very passionate about it, who had very good instincts and-- about the audience, and we were able to make a lot of adjustments along the way by using consumer feedback, which has since become a cornerstone of, you know, virtually all of Viacom does these days.

MARIA BARTIROMO:

And, the staff is so important. Tell me how you find the innovative people to come up with those ideas because often times when we've spoken about this in the last couple of-- s-- programs, that large companies sometimes shy away from having those, you know, innovative people who want to take risks on their staff.

TOM FRESTON:

Well, it's-- it's a real question of balance. But, I mean, you could say that, you know, innovation is what really creates value in this world. And, you've got to take risks and take bets, and-- and utilize processes that allow innovators to really shine.

MARIA BARTIROMO:

And, you-- you're known for fostering this idea of freedom. Take the risks.

TOM FRESTON:

Yes.

MARIA BARTIROMO:

Because you've got to.

TOM FRESTON:

Well, you do in television. And, in cable television, I mean, you-- you've got an ability to really-- you know, you can make a mistake and it's not gonna kill you. I mean, you just go back and you try again.

I always thought the rule in television generally is to fail. Most things aren't gonna work. They're not gonna be home runs. So, you're-- the odds are so much against you. So, you-- you know, you really just got to take a lot of shots. And hopefully, something's gonna break through. The thing that breaks through usually is something that most people said, you know, "That'll never work." You see that time and time again in all forms of popular entertainment.

MARIA BARTIROMO:

Which is great. I-- I love stories like that. You know, throughout our series is in highlighting innovators and iconoclasts who capture an innovative idea, or are committed to the philosophy of innovative thinking. Tonight we're spotlighting another innovator who is an incredibly humanitarian. A colleague in many ways, Vikram Akula. A man who won a Nobel Peace Prize because he created a bank for the people. The poor people. And then, taught them the right way to use it. Mohammad Yunus. Here's CNBC's Margaret Brennan (PH).

MUHAMMAD YUNUS PKG

MARGARET BRENNAN VO

BETWEEN 26,000 AND MILLION PEOPLE DIED OF STARVATION DURING THE FAMINE THAT RAVAGED BANGLADESH IN 1974...

IN THE MIDST OF THIS DEVASTATION, ECONOMIST MUHAMMED YUNUS STRUGGLED TO MAKE SENSE OF THE POVERTY THAT ENGULFED HIS NATION.

MUHAMMAD YUNUS

(sot)

I WAS FEELING VERY RESTLESS TEACHING ELEGANT THEORIES OF ECONOMICS IN A CLASSROOM WHILE PEOPLE WERE DIEING OUTSIDE OF HUNGER...I THOUGHT, I MUST DO SOMETHING

MARGARET BRENNAN VO

HE FOUND INSPIRATION IN THE PLIGHT OF A WOMAN WHO SOLD HANDICRAFTS TO FEED HER FAMILY. DESPITE HER LABOR, SHE WAS SADDLED BY DEBT FROM HIGH-INTEREST LOANS SHE TOOK FROM MONEYLENDERS. THE MONEY NEEDED: 25 CENTS.

MUHAMMAD YUNUS

(sot) "I couldn't believe that people suffered so much for so little"

MARGARET BRENNAN VO

ANGERED THAT THOSE WHO NEEDED MONEY THE MOST WERE DENIED IT - YUNUS STARTED LENDING HIMSELF.

MUHAMMAD YUNUS

SOT)

BANKS SAID THIS MONEY WILL NEVER COME BACK. BECAUSE POOR PEOPLE WILL NEVER PAY BACK. AND I CAME UP WITH SIMPLE RULES WHICH WOULD FACILITATE THEM TO PAY BACK EASILY, AND IT WORKED. PEOPLE PAID BACK EVERY PENNY .

MARGARET BRENNAN VO

YUNUS' NOT-FOR-PROFIT SYSTEM - GRAMEEN BANK - OFFERED SMALL, INTEREST-FREE LOANS FOR VILLAGERS TO START THEIR OWN BUSINESSES AND BECOME SELF-SUSTAINABLE.

ALLOWING WOMEN LIKE RUKEYA BEGUM TO CREATE HER OWN COTTAGE INDUSTRY AND STEP OUT OF POVERTY BY GRADUALLY REPAYING THE LOAN.

MUHAMMAD YUNUS

"Its the local money, mobilized as deposit, lending the same money to the local poor people and builiding up the local economy"

MARGARET BRENNAN VO

YUNUS INNOVATION BECAME KNOWN AS MICROLENDING - A CONCEPT THAT TURNED ECONOMIC DEVELOPMENT THEORY ON ITS HEAD TRANSFORMING THE LIVES OF MILLIONS - PARTICULARLY WOMEN WHO MAKE UP 97% OF GRAMEENS' 7 MILLION BORROWERS.

MUHAMMAD YUNUS

(SOT)

"we started noticing something very remarkable. money going to the family thru the woman, brought so much more benfit to the family."

MARGARET BRENNAN VO

GRAMEEN BANK NOW FAVORS WOMEN AFTER YUNUS NOTICED THAT THEY TENDED TO REINVEST INCOME INTO THEIR CHILDREN - HELPING THE NEXT GENERATION BATTLE MALNUTRITION AND SUPPORT EDUCATION. THAT GENDER PREFERENCE CAUSED CONTROVERSY AMONG CONSERVATIVE ELEMENTS IN THE VILLAGES.

MUHAMMAD YUNUS

(SOT)

"When you do something new people will be speaking against you. its your job to demonstrate that their fears are wrong."

MARGARET BRENNAN VO

IN 2006, YUNUS FOUND VINDICATION WHEN HE BECAME THE FIRST ECONOMIST EVERY TO WIN THE NOBEL PEACE PRIZE.

MUHAMMAD YUNUS

(S/ Mohammed Yunus / Nobel Peace Prize Winner

(SOT)

"We are creating a completely new generation that will be well equipped to take their families way out of the reach of poverty"

MARGARET BRENNAN VO

GRAMEEN BANK NOW LENDS OUT NEARLY HALF A BILLION DOLLARS A YEAR. YUNUS IS LAUNCHING NEW PROJECTS UNDER THIS SAME CONCEPT OF SOCIALLY RESPONSIBLE BUSINESSES THAT WILL AID DEVELOPMENT.

MUHAMMAD YUNUS

(SOT)

MY DREAM IS SOME DAY, THIS BANK WILL BE KNOWN AS THE BANK OF THE FORMER POOR.

MARGARET BRENNAN VO

MARGARET BRENNAN, CNBC FOR THE BUSINESS OF INNOVATION.

MARIA BARTIROMO:

You know, that's a business really that-- that entwines social responsibility as well as making money. And, I know, Tom, that you are involved in the Red Campaign, which of course is-- is socially responsible. Tell us about that and-- and-- and how you innovated in the campaign.

TOM FRESTON:

Well, I'm doing some work with them. I really got to give the credit to Bono and Bobby Shriver who came up with this idea a few years ago.

where basically you-- you will go to iconic brands like Apple, like the Gap, like Converse, like Motorola, like American Express and say, "You create red branded products. And, the consumer will know that a portion of these profits will go the global fund, which in turn will go to these villages in Africa."

And, it's not asking someone for a check. It's saying this is a business opportunity. You can bring a new market segment to your business. You can drive your revenues, drive your bottom line. You can also do a tremendous thing in terms of enhancing your image to your employees and to the outside world. And, it's off and running. And-- and-- and, really-- has the capability and potential of generating hundreds of millions of dollars in the most creative way.

MARIA BARTIROMO:

Roger, it's an innovative way to steer money toward helping people.

ROGER SCHENK:

It's nice some companies actually try to care about people. That's a very important thing to do.

MARIA BARTIROMO:

Let-- let me ask you though about the customer. That's really what we've been talking about tonight. And, how so many businesses try to tap into their customer base to get feedback. How important is it for you to know what your customers want, what your customers need in order to bring out innovative products?

TOM FRESTON:

Well, we're in a marketing oriented world. So, you've got to argue that you-- you know, we used to say... maniacal ongoing consumer focused on relationship, or how else are you gonna make your product better if you don't have some sense as to what the market wants? It seems-- it's-- it's very unusual that you can be successful by just disregarding your consumer.

MARIA BARTIROMO:

Roger, how do you feel about that?

ROGER SCHENK:

I think TV is kind of an unusual business. You have feedback right away. You know exactly how-- how many people are watching. You're not doing-- every time you put on a show, you're not doing anything really radical. People are used to new shows. So, I think you're dealing with a business where innovation is much more constrained. And therefore, you can do some-- something that's clever.

Look, MTV was very clever. I'm not gonna argue it's not very clever. But, the question in television I think is the next step on which is pretty soon everyone's gonna be producing television. It's not so hard to do. And, you're gonna be distributing it in ways on the internet that they never had before. So, television actually has to take a look at itself and wonder how long it's gonna continue in the same way of producing programming as they've been doing.

MARIA BARTIROMO:

Tom, you agree with that?

TOM FRESTON:

Well, you know, it is true. Everybody that-- the hands of production are on the-- I mean, the means of production are in the hands of the people now. We look at all those user generated content and whatnot. But, I've got to say for the last several years, people have been predicting that TV viewer-ship would go down. And, it's really at an all time high per household.

People are watching more TV. But, they're doing all these other things as well. But, I do agree with you. You know, it-- it's just gonna be more competitive. You're gonna have to be better at your game. And-- you know, in the end-- the viewer's the one who's really gonna be the-- the beneficiary of all this.

ROGER SCHENK:

You see, I think--

ROGER SCHENK:

There's a side part to this game. If I were running MTV, I would be providing the tools to the kids to produce their own MTV videos and giving them courses to help them do it. And, get them into production mode. In-- in other words, it isn't just, "Oh my God, that's gonna take over." Rather, taking advantage of the fact that phenomenon's gonna happen.

TOM FRESTON:

Well, they are in fact doing things just like that now. I mean, I think the next season of "The Real World," which was really the first reality show that ever ran, it's gonna be in the hands of the viewers to cast themselves, if they want to, and the viewers will actually chose who's gonna be in the cast of the show. And, they will be able to vote on them-- on-- on what goes on with the show over the period of the series.

MARIA BARTIROMO:

Really interesting conversation. Tom, thank you. Really good to see you.

TOM FRESTON:

Good to see you, Maria.

MARIA BARTIROMO:
Thanks very much. Tom Freston. And, we'll be right back.

TEASE:

====ANNOUNCE VO====

HOW DO YOU GET YOUR CUSTOMERS TO HELP YOU INNOVATE?

====SOT ERIC VON HIPPEL====

ERIC VON HIPPEL:

Now the astonishing thing is there are many more innovators outside the company who are leading edge than there are inside.

====ANNOUNCE VO====

THAT'S NEXT ON THE BUSINESS OF INNOVATION.

END SEGMENT 2

BEGIN SEGMENT 3:

BUMP IN:

====ANNOUNCE VO====

MORE BUSINESS OF INNOVATION .
HERE IS MARIA BARTIROMO.

MARIA BARTIROMO:

Consumers make the business world go 'round so they can lead the action or they can stop it cold. When customers speak companies either understand what they're saying or they die on the vine trying to figure it out.

To help us figure it out we've brought in some experts who know what customers want and how to get your organization to listen. I'm joined by Jane Buckingham. Jane is President of Youth Intelligence, an organization providing marketers with insights into popular culture.

Jane publishes the leading trend forecasting product, The Cassandra Report, and she's one of the foremost experts on what young people are thinking. Eric von Hippel. Eric is one of the foremost experts on user centered innovation and is the head of the Innovation and Entrepreneurship Group at MIT's Sloan School of Management. And I'm also joined--By Derek Cheshire . Derek is a UK based innovation expert and author. Derek is also a member of the Mastermind Group for the design/interaction course at the Royal College of Art and Design in the Hague.

Welcome. Nice to have you all with us. Eric you've said that user innovation has always been around but the difference now is that people can no longer deny that it's happening. Tell me what you mean.

ERIC VON HIPPEL:

Well the amazing thing as I listen to your program it's interesting that you don't have any users on. When you study where innovations come from which is what we've done for a long time and Roger mentioned we're to the extremely through revolutionary innovations come from. What we find is that in most cases they actually come from users.

Now these are not your ordinary customers. These are what you call lead users. They're ahead of the trend totally so if you think for example about mountain bikes they were not developed by manufacturers of bikes. They were developed by users who wanted to get on a mountain.

If you think about heart/lung machine they were not developed by medical equipment companies. It was a doctor who needed to do a heart operation who developed it. Manufacturers when they look at this say, "Well you know there's no market there and how do we know you'll succeed?" But the doctor needs to do it and so he develops it.

MARIA BARTIROMO:

That's a really good point the-- the-- the user. And Jane you seem to always measure the temperature of pop culture and advice companies on what's hot. How do you use the user in terms of doing that?

JANE BUCKINGHAM:

Well sort of in exactly the same way because you find that customers get reckless with what's out there. They want something new whether it's in fashion, whether it's in music, whether it's in entertainment. So they try to create it themselves. So then designers look to the streets for something in-- new in fashion. Consumers create mash-ups in music-- on the internet. They're the ones who are creating the fun, new videos. So usually it is a consumer who's creating something new and different and then it's the companies who then try to make money off of it.

MARIA BARTIROMO:

But what about this idea that you don't wanna follow the trend? So Derek

If in an organization is following this model of listening to their customers, listening to their users aren't they also risking just following the popular trend?

DEREK CHESHIRE:

If-- If companies blindly follow what-- exactly what everyone else does they're-- wouldn't say they're doomed to failure but their chances are less. They have to find new ways of doing it and-- and that's what we're all seeking to do.

MARIA BARTIROMO:

That's what you said earlier Roger. It's the question that you ask and it's also the-- the questions you ask about what they don't want.

ROGER SCHENK:

But what-- that he's saying is, "Hey listen to the guy who's trying to change it and watch him do that. That's a different thing. So you can confuse yourself with the words. I think paying attention to what someone is trying to do is a lot different than paying attention to what someone's trying to say.

ERIC VON HIPPEL:

Lead users you see are really not necessarily your customer. They're the-- the guy who developed the heart/lung machine was not a customer. The guy who developed the world wide web he was not a customer of Microsoft. He was trying to solve a problem he had as a user.

ROGER SCHANK:

That's a very important point because the issue of listening to your customers which I don't really agree with is very different than saying, "You know there are inventive people out there who are very frustrated. That's a different story.

MARIA BARTIROMO:

That's not what you were saying, "Now you don't agree with listening to your customers?"

ROGER SCHENK:

I've never believed in listening to customers.

MARIA BARTIROMO:

You said earlier that it's so important to tap the--

ROGER SCHENK:

To watch them. To watch them. Not to listen to them.

MARIA BARTIROMO:

Okay.

ROGER SCHENK:

All right.

JANE BUCKINGHAM:

You have to listen to your customer. You can d-- You can disregard what they say but you have to listen to them at some point just to hear what they're telling you. You don't have to follow all of their advice. But I think that if you dis-- you have to hear what they're telling you even if you then choose not to listen to all of it.

ROGER SCHENK:

That's right. And you-- you watch the leading edge customers, right? Or the leading edge users, the trend setters.

JANE BUCKINGHAM:

We do. We watch them. We also watch the main stream because we wanna see how quickly things go from the trend setting consumers into the--

ROGER SCHENK:

Yeah.

JANE BUCKINGHAM:

--main stream. And how quickly-- and-- and that's changed recently because things do go faster from the trend setters to the main stream because trends are moving more quickly because of the internet, because of manufacturing, because of many different things and it makes it harder in some ways to innovate or-- or frankly to make

money off of trends. But-- But I do think it's always important to listen to what customers are saying because you can miss opportunities if you don't hear them.

ROGER SCHENK:

What makes you think customers are right? Customers sometimes--

JANE BUCKINGHAM:

I didn't say they're--

ROGER SCHENK:

--say wrong things.

JANE BUCKINGHAM:

--always right. Oh I'm not saying they're always right. But I'm saying you should always listen to them.

ERIC VON HIPPEL:

Yeah but again the issue--

JANE BUCKINGHAM:

But--

ERIC VON HIPPEL:

--is you have to go to the leading edge.

JANE BUCKINGHAM:

Right. Right.

ERIC VON HIPPEL:

That's where you find the people who are solving problems. And when you know that that leading edge is ahead sort of of the-- of the market as a whole you can enter later and pick it up. So what you see now with Lego is something very interesting. Those are the only users we saw in the program and those people were innovative.

Now the astonishing thing is there are many more innovators outside the company who are leading edge than there are inside. There are many more university doctors developing new equipment than there are in medical--

MARIA BARTIROMO:

Well the E-bay-- the E-bay users were also innovating.

ERIC VON HIPPEL:

That's right. They really were.

MARIA BARTIROMO:

We should put that because--

ERIC VON HIPPEL:

In fact I think the early-- the founder of E-bay was innovating because I think his wife wanted to sell her pen selection or something.

MARIA BARTIROMO:

Right. That's right.

ERIC VON HIPPEL:

Yeah. Again a user.

MARIA BARTIROMO:

Th-- Absolutely. Talking about seeing a need and filling it, one thirsty customer turned that into his own innovation. Here's CNBC's Darren Rovell (PH).

TURBO TAP PIECE:

DARREN ROVELL VOICE OVER:

There's got to be a way to make this go faster. If you've ever been in a concession line, you've made this statement. As a student at the University of Wisconsin, Matt Younkle did - wondering why the folks in the student union couldn't pour beer faster. So the engineering major put his degree to use. Today, his company is the maker of TurboTap, a device that is fit onto taps. It pours a beer with a perfect collar -- two or three times faster than beer that flows from a conventional tap.

(Matt Younkle, President, TurboTap) The neat part about it is, it's just working on the fluid principles of beer. There aren't any moving parts inside the turbotap.

DARREN ROVELL VOICE OVER:

Over the past three years, sports team owners and concessionaires have been using TurboTaps to maximize pours and profits. Today, they're in 28 stadiums across the country, filling up 10 beer cups a minute.

Younkle -- Every second counts in a concessions environment because there's a fixed amount of time between the time the gate opens and the game ends or they shut off the beer sales to make all the revenue. In the case of football it's literally 40 hours a year.

DARREN ROVELL VOICE OVER:

The Chicago Cubs management was happy with TurboTap after it not only poured beer faster but yielded 12 more cups per keg thanks to no spillage.

Todd Keeling, VP Sales, TurboTap if you can get 50 percent yield, you're still making great margins but we don't want to do that. We want to show it 95 percent, your margins are extraordinary."

DARREN ROVELL VOICE OVER:

TurboTap's margins aren't shabby either. Younkle decided the best model was to lease each tap at \$99 per tap per year. There's also a service component -- \$10 per tap per month. Basketball arenas have hundreds of taps, baseball stadiums can have as much as 500 taps. Football stadiums -- sometimes well over 1,000 taps. They're also helping the ka-ching for bar owners who pay up to \$130 a keg for a premium beer.

Now if only they could do something about that beer belly thing. Darren Rovell CNBC for the Business of Innovation.

MARIA BARTIROMO:

Really an interesting, innovative idea. Roger what do you think?

ROGER SCHENK:

Well you see the thing, the key issue that was not mentioned there is anger. Right? You got an angry user. That's different than, "What would you like customer? Blue or green?" What-- You have an angry, grumpy user. Pay attention to him. Find out what he's angry about.

MARIA BARTIROMO:

It certainly has been pulled upside down with the customer really in control Jane.

JANE BUCKINGHAM:

It is. I think it's a really hard--

JANE BUCKINGHAM:

--time and I think it's-- this is a customer today who says in every area of their lives, "What have you done for me lately?" And, "What are you gonna do for me?" Whether it's a movie they're going to see or a product they're going to buy or a TV show they're going to watch. It's-- you know it is a very entitled generation and they're used to it. And so it's a harder time to market to them, a harder time to sell to them and it's very, very challenging and it is about innovation because they're looking for things that are new or better or different.

MARIA BARTIROMO:

So we've been looking at this concept of customer focus with the-- with the glass half full attitude. Right? But we all know the story of how years ago in the computer disk drive industry customers didn't necessarily want smaller drives. And it was manufacturers that drove innovation. Isn't that right Roger?

ROGER SCHENK:

Well as I said I don't think the customer necessarily is the right person to be w-- driving innovation in general. I think it-- it isn't necessarily the manufacturer. It's the innovator. Right? So the question is, "Who's the innovator? Where do you find him?"

ERIC VON HIPPEL:

Yeah. It's the innovating user honestly. And the thing is that manufacturer have to learn this because users aren't gonna wait for them. There's a very interesting example now in-- Mass General Hospital in-- Massachusetts. Namely they've gotten tired of waiting for manufactures to build what they develop when they know it's better for their patients. So with modern manufacturing techniques the hospital, the user, can start building it for themselves.

And so that's what's starting to happen. They're not waiting for manufacturers to line up their business models any more.

MARIA BARTIROMO:

Jane do you see this when-- when you're consulting with these major firms? I mean are they becoming to reliant on what the public tells them people want?

JANE BUCKINGHAM:

You know I think that companies want to know what consumers say and I think they wanna know what the trends are but no I don't think they're overly reliant. I think smart companies use it as one tool. I think they look at what their customer wants. They look at what the manufacturing challenges are. They look at what their challenges are.

I think the smartest companies know that consumers aren't the silver bullet. They just see it as part of the puzzle. And I think that that's where great, you know-- innovation does happen is it's just part of the puzzle. Nobody's saying consumers are the only answer. They're just part of it.

MARIA BARTIROMO:

Right, right. This is great. Thanks so much for being here. We appreciate it. Jane, Eric and Derek thank you.

TEASE;

=====**announce vo**=====

next ON THE BUSINESS OF INNOVATION GETTING INTO YOUR CUSTOMERS BRAINS...

=====**SOT ROGER**=====

ROGER SCHENK:

are you gonna ask a four-year-old what toy he likes and what he thinks improvements would be. Watch him play with the toy.

=====**ANNOUNCE**=====

THAT'S THE BUSINESS OF INNOVATION.

END SEGMENT 3

BEGIN SEGMENT 4

=====**ANNOUNCE VO**=====

THIS IS THE BUSINESS OF INNOVATION WITH MARIA BARTIROMO.

MARIA BARTIROMO:

And Roger, you know, so much of our conversation tonight really focuses on the customer and how important the customer is. You say you know you don't have to listen to the customer but you've got to way-- you've got to watch what that customer wants.

ROGER SCHENK:

Well don't ask him. I mean are you gonna ask a four-year-old what toy he likes and what he thinks improvements would be. Watch him play with the toy. I see the movie Big did a--

MARIA BARTIROMO:

Okay.

ROGER SCHENK:

--wonderful job of this. Tom Hanks was sittin' there smashin' the toy 'cause he can't figure out what to do with it. All right. That's right. So don't ask. Doesn't matter what he says. It matters what he does.

MARIA BARTIROMO:

It's like Dick from Moen and-- and talking about how they're watching people in the shower. I mean that's amazing. I mean that kind of specific you know watching what the customer is doing is not only brilliant but it's really creating new products and innovating.

ROGER SCHENK:

Well the interesting thing really is how come that's so unusual. Because it seems k-- and when-- when you hear that there's videotape people in the shower apart from the prurient interest you start thinking, "Gee that makes a lotta sense doesn't it."

MARIA BARTIROMO:

Yeah.

ROGER SCHENK:

So why are-- isn't every company doing that? Well there's one reason why. Not every company's selling to consumers. A lotta people are selling to businesses and businesses have their backs up. They don't want change and actually it's a whole different thing to try to innovate processes and new services into a business that doesn't wanna know about it. You can't ask them because they're trying to protect themselves.

MARIA BARTIROMO:

And then you had Tom Freston. I mean he knew that you know the big user, the person watching TV, liked music and also liked the TV, put 'em together.

ROGER SCHENK:

Well but the interest thing about it is they haven't gone far enough with that. Because at the end music, television, yeah that seems pretty obvious. MTV beautiful idea but it's around a long time. How come we haven't gone the next step?

See I always get curious 'cause I like to ask questions of why are there's something more exotic and more fun out there. How come MTV's still around. It's an old idea.

MARIA BARTIROMO:

Well they're-- they're gonna have to come up with new ideas. They're gonna have to innovate with-- with the whole industry changing right? And then of course there are some questions. You say, "Don't ask. Don't you know don't ask them what they want?" There are some questions that even you said you've gotta ask and that is, "What don't you like?"

ROGER SCHENK:

Well I think that--

MARIA BARTIROMO:

It's not working.

ROGER SCHENK:

Yes. I think ask why they're angry. It's all about emotion. I mean people are emotional and sometimes they suppress their emotion so they don't tell you what they are. But when somebody's eme-- emotional you have that little piece on the beer thing. Some guy got annoyed standing on line--

ROGER SCHENK:

Yeah I understand annoyed. Okay?

MARIA BARTIROMO:

Right.

ROGER SCHENK:

Annoyed is how come I can't make this better? So the same thing is true about even you know like the-- the ATM machine. People are annoyed standing in line in the bank. They didn't know it if you'd asked them if they want a machine to give them

money they would've said, "No." But it turns out we all like ATM machines better now don't we?

MARIA BARTIROMO:

Yeah. And then you have Vikram (PH) right? And he just knew what wasn't working these women in-- in impoverished countries and needing money and needing just a shot, to have lending.

ROGER SCHENK:

But that one's more impressive than any of them.

ROGER SCHENK:

--because it isn't just asking what they needed. It's caring about what they needed. I'm way impressed with that one.

MARIA BARTIROMO:

And-- And I guess there's so much innovation to come in financial services because you've got situations like that all around the world.

ROGER SCHENK:

Except I don't know. I mean I think banks are dull and boring, don't care about people. It-- The nice thing about this is you have an example of someone actually caring about people.

MARIA BARTIROMO:

Yeah.

ROGER SCHENK:

I like to see companies that are involved with critical issues like finance start to seriously care about their customers.

MARIA BARTIROMO:

Well then what-- what did Meg Whitman say? I mean she was saying that the users are innovative. They started off putting those little cars and then they started putting you know their own cars and selling real big cars that we drive on--

ROGER SCHENK:

You know the problems--

(OVERTALK)

ROGER SCHENK:

--EB-- E-bay is so wonderful that you can't learn anything from it because in-- in some sense what they've said is, "Hey we're about the whole general public doin' whatever they want. We'll watch 'em. We'll facilitate." That's great. It's a lovely business. Very unusual.

MARIA BARTIROMO:

So what don't you wanna ask your use-- I mean one thing that-- that Eric said in-- in you know one of our experts. He was really interesting saying, "You don't know who the user is. Right? I mean who is the user?" You said, "Who is the innovator?" is really the question to ask. It might be the user. It might be the customer. It might be the CEO. It might be the manufacturer.

ROGER SCHANK:

Well the innovator is-- the innovator is very sa-- is always the same across all of those. The innovator is somebody who's disgusted with the way things are. He might be a disgusted customer. He might be a disgusted manufacturer but he's disgusted.

And that's what-- Innovation always starts with failure. It starts with somebody hating something 'cause it didn't work real well. So what he was saying was, "Your customer can be your innovator if he's annoyed." That's a big difference from saying, "I-- I wanna pay attention to an innovative customer and I just wanna pay attention to every customer." That's very different.

MARIA BARTIROMO:

So interesting, great conversation once again Roger. Great to see you. And that is the business of innovation for this week. I'm Maria Bartiromo. Now here's a look at what's ahead for next week's program.

====ANNOUNCE VO====

NEXT WEEK ON THE BUSINESS OF INNOVATION...PEOPLE AND TECHNOLOGY.

ROGER SCHANK:

If you're going to design something new... you better understand the problem first. I think technology is our means of innovation this era.// But innovation is much more of an idea of// what people are unhappy about and trying to find a solution.

====ANNOUNCE====

THAT'S NEXT WEEK ON THE BUSINESS OF INNOVATION.

====ANNOUNCE VO====

GO TO INNOVATION.CNBC.COM FOR VIDEOS, TRANSCRIPTS AND MORE.