

OPEN/MUSIC

MARIA BARTIROMO:

Hi, everybody, I'm Maria Bartiromo, and this is the business of innovation.

THESIS PIECE:

ROGER SCHANK: Looking at the future is not easy to do... but it's all there is to do if you want to stay in business.

ANNOUNCE VO: Alright... but how can anyone really predict the future... when the game is constantly changing...

ROGER SCHANK: You better know what game you're in.

ROGER SCHANK: Quite often companies don't get it... about what business they're in.

ROGER SCHANK: The most important thing a company can do is figure out what business they're in// this seems very easy... but it's really very hard... most companies don't have a clue at what business they're in...

ANNOUNCE VO: Ok... but let's say I know who I am and what I bring to the market place... but I'm still scrambling to stay ahead...

ROGER SCHANK: If you want to change, you have to look inside for how things can be different.

ROGER SCHANK: Innovations start with, "This place is wrong. It ain't working right. Let me see how I can fix it." If you don't see everything is broken, you're never gonna come up with any repairs. The repairs are where the innovation starts.

ROGER SCHANK: Why is change so difficult, because people think that the way they did things is the way they have to be done.

ROGER SCHANK: Why couldn't United Airlines figure out how to do what Southwest is doing? Because it's filled with a lot of people who say, "That's not how we do business at United Airlines. We do it the way we always used to do it." And so when they're caught up with a//problem. What do they do? They cut meals. Oh... that's the problem. The problem was that they were serving meals.

ROGER SCHANK: You have to understand why people hate you if you're going to make changes.

ANNOUNCE VO: But aren't you going to alienate people... by walking in and demanding changes.

ROGER SCHANK: You're never gonna tell a company, "You know what? We're all gonna do something new." And have them, "Oh, whoopee, we're so happy to hear that." Believe me, they're not working at a big company 'cause they want their whole lives changed.

ANNOUNCE VO: But doesn't most innovation come from changes within a company?

ROGER SCHANK: Corporations can't learn from failure, because when they have massive failures... they fire people.

ROGER SCHANK: New management will never make a company change in an important way. It'll make it more efficient. It'll make it more profitable, but it'll never make it change.

MARIA BARTIROMO:

Our residence guide to the innovation maze, Roger Schank. The CEO of Socratic Arts, an expert on learning. Rodger, that's a bit of a dismal forecast isn't it? New management can't bring change?

RODGER SCHANK: **Socratic Arts CEO**

Well, what new management knows how to manage? Does it know how to invent businesses? Is that why they got to be professional managers? They understand how to manage and how to be profitable, that's great. But the people who are innovators typically don't go get MBAs and learn how to run companies.

MARIA BARTIROMO:

Uh-huh (AFFIRM). Yeah, but-- it just seems so odd. Because when you bring new management in, that's the reason that you-- that's one of the key things you want them to do. You want them to innovate, you want them to put new, fresh change into a company. And you're saying it can't be done.

RODGER SCHANK:

Well, they go to the smart people in the company, who may be the wrong people for that company. If you're-- for example for your Kodak and all your smart people are chemists and suddenly you wish you had smart people who knew about digital media, but they don't exist in the company, who are you gonna ask? And if you fire all the chemists, aren't they gonna complain? I mean, it's hard.

MARIA BARTIROMO:

Uh-huh (AFFIRM). So an innovator then, what you're saying, doesn't necessarily run a big company.

MALE VOICE:

Probably shouldn't be running a big company. The innovator should be allowed to innovate. The question is, do you have people in your company who are innovative and you're letting them innovate? I don't think that has to-- they should be the executive branch, they should be in the innovation branch.

MARIA BARTIROMO:

Uh-huh (AFFIRM). Tonight, we've brought together some luminaries to shed a little light on the innovation challenge.

CEO PROFILE

IT MAY SEEM UNUSUAL BUT THE PLAYBOY EMPIRE IS RUN BY A WOMAN. CHRISTIE HEFNER... DAUGHTER OF FOUNDER HUGH... HAS BEEN IN CHARGE OF THE OPERATION FOR NEARLY TWO DECADES MOVING THE COMPANY OUT OF OLD BUSINESSES AND INTO NEW ONES INCLUDING THE INTERNET.

====EFFECT TO LARRY HUSTON====

AT PROCTER AND GAMBLE, INNOVATION HAS BECOME A BIT OF AN OBSESSION AND LARRY HUSTON WAS THE MAN IN CHARGE. AS VICE PRESIDENT OF INNOVATION HE WAS IN CHARGE OF THE COMPANY'S STRATEGY TO GENERATE IDEAS FROM OUTSIDE THE COMPANY.

P&G HAS BEEN CALLED THE WORLD'S NUMBER ONE BRAND COMPANY WITH HOUSEHOLD NAMES LIKE IVORY SOAP, TIDE, CREST AND PAMPERS JUST TO NAME A FEW.

====EFFECT TO TELES VOICE OVER====

TARQUINIO TELES IS TRYING TO REVOLUTIONIZE THE GAMING INDUSTRY IN HIS HOME COUNTRY BRAZIL. FOR THREE YEARS HIS COMPANY HOPLON ENTERTAINMENT HAS BEEN BUILDING A MASSIVE MULTIPLAYER ONLINE GAME CALLED TAIKODOM. IT WILL BE THE FIRST SUCH GAME RUNNING ON A MAINFRAME COMPUTER AND WHEN COMPLETE TAIKODOM WILL BE PART SCI-FI REALITY SHOW, PART SITCOM ADVENTURE WITH TARGETED ADVERTISEMENTS AND PRODUCT PLACEMENT.

====EFFECT TO TERRELL JONES OVER====

IF YOU'VE TRAVELLED BY AIR IN THE LAST 3 DECADES, CHANCES ARE TERRY JONES HAD A HAND IN IT. STARTING AS A TRAVEL AGENT HE MOVED TO AMERICAN AIRLINES AND THEN TO AMERICAN OWNED SABRE -- THE WORLDS FIRST COMPUTERIZED RESERVATION SYSTEM.

FROM THERE HE FOUNDED AND RAN TRAVELOCITY DOT COM WHICH REMAINS ONE OF THE WORLD'S LARGEST PROVIDERS OF CONSUMER DIRECT TRAVEL SERVICES.

TODAY HE LENDS HIS EXPERTISE TO OTHER COMPANIES MAKING THE TRANSITION TO THE DIGITAL ECONOMY.

MARIA BARTIROMO:

Christie, Terry, Tarq and Larry, welcome nice to have you.

TERRY JONES:

Thanks.

CHRISTIE HEFNER:

Thank you.

MARIA BARTIROMO:

You know, it's such an exciting subject, innovation. And, you know, Christie, a lot of experts say many established companies miss the obvious opportunities to evolve and innovate. You've really had to evolve your company during-- your tenure, what were your biggest hurdles?

CHRISTIE HEFNER: Playboy Enterprises CEO

Well, I think the biggest challenge was to find the right opportunity for growth. And in that regard, we benefited from the convergence of our interest in looking for growth with what was happening with pay-television. So that encouraged us to take-- relatively speaking, the leap of faith that, instead of growing as a print-publishing company, we could extend the brand and Playboy-style content first into TV.

And then, as you know, we were the first magazine company on the World Wide Web in '94. And an early player in mobile. And so we really redefined our business as being a media company on a global basis, instead of a domestic magazine company.

MARIA BARTIROMO:

Right. And, Terry, how 'bout your brand? I mean, you face some really different challenges in getting Travelocity to take off. What were some of the obstacles to innovating?

TERRY JONES: **Founder Travelocity.com**

Well, you know, Travelocity was started inside of Sabre, which was part of American Airlines. So-- there were a lot of obstacles, as was talked about at the beginning-- of the show in terms of just inertia and people getting in the way. So I think it was really important that I was high enough up-- up in the organization that I had some clout, that I reported to the CEO, that we took the whole team and moved them out of the corporate headquarters and got them somewhere else.

'Cause you're-- you're nurturing a small flame and it's real easy for somebody to put it out. Nobody really wants the flame to get big. They-- they want to put it out and go on to their corporate business.

MARIA BARTIROMO:

Right, Larry, how 'bout you? Procter and Gamble has been--such a-- a large, you know-- old company and yet you fell on hard times and you turned it around.

LARRY HUSTON: **Former VP of Innovation, P&G**

You know, our-- our-- CEO, A.G. Lassley came in-- six years ago and from an innovation standpoint, really challenged us to get a lot more of our innovation from outside the company.

LARRY HUSTON:

Most companies just go and try to invent everything themselves when we've really learned that tremendous talent-- that really exists all over the world, be it in India or China or Japan or Germany or any country.

MARIA BARTIROMO:

Right.

LARRY HUSTON:

I mean, there's just so much talent out there. And the world's very different.

RODGER SCHANK:

I mean, the reality is that companies don't typically have the ability to spend the money to talk to all these people. Things aren't-- it isn't cheap to do that.

MARIA BARTIROMO:

Right.

RODGER SCHANK:

Al-- ultimately the issue about innovation is being willing to spend money on it. I-- I think what you're hearing-- the subtext here is that his company is willing to spend (LAUGHTER) money on it.

MARIA BARTIROMO:

Right.

RODGER SCHANK:

That's a pretty good thing.

CHRISTIE HEFNER:

But you don't have to do it with just spending money, because you can do that kind of listening around the world through licensing or other kinds of business models that give you access to innovative thinking. I mean, for example, the mobile space is much more developed in other countries than in our own. And we've been in that for four years and have learned a great deal about what kind of content consumers want to download.

MARIA BARTIROMO:

That's a really interesting point, Christie. But, you know, Tarq, you're on the other side of all of this, right? I mean, the revolution side. Your company is a start up. You don't have this-- you know-- advantage of money to go all around the world, get all of these different ideas, but being a start up has it's own unique challenges, right?

TARQUINIO TELES: Hoplon Infotainment CEO

-- Brazil is-- very much a far Western Country, but it's-- a little behind, if you mind my saying—the pace of the United States, North America. So we have to kind of reinvent many things and-- other things we can learn by the mistakes that were made before us.

And-- we really have to learn to be more business-like people. And are very focused on bringing to value to the customers. That's something that's happening very much in Brazil right now.

TARQUINIO TELES:

One of the main ad-- examples I can offer is the Brazilian banking system. It's a very, very, fast and reliable system. You can-- transfer-- instantly across-- across the country--

MARIA BARTIROMO:

Right.

TARQUINIO TELES:

--no matter where.

MARIA BARTIROMO:

Roger, how is it that some companies are able to transform and evolve into new products, new businesses, whether it's banking, as Tarq is talking about or something else, and then other companies are just frozen and they just can't do it?

RODGER SCHANK:

I think it has to do with tradition. And tradition is a bad thing in business. There's a sense of, "We're this kind of company, we've always done this."

I mean, take book publishers. "We print books." Well if they think-- keep thinking that, they're out of business, because books are gonna go away. So the question you have to ask yourself is, "What really do we do?"

Well, what really book publishing companies do is they inform people of things. And that's a whole different kind of model. Actually, I think what's interesting-- he hasn't said it, but what's interesting (LAUGHTER) you know, unfortunately 'cause he's in the-- in the multi-user game industry. And the multi-user game industry is fascinating.

And is-- talk about innovation. We haven't even begun to see what that's gonna happen. There's a whole phenomenon going on right now, which is that millions of people are sitting there in communities, playing games and attacking other themes and doing all kinds of things. This is-- this is-- a phenomenon no one's noticed.

MARIA BARTIROMO:

Right.

MALE VOICE:

I was just thinking while we're talking to these folks, imagine if he hooked up with *Playboy*. What would that mean? (LAUGHTER) Multi user Playboy games. I don't know what it means. But what I'm saying is--

CHRISTIE HEFNER:

You heard it here first.

ROGER SCHANK:

--you have to come up with this kind of stuff. You have to start thinking about how weird things start to create new things.

MARIA BARTIROMO:

Christie, is that how you think about things? Is that how you think about things, Christie? I mean, you know, now you see that everybody's into video games. Does it-- does it trigger something in your head that says we've got to get in that business. I've got to figure out how to innovate there.

CHRISTIE HEFNER:

Yes. So I think Roger's point is very well taken, which is that particularly leaders need to be intelligently curious. They need to have their antenna out there. They need to be receptors to what's going on in the culture. And indeed, we published a very successful, multi-player video games where the player is in effect, Hef (PH). And putting out the magazine and based on his success as an editor, gets to build his own mansion, called The Mansion.

But I think the bigger point is an important one, which is that you need to be in an environment globally where you're interacting with consumers, with other businesses, with the pop culture, and in effect, being open to absorbing what those innovations themselves can mean for your own company.

TERRY JONES:

Well, in understanding how different the interconnected world is. My son in high school and five other-- ten other guys from around the world, created a multi-player video game. They played it for a while. By the time he was a sophisticated in college, they sold it for \$300,000. These kids have never met. It was all done on line. That's pretty different than a big corporation in a tall building.

MARIA BARTIROMO:

That is really, really fantastic.

ROGER SCHANK:

That's the reason why corporations aren't the place to look for innovation. All right? The place to look for innovation is somebody who's actually doing something and getting frustrated by what isn't there. It's not surprising that his kids are sitting there coming up with something like that.

MARIA BARTIROMO:

Right.

ROGER SCHANK:

Because the big corporations aren't asking those questions.

MARIA BARTIROMO:

You know, it is hard to find any company on more of a roll these days than Toyota. Having already passed Ford, there's now talk it might pass General Motors in 2007 as the number one auto maker in the world. So how does one company get such an upward trajectory when its competitors are going in the other direction? We asked CNBC's auto correspondent Phil LeBeau (PH) to find out.

TOYOTA PIECE

¶MUSIC

THIS YEAR, MORE THAN 70 MILLION CARS, TRUCKS, AND SUV'S WILL BE BUILT AROUND THE WORLD.

ALMOST 8,000 EVERY HOUR.

AND NO COMPANY IS EXPECTED TO BUILD MORE, OR DO IT MORE EFFICIENTLY THAN TOYOTA.

(NAT SOUND OF WELDING)

THE SECRET TO IT'S SUCCESS?

TOYOTA'S PRODUCTION SYSTEM, ALSO CALLED T-P-S,..CREATED DECADES AGO, IT CALLS FOR CONSTANT IMPROVEMENT FROM THE PLANNING, TO ASSEMBLY, TO SALES.

RAY TANGUAY Toyota Motor North America

"you have motor compartments over here."

RAY TANGUAY AT TOYOTA'S CAMBRIDGE, ONTARIO PLANT CALLS IT PURSUING PERFECTION.

RAY TANGUAY

"one thing we have going for us, is we are very creative, we have a very educated work force, and we have great engineers."

WITH THIS SYSTEM, TOYOTA IS CONSTANTLY GAUGING IT'S PROGRESS. FROM CAMERAS AND LASERS MEASURING MOTOR COMPARTMENTS.

RAY TANGUAY

"we know they are being built to perfection because we are measuring it."

TO ENGINEERS CHECKING FINISHED SUV'S

RAY TANGUAY

"we want a perfect line that starts here and goes all the way down the hood."

ME: and that's why he was hear measuring
Him: that's why he was measuring."

IF THERE'S A PROBLEM,... ALARMS RING,..AND MANAGERS ARE NOTIFIED ON BLACKBERRIES.

RAY TANGUAY

HIM: it starts with one manager, then another, then another, and ultimately to me.

ME: if it's a big problem you'll know.

HIM: if it's a big problem,..i'm on the floor,..(laughing)

HE CAN SMILE,..HIS PLANT IS RUNNING AT 99% EFFICIENCY.

RAY TANGUAY

"me: 99 percent efficiency?

him: 99 percent

me: so you know that i'm almost perfect

him: almost"

THAT SUCCESS IS ONE REASON WHY TOYOTA HAS REPLACED CHRYSLER AS #3 IN AUTO SALES IN THE U.S. LAST YEAR.

EVEN MORE IMPRESSIVE, THROUGH THE FIRST THREE QUARTERS OF LAST YEAR, TOYOTA MADE \$9.9 BILLION, MORE THAN DOUBLE THE BIG 3'S PROFIT OF \$4.4 BILLION.

NO WONDER FORD'S NEW CEO ALAN MULALLY WANTS HIS COMPANY TO LEARN FROM TOYOTA.

ALAN MULALLY Ford Motor CEO

"clearly Toyota is the machine and it changed the world I mean delivering products that customers really wanted at minimum resources and minimum time and we can all learn from that."

MULALLY BROUGHT THE TOYOTA PRODUCTION SYSTEM TO BOEING WHEN HE TURNED AROUND THE COMPANY'S COMMERCIAL PLANE BUSINESS.

OTHER COMPANIES INCLUDING NIKE AND CATERPILLAR HAVE ALSO STUDIED TOYOTA.

SOME LEARNING IT'S LESSONS FROM CONSULTANT BILL SCHWARTZ.

BILL SCHWARTZ TBM Consulting

The real success of the TPS,..is that at its core it focuses on the elimination of waste, waste at any manufacturing process or business process."

TO THAT END TOYOTA'S COMING UP WITH NEW IDEAS LIKE USING PLANTS TO FILTER CONTAMINATED AIR.

BILL SCHWARTZ

"one of the latest innovations from toyota is at the end of the line, when the cars are all built,..toyota's creating a sound booth to check that the cars sound like they're supposed to."

(RAY TANGUAY

"we wanna make sure it feels right, it sounds right, and and it looks good."

AND MAYBE IF RAY TANGUAY HAS HIS WAY,..HE WILL ACHIEVE PERFECTION.
PHIL LEBEAU CNBC FOR THE BUSINESS OF INNOVATION.

MARIA BARTIROMO:

Let me throw this question to all of you actually. Do you believe that our automobile companies were blinded by the past, or that there was almost an arrogance of power that prevented their leaders from innovative changes? What happened with the autos?

TERRY JONES:

they're frozen. They aren't building cars that people want. And they haven't been able to look out and say we have to change.

ROGER SCHANK:

Well, I think he's got a big challenge ahead of him to give him that dose of reality.

LARRY HUSTON:

But Maria, I think-- I-- I've been to Toyota when we were really trying to develop our innovation model. And one of the things that's really remarkable is the way they leverage their supply base to innovate. They've got an unbelievable set of invisible assets. Because they really leverage their suppliers to create the product as well as the Toyota R & D organization.

ROGER SCHANK:

Actually, I-- I just heard all there is to know in that little piece, okay? This is it. The Ford guy said we need to copy that Toyota did. They're dead. They are dead.

MARIA BARTIROMO:

Aha. Uh-huh (AFFIRM).

ROGER SCHANK:

If that's their view of the world, which is they're great, so we'll copy them, that's why they're always second.

MARIA BARTIROMO:

Right.

ROGER SCHANK:

Because meanwhile, Toyota's going to do something new. And they won't be ready to copy it for another five years. And this is so much the business mentality that causes lack of innovation. They're so cool; we did what they did.

MARIA BARTIROMO:

Right.

ROGER SCHANK:

That's a really bad idea.

MARIA BARTIROMO:

That's a really, really good point. And one of the keys, it seems, to successfully evolving within an organization is the ability to make decisions and make them quickly. And in the world of retail fashion, one company has built a reputation of doing just that. Here's CNBC's Margaret Brennan (PH).

H&M PIECE

ANNOUNCE VO : SINCE 1947, HENNES & MAURITZ - OR H&M - AS IT IS MORE COMMONLY KNOWN -- HAS MADE A BUSINESS BY EXPLOITING THE DIVIDE BETWEEN HIGH-END LUXURY AND THE ACCESSIBLE EVERYDAY WEAR.

TIM GUNN Parsons Chair of Fashion Design

¶ITS FASHION WITH A CAPITAL F, AT A VERY VERY AFFORDABLE PRICE.

ANNOUNCE VO: IF THERE IS A SINGLE IMAGE THAT ENCAPSULATES THE ESSENCE OF THE H&M BRAND.. HIGH FASHION FOR LOW PRICES..IT IS THIS...

H&M'S ABILITY TO PRODUCE FASHION FOR THE MASSES QUICKLY AND CHEAPLY HAS MADE THE ALREADY CROWDED RETAIL SPACE MORE COMPETITIVE. H&M REFRESHES ITS INSTORE INVENTORY OF ACCESSORIES AND CLOTHING WITH NEW DESIGNS DAILY AT ITS MORE THAN 1,300 STORES IN 24 COUNTRIES WORLDWIDE.

PARSONS SCHOOL FASHION DESIGN CHAIR TIM GUNN...

TIM GUNN: FOR 99.95 WE HAVE COVERED BUTTONS, WE HAVE A BEAUTIFUL LINING, WE HAVE EXCELLENT CONSTRUCTION LOOKING HOW THE SLEEVE IS SET IN. **THIS IS MIRACULOUS**

MARGARET BRENNAN STANDUP: WITH THEIR OWN IN-HOUSE DESIGN TEAM AND A SUPPLY CHAIN OF CHINESE AND EUROPEAN MANUFACTURERS, HM CAN TURN RUNWAY TRENDS INTO AFFORDABLE APPAREL IN 6 TO 8 WEEKS."

ANNOUNCE VO: ACCORDING TO CEO ROLF ERIKSON, THOSE 700 OUTSIDE SUPPLIERS AND 100 IN-HOUSE DESIGNERS ARE THE MACHINERY BEHIND H&M'S ABILITY TO KEEP PRICES LOW AND FASHIONS CURRENT.

SOT ROLF ERIKSON H&M CEO

¶i believe the supply chain is the key to our success/// very important to keep create design in house

ANNOUNCE VO: THE SWEDISH RETIALER STAYS ON TOP OF TRENDS THAT ORIGINATE NOT JUST ON THE RUNWAY BUT FROM CUSTOMERS THEMSELVES...

MARGARETHA VAN DEN BOSCH: H&M Creative Director

¶ We follow also the customer, we see what we sell, I think that is also an important thing, to follow the customer in the same way, to, to think about new things and to surprise them, to create things they haven't thought about that they wanted. .

ANNOUNCE VO: MARGARETHA VAN DEN BOSCH OVERSEES H&M'S CLOSELY GUARDED DESIGN DEPARTMENT FROM ITS STOCKHOLM HEADQUARTERS...WHILE MANY DESIGNERS CREATE COLLECTIONS A YEAR AHEAD IN ADVANCE OF RELEASE,

H&M'S DESIGN TEAM ALSO REVISES ITS CURRENT SEASON WHILE THOSE PRODUCTS ARE IN STORE..

MARGARETHA VAN DEN BOSCH: in the same time, we work in the season and in next autumn, next fall, so we work very often in three seasons.

ANNOUNCE VO: AND IT IS THAT CONSTANT - JUST IN TIME, 'FAST FASHION' THAT SETS H&M APART FROM OTHER DISCOUNT CLOTHING COMPANIES... MASTERING THAT BALANCE OF A GLAMOUROUS IMAGE WITH AFFORDABILITY HAS BEEN CHIEF MARKETING OFFICER YURGEN ANDERSON'S MISSION..

YURGEN ANDERSON: H&M Global Marketing Director

we talk management at least twenty times per day since we, you know, share the same office space.

ANNOUNCE VO: AND WHETHER IT IS LAUNCHING LIMITED-EDITION GUEST DESIGNER LINES BY FASHION ICONS STELLA MCCARTNEY, KARL LAGERFELD OR MOST RECENTLY VIKTOR & ROLF.. OR JUST ITS BASIC SHIRTS AND SLACKS -- H&M HAS USED THE SAME SUPERMODEL FACES TO MARKET THEIR \$69 JACKETS AS THE HAUTE COUTURE HOUSES USE TO ADVERTISE THOUSAND DOLLAR GOWNS...

YURGEN ANDERSON: when people describing the H&M brand they describe us as being very, the most inviting and the most exciting fashion high street fashion retailer and that is the position that we aiming to maintain the leadership in. 09:13:20:01

ANNOUNCE VO: H&M HAS USED THIS CAREFULLY CRAFTED IMAGE TO LEVERAGE DESIGN AND DISTRIBUTION INNOVATIONS TO CHANGE THE MEANING OF WHAT IT TAKES TO BE A SUCCESSFUL RETAIL OPERATION.

SOT ROLF ERIKSON We know that the fashion is global and H&M will be global too.

ANNOUNCE VO: AND IF ROLF ERIKSON HAS HIS WAY, H&M WILL MAKE THE GLOBAL FAST FASHION GAME ITS OWN.

MARGARET BRENNAN, CNBC FOR THE BUSINESS OF INNOVATION.

MARIA BARTIROMO:

Right. But you know, it's a great topic to have. Because it really does all start with the consumer.

LARRY HUSTON:

at the core, innovation is bringing together what's needed from the consumer with what's technically possible. And companies, to get competitive advantage, have really got to own that whole consumer area.

LARRY HUSTON:

But I don't think you really worry about what the consumer wants, frankly. I mean, if you're in a consumer product, I mean, that's great. But as a generalization, I don't think that's the question.

ROGER SCHANK:

What you care about are what are the problems that consumers have. Because consumers can't really tell you what they want. But they have problems. And what you've really got to look at is whether the problems that consumers are having-- consumers in my experience aren't successful product designers, okay. They don't design products successfully.

MARIA BARTIROMO:

Let me ask you about technology. Tarq, tell us about that. Do you need technology and business to sort of be married here in order to really innovate?

TARQUINIO TELES:

to the end user, to the customer, he wants a product that's a great business (PH). He doesn't want the technology. But yes, technology is the foundation on which everything else lies, at least for us.

MARIA BARTIROMO:

Christie, I imagine it's the same for you.

CHRISTIE HEFNER:

Yes. And I definitely agree with that point, that it isn't-- people don't buy the technology. The technology enables them to have the experiences that they desire. And certainly in the media world, understanding how to create the experience online or that experience on mobile (PH), is critical. And the use of technology on processes and to take costs out of an organization, is obviously valuable to the bottom line. But you know, that is invisible to the consumer.

MARIA BARTIROMO:

Right.

MARIA BARTIROMO:

Thank you, everybody. This is really great. Christie Hefner, Tarquinio Teles, Terry Jones and Larry Houston, thank you. We'll be right back.

¶====ANNOUNCE====

NEXT... CAN INNOVATION BE BORING? DEPENDS ON WHO YOU ASK...

====SOT BUFFET====

MARIA BARTIROMO:

So, what about that, Rodger? Warren Buffet, innovative?

RODGER SCHANK:

Are you kidding me, (LAUGHTER) The exact opposite of an innovator.

RUSSELL SIMMONS:

I think that, you know, he looks inside. Being that's all-- that's all the innovation your really need.

====ANNOUNCE====

WHEN THE BUSINESS OF INNOVATION CONTINUES...

EPISODE 2 SEGMENT 2:

¶====ANNOUNCE VO====

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

MARIA BARTIROMO:

Pick the revolutionary change or an evolutionary one, one CEO has been there. Russell Simmons was the revolutionary force behind the founding of Def Jam Records, two decades ago signing such breakthrough artists as the Beastie Boys and LL Cool Jay and JayZ. And he evolved from there starting a clothing company called Phat Farm, a movie and television production house, a magazine and an ad agency. After selling the stake in his record company for \$100 million he kept evolving into Broadway shows and even releasing a line of reloadable debit cards for people who might otherwise have trouble obtaining credit.

MARIA BARTIROMO:

What drives you? How do you find innovation in your businesses?

RUSSELL SIMMONS: **Rush Communications CEO**

I think, you know, is given resources your job is to be part of a cycle of giving yourself. And-- and you find-- these holes, you know, ideas, you-- you-- you service and you-- you come up with something people need. And you fill that void.

MARIA BARTIROMO:

The first question you ask before your innovations starts is where's the void?

RUSSELL SIMMONS:

I-- I don't do it like-- I do it really in-- in places where I understand, I see the void. You know, the only reason I got into financial services is a funny story. Somebody came to me and said, "Can we get all these music artists to support our phone card?" And I tried to say let's give the gift of communication. Let's figure out a way to get people this service cheaper. And it was very, very expensive. It was very exploitative.

MARIA BARTIROMO:

Right, so, when you look at all of the things that you've done and sort of how your career has shifted-- over the years, how have you evolved? How has the business evolved?

RUSSELL SIMMONS:

Well, I want to be-- I want to always have a-- a-- an investment in something that I feel is really helpful to people not in the short term. I mean, whatever you're selling cost-- you know, people go out and buy it because it makes them feel good. But sometimes it's short term.

So, I want to give people things that promote long term stable happiness, You give people things that are stable and are lasting in terms of their value.

So, that's what I think is-- I always ask those questions. You know, how useful is this? And will I, you know, be really-- making a difference. How will that lift me up even, that's a selfish thing. Because that's why I do it.

MARIA BARTIROMO:

ONE THING THAT SEEMS CLEAR IS THAT WHILE REVOLUTIONARY CHANGES CAN BE SPLASHY AND ATTENTION-GETTING.... IT'S THE EVOLUTIONARY ONES THAT ARE USUALLY EFFECTING THE BOTTOM LINE.

PERHAPS THERE'S NO BETTER EXAMPLE OF A SUBSTANCE OVER STYLE KIND OF ATTITUDE THAN A MAN BARRONS NAMED THE TOP U-S CEO IN 2006... WARREN BUFFETT.

Here's CNBC's Liz Clayman.

CLAMAN/BUFFET PIECE:

ANNOUNCE VO: WARREN BUFFETT IS KING INNOVATOR OF THE INVESTMENT WORLD. other investors study market TRENDS, HE *creates them*..

WARREN BUFFETT:

I'm looking for something I can understand. You know to start with. There's all kinds of businesses I don't understand. So what? As long as I've got something in what I call my circle of understanding.

ANNOUNCE VO: HIS PHILOSOPHY BEST SUMMED UP THIS WAY..

Harvey Eisen, Bedford Oak Advisors

number one dont lose the money. number two dont forget number one.

ANNOUNCE VO: SOMETIMES THAT MEANS BUYING THE TRIED AND TRUE DAIRY QUEENS AND FRUIT OF THE LOOMS OF THE WORLD....BUT BUFFETT'S GIFT IS THAT HE SEES TRUE POTENTIAL WHERE OTHERS DO NOT.

LIZ CLAMEN:

Mr. Buffett, who looks at asbestos liabilities and says, "Now that's a great business!" And this is a little non-conformist.

WARREN BUFFETT:

Well, we-- we insure things. I mean, you know, we-- we-- we're the biggest insurer of really high-risk type things around. And so--

LIZ CLAMEN:

You don't fear risk?

WARREN BUFFETT:

No. I mean, it's gonna happen occasionally. I mean, we lost last year. We lost over \$3 billion in-- in the-- in the hurricanes. Now this year has been a good year. But that's-- that's what insurance is about.

ANNOUNCE VO: IN THE 90S WHILE THE WORLD WAS FEVERISHLY SNATCHING UP EVERY TECH STOCK IT COULD...BUFFETT FAMOUSLY BACKED AWAY..

LIZ CLAMEN:

interestingly berkshire hit a low on the same day nasdaq hit a high. what does that tell you?

WARREN BUFFETT:

well, i thought it was crazy.

ANNOUNCE VO: OF COURSE THE BUBBLE BURST AND BUFFETT GOT EVER RICHER.. HIS BUSINESS APPROACH IS A LESSON IN INNOVATION AS WELL.....AMAZINGLY, HE DOESNT AUDIT THE COMPANIES HE BUYS. AND SEALS MULITBILLION DOLLAR DEALS WITH A HANDSHAKE.

LIZ CLAMEN:

So you don't hire a-- a-- an army of Wall Street hotshots to pour through reports and finances?

WARREN BUFFETT:

I don't think there are-- is an army actually.

ANNOUNCE VO: EVEN WHERE HE CHOOSES TO LIVE IS SURPRISING...HE DOESNT RESIDE IN ONE OF THE FINANCIAL CAPITALS OF THE UNIVERSE..NEW YORK, LONDON AND HONG KONG. ..INSTEAD HE LIVES IN THE AMERICAN CORN BELT.

LIZ CLAMAN:

do you think staying in omaha has made you a better investor?

WARREN BUFFETT:

probably yah. when i was in ny i had about 100 ideas whispered to me by noon everyday, it was over stimulation. truth is, i need one good idea a year.

ASWATH DAMORDAN - stern professor

i think what warren buffett embodies is the importance of thinking for yourself not letting other advisors other experts tell you what the right stock to invest in

ANNOUNCE VO: INNOVATIVE, BRILLIANT.. BUFFETT KNOWS THE INVESTMENTS THAT WORK, KNOWS PERFECTLY WELL WHAT HES GOOD AT, AND HOW HE WANTS TO BE REMEMBERED.

LIZ CLAMAN:

What do you want your legacy to be?

WARREN BUFFETT:

Well I want it said on my tombstone, I just want it to say, "My God he was old."

MARIA BARTIROMO:

So, what about that, Rodger? Warren Buffet, innovative?

RODGER SCHANK:

Are you kidding me, (LAUGHTER) The exact opposite of an innovator. He's obviously very smart. And he sticks to his knitting. He knows what he knows. He's not an innovator.

MARIA BARTIROMO:

Well, he's buying business right.

(OVERTALK)

MARIA BARTIROMO:

He's not innovating new--

RUSSELL SIMMONS:

I'm inspired--

MARIA BARTIROMO:

--businesses.

RUSSELL SIMMONS:

--by-- by that piece. I didn't think whether he was an innovator as much as, I think that, you know, he looks inside. Being that's all-- that's all the innovation your really need. He's comfortable with his choices. And there's not a lot of people-- because I don't think that I've ever listened to anybody either. I mean --

ROGER SCHANK:

He doesn't ask what's wrong with the world. You just said, "I ask what's wrong with the world." He never asks that question. He asks, "What's wrong with the stock price. What's wrong with the--valuation."

RUSSELL SIMMONS:

But let me say what he's creative in-- in his bus-- see, I'm-- I'm a person who likes creative people. And I try to give them a voice or creative ideas that I may see them or understand them and give it voice. He's a person who's creative in-- in giving-- he can hear the numbers sing. He can hear other things sing that I can't hear. I-- I got a lot of smart-- well, some smart business people-- as far as I can tell

RUSSELL SIMMONS:

No but he makes the-- listen to me. He makes the money. And he gives it back. Lots of time if the money just floats around who knows? We'll bomb innocent people with it.

MARIA BARTIROMO:

So, that's the--

(OVERTALK)

ROGER SCHANK:

That's not what you're doing.
MARIA BARTIROMO:
No but that's the innovative-- that's the innovative thread here. You're trying to make a difference in one way. And Warren Buffet is-- has made a difference.
(OVERTALK)
ROGER SCHANK:
I don't buy it.
MARIA BARTIROMO:
He's made an enormous difference to business--
RUSSELL SIMMONS:
He's different. He'd given all that money--
MARIA BARTIROMO:
--enormous diff-- difference in philanthropy.
ROGER SCHANK:
He-- he's very good at a bus-- at being a business person. And he's a great--
(OVERTALK)
ROGER SCHANK:
--businessperson.
RUSSELL SIMMONS:
I only want to get rich like him so I can give my money away. And the fact that--
ROGER SCHANK:
I don't believe you.
RUSSELL SIMMONS:
--I made all of--
MARIA BARTIROMO:
Well--
ROGER SCHANK:
I believe that you want to get-- you want to do businesses that right there do good for people.
MARIA BARTIROMO:
Look, what is the obstacle that you have faced in terms of innovating.
RUSSELL SIMMONS:
Well, no one--
MARIA BARTIROMO:
Any obstacles?
RUSSELL SIMMONS:
--likes any good ideas. Nobody liked the poetry show. For seven years it's coming on HBO. No show goes seven years.
MARIA BARTIROMO:
Why doesn't anybody like--
RUSSELL SIMMONS:
Nobody wanted to put that--
MARIA BARTIROMO:
--good ideas?
RUSSELL SIMMONS:
--on the air.
MARIA BARTIROMO:
Why?
ROGER SCHANK:
Yeah, the real--
RUSSELL SIMMONS:
No one wanted to put Run's--
MARIA BARTIROMO:
Why is that?
RUSSELL SIMMONS:
--house on MTV.

MARIA BARTIROMO:

Why?

(OVERTALK)

ROGER SCHANK:

The question I have for you--

RUSSELL SIMMONS:

Five A students and a reverend on MTV.

MARIA BARTIROMO:

Why not?

RUSSELL SIMMONS:

Number one show on MTV.

ROGER SCHANK:

Everybody hates new ideas. Everybody hates new ideas.

RUSSELL SIMMONS:

They hate it.

ROGER SCHANK:

The question I have for you is how-- how have you won that?

RUSSELL SIMMONS:

Everybody's doing their job. They're-- they're-- they quanti-- can they quantify it? Does it make good sense? You know, is it-- do you have a history of putting reverends on MTV with five A students, hip hop reverends? *Reverend Runner* is an exciting, hot--

ROGER SCHANK:

So, how have you gotten--

RUSSELL SIMMONS:

--show on MTV.

ROGER SCHANK:

--people to listen? That's the question.

RUSSELL SIMMONS:

Well, you beg a lot. You beg a lot. You know, MTV I-- I remember calling Tom Freston, the chairman, who at the time was the head of all the networks, he and Judy McGrath, all the 55 TV networks. And I'm calling him every five minutes. (LAUGHTER) His wife, waking his wife Cathy out of bed--

MARIA BARTIROMO:

Just be annoying. Keep calling.

RUSSELL SIMMONS:

And all I wanted to do was to call up the guy, the guy, the guy and make them call the guy tell them to put the TV show on the air. It'll be fine. It's going to make kids inspired. And it's going to show a black family or a family in the light that you never see on MTV.

ROGER SCHANK:

See, you're telling me an important thing about innovation which is why I wanted to get to it.

RUSSELL SIMMONS:

You gotta beg.

ROGER SCHANK:

You actually have to be--

RUSSELL SIMMONS:

That's important.

ROGER SCHANK:

--a bulldozer and get your idea across because no one wants it. Everyone will try to stop it. And I can tell you just by looking, Tim, that that's what he knows how to do. So, that's what we need to be talking to him about.

MARIA BARTIROMO:

Absolutely.

RUSSELL SIMMONS:

What about being a bulldozer?

ROGER SCHANK:

Yes absolutely, you're-- you're a--

MARIA BARTIROMO:

Well, just--

ROGER SCHANK:

--bulldog anyway.

MARIA BARTIROMO:

--pushing, pushing, pushing, push

ROGER SCHANK:

Those are the words of innovation, the bulldog that goes through and gets it done.

MARIA BARTIROMO:

This is great. Well, thank you so much.

RUSSELL SIMMONS:

Well, thank you. It was a pleasure being on this show.

MARIA BARTIROMO

We'll be right back.

====ANNOUNCE VO====

CAN ESTABLISHED COMPANIES EVER REALLY LEARN HOW TO INNOVATE?

====SOT====

GARY HAMEL:

you're trying to teach a dog to walk on its hind legs. I mean, if you get the right incentive, you get its attention, you know, you can get it up on its hind legs for a while. But the moment you turn your back, your dog is back on all fours.

====ANNOUNCE VO====

THAT'S THE BUSINESS OF INNOVATION.

EPISODE 2 SEGMENT 3:

¶====ANNOUNCE VO====

THE BUSINESS OF INNOVATION CONTINUES.
HERE IS MARIA BARTIROMO.

MARIA BARTIROMO:

Continuing our discussion now of evolution, revolution, we're joined by some experts in the field. Virginia Postrel is with us from Los Angeles. VIRGINIA IS THE AUTHOR OF "THE SUBSTANCE OF STYLE" AND "THE FUTURE AND ITS ENEMIES" AND A CONTRIBUTING EDITOR FOR THE ATLANTIC MONTHLY, WHERE SHE WRITES A COLUMN ON CULTURE & COMMERCE. SHE IS ALSO A COLUMNIST FOR FORBES.

Robert Tucker joins us now from Santa Barbara. He's the president of the Innovation Resource, an international recognized leader in the field of innovation. And from San Francisco author and speaker, Gary Hamel is with us. Hamel HAMEL IS DIRECTOR OF THE MANAGEMENT INNOVATION LAB AT LONDON BUSINESS SCHOOL

AND FOUNDER OF STRATEGOS, AN INTERNATIONAL CONSULTING COMPANY THAT SPECIALIZES IN INNOVATION.

Nice to have you all with us.

Virginia, you've often spoken of dynamism and how progress can come in unpredictable ways. Can established corporations or organizations really evolve and innovate? Or is that just the domain of the new guy?

VIRGINIA POSTREL: Author & Editor

No, absolutely an established corporation can evolve and innovate. And if they want to stay established corporations they pretty much have to. It's not just the little guy. But there are some difficulties for larger organizations. They have lots of procedures that can block innovations and new ideas. And also they often lack the kind of outsider perspective that often helps suggest areas for innovation.

MARIA BARTIROMO:

And-- and Rob, I've heard that you've spoken of CEO's as having ADD when it (LAUGHTER) comes to innovation, right? What do you mean by that?

ROBERT TUCKER: The Innovation Resource President

Well, I mean, the average tenure of a CEO today, Maria, is about three years. So, they've got to get the stock price up. They've got to get growth happening. So, they've got a lot of things to pay attention to.

So, I think right now, today, I mean, what you're seeing is they want to innovate. They know they need to innovate. They must innovate. But they have a-- a lot of priorities on their plate that distract them from innovation.

MARIA BARTIROMO:

Gary, a bit a more-- more about reinventing the company from within and how management can do it if they have the DNA?

GARY HAMEL: Author, Consultant & Educator

Yeah, well I mean, I think DNA is really the critical word there, Maria. You know, if you look at it, anybody who's spent time trying to get big companies to innovate, you know, pretty soon you're teaching-- you're trying to teach a dog to walk on its hind legs. I mean, if you get the right incentive, you get its attention, you know, you can get it up on its hind legs for a while. But the moment you turn your back, your dog is back on all fours. Because it has quadraped DNA after all.

And, you know, large organizations simply don't have, you know, innovation DNA. If-- if you go back and ask kind of the fundamental question, what problem was modern management invented to solve, it was invented to solve the problem of efficiency and productivity and operating and scale. It was not invented to create an organization or innovative and creative and experimental.

MARIA BARTIROMO:

I feel like this is a little about-- a little like what you have been saying, Rodger. I mean, you also-- feel similar ways that Gary does in terms of innovating from within although he thinks it can happen--

RODGER SCHANK:

Well, he

MARIA BARTIROMO:

--a large company can innovate.

RODGER SCHANK:

--what's the motivation for a CEO to innovate. I don't think CEO's actually want to innovate. They're absolutely right. CEO's last three years. The innovation might take ten years to come to fruition.

I mean, I-- I once consulted for a big partnership company that every partner was retired at 55 and didn't get any power until 45. So, they never thought more than ten years out. And most of them didn't think three years out. What for? Yeah, I want to be convinced that somebody actually wants to innovate.

ROBERT TUCKER:

I think the-- the real question is how can you teach these old dogs new tricks. And I think what-- how the future's going to be different than the past is that companies will not survive if they don't implement a systematic process to innovation, that keeps innovation on the front burner all the time.

ROGER SCHANK:

But wouldn't a systematic process for innovation include actually very smart people who aren't particularly interested in the product line but much more about new ideas? And wouldn't it include people who really wanted to listen to new ideas? And isn't that really rare in a big corporation?

VIRGINIA POSTREL:

it's important in discussing the-- innovation not to discount the knowledge that is embedded in an organization. The really tricky question is how can you have enough outside perspective about what might be going on in the world that is an opportunity for you or-- an unmet need, a void, as Russell Simmons puts it or to combine that with the deep knowledge that is embedded in a large corporation about how to get certain kinds of activities done. And that's the real challenge.

MARIA BARTIROMO:

That's a really interesting point. Gary.

GARY HAMEL:

See, I-- I think there's still a-- in most companies there's still an enormous gap between the rhetoric and the reality around innovation. And the way I kind of get it is when I'm talking to a CEO and they're telling me how keen and how important innovation is I ask them some pretty simple questions. First of all, what percent of your employees have actually been trained as innovators, you know? There's still in many companies, there's a kind of creative apartheid--

ROGER SCHANK:

None of your employees have been trained as innovators.

(OVERTALK)

ROGER SCHANK:

Because they've all come out of a school system which is anti-innovation, which is pro-memorization, pro-passing test. And the school--

(OVERTALK)

ROGER SCHANK:

--system is not creating innovators.

GARY HAMEL:

You can still train 'em. I mean, maybe that's--

ROGER SCHANK:

How do you train them?

GARY HAMEL:

well, I'll-- I'll tell you how I train them. Because the core of the work we do is-- is built on looking at more than 200 of the world's most innovative business models, going and talking to people like Michael Dell and Richard Branson and understanding the perceptual lenses, the perceptual --

ROGER SCHANK:

You think that Michael Dell and-- and Richard Branson took an innovation training course and that's how they got there?

GARY HAMEL:

No, no but I-- but I think you can learn from them one of the perceptual lens. For example, one of the things that we know about innovators everywhere is they're contrarian. You know, you-- you look at what has happened in the-- and why is it so often that industries get changed by outsiders? Because the real-- the real thing that-- that limits innovation is top management prejudices, their bias, their orthodox assumptions about how to run the business.

ROGER SCHANK:

But you're pulling out examples of who people who are good innovators. And you're talking the same time of how you're going to train innovators when those are classic examples of people who are untrainable.

ROBERT TUCKER:

Well, I-- I disagree--

GARY HAMEL:

No, I-- no, that's--

ROBERT TUCKER:

--with that.

GARY HAMEL:

--where I disagree. I think-- let me just-- let me just finish this thought. I absolutely disagree. I think there is a deep creative potential in almost every human being. All you have to do is go on the web (UNINTEL)--

ROGER SCHANK:

No, you're not disagreeing. I would certainly agree with that.

(OVERTALK)

ROGER SCHANK:

That's not the point. But that's not the point.

GARY HAMEL:

We just haven't invested in giving the skills, the tools, the training to people to-- I mean, Apple's giving them those skills. Sony's giving them those skills.

(OVERTALK)

ROGER SCHANK:

All the great innovators you point to are not trained in--

MARIA BARTIROMO:

No but (UNINTEL PHRASE)--

ROGER SCHANK:

--innovating in a training program.

MARIA BARTIROMO:

But hold on. Hold on. There's-- there's a message--

ROGER SCHANK:

Fine.

MARIA BARTIROMO:

--here that's trying to get out. I mean, are you saying that it's impossible to train somebody, to teach somebody how to think about being--

GARY HAMEL:

I think it is very--

MARIA BARTIROMO:

--innovative? I mean, I find that so discouraging.

GARY HAMEL:

It is very possible--

ROBERT TUCKER:

It is absolutely--

GARY HAMEL:

--to teach people how to be innovative.

ROBERT TUCKER:

--discouraging and it's not true.

ROGER SCHANK:

And you-- you have to get them--

VIRGINIA POSTREL:

No, it's-- it's just not true.

ROGER SCHANK:

--before they actually go to the corporations, while they're in school.

MARIA BARTIROMO:

Well, I don't know about-- look, I know-- I know plenty of people--

(OVERTALK)

MARIA BARTIROMO:

--who've gone to work for large companies. And then they said, "You know what? I don't want to work for a large company. I want to go back. And I want-- you know and I want to innovate. And I want to be an entrepreneur." You can go back and forth. I mean, sure it's not the typical thing.

GARY HAMEL:

You know-- you know, Maria, let's-- let's just look at some examples. Whirlpool, which is a company I know very well, *BusinessWeek* has celebrated them as one of the

new innovation icons of the United States. They have trained 35,000 people in the tools and techniques of innovation. Those, 35,000 people from a few years ago when Whirlpool's innovation pipeline was virtually empty and bereft, today, it is about \$3 billion. They've introduced more new products and services in the last few years than the last 20 years.

It is possible to teach people how to innovate. The evidence is all there if you're willing to except the fact that human beings, most of them have that capability. But large organizations, the process, the controls, everything else wishes it out of them.

ROGER SCHANK:

I'm not going to argue with what you just said. Because what you said is the point. It is the case that all people are innovative in the beginning. They all do the kinds of stuff that are-- is original. And it gets beat out of them. But by the time they're hired by big corporations, it's already been beat out of them.

MARIA BARTIROMO:

And part of innovating within any company must be the idea of selling that idea both internally and externally. And some companies are going in new directions to do just that. Here's Julia Borsten.

BOORSTIN/P&G PIECE

ANNOUNCE VO: GOOD OLD PROCTER & GAMBLE-- KNOWN FOR SQUEAKY CLEAN AD CAMPAIGNS -- SHELLED OUT \$1 MILLION TO SCANDALIZE -- AND ENTERTAIN -- SECRETLY PLANTING A FAKE DOCUMENTARY ABOUT MEN WITH CRAMPS all over the web.
then building a PARODY WEBSITE ON A "MEN WITH CRAMPS" MEDICAL STUDY.
all part of P&G'S ADVERTISING EVOLUTION

WAYNE FRIEDMAN West Coast Editor, Media Post

P&G FOR YEARS HAS BEEN MARKING THIS WAY, SO CAREFUL- ALWAYS THE MOST BORING CREATIVE ON EARTH, THEN THEY WENT TO CANNES, WON SOME AWARDS

I THINK P&G VIEWS THEIR FUTURE CUSTOMERS ON LINE. THE INTERNET OBVIOUSLY BRINGS IN YOUTHFUL CUSTOMERS, SO WHY NOT

ANNOUNCE VO: ALL THIS TO SELL THERMA CARE HEAT PADS.

THE CONSUMER PRODUCTS giant DIDN'T MENTION THE HEAT PADS IN THE VIDEOS FOR MONTHS -- KEEPING A LOW PROFILE -- AND AN AUTHENTIC, INDIE FEEL -- AND IT WORKED WITH 11 MILLION SITE VIEWS AND DOWNLOADS.

DAVID CORR
EXECUTIVE CREATIVE DIRECTOR, PUBLICIS

in the viral media space in the internet you really have an opportunity to have people be media vehicles for you and so what you want to do is try to get people curious about it and

spread the news ..if you give the answer away too quickly they'd tend to shy away from sharing it with their friends.

ANNOUNCE VO: AND IT GOES FURTHER- GETTING ATTENTION FROM JAY LENO AND THE BLOGOSPHERE.

COST 1 MILLION DOLLARS-- BEING ADOPTED BY THE PUBLIC AND THE TONIGHT SHOW -- PRICELESS...

DOZENS OF BIG COMPANIES -- OFFICE MAX, SONY, COCA COLA AMEX -- CHASING THIS VIRAL BUZZ BY CREATING FAKE WEBSITES AND PLANTING VIDEOS ON YOUTUBE.

IT **CAN** BACKFIRE -- SONY GETTING FLACK FOR A SITE TO HYPE THE PS3... AND CRITICISM OF WAL-MART'S SOCIAL NETWORKING THE SITE -- "THE HUB" -- PUSHING THE COMPANY TO TAKE IT DOWN.

BUT THESE CORPORATE ATTEMPTS AT COOL ARE RELATIVELY INEXPENSIVE, WITH POTENTIALLY HUGE REWARDS.

WAYNE FRIEDMAN

WEST COAST EDITOR, MEDIA POST

OUT OF POCKET IT'S PRETTY SMALL - THE TOTAL AND YOU HAVE PRETTY MUCH A TARGETED AUDIENCE- SOMEONE'S COMING TO YOU VS TELEVISION WHICH IS PRETTY BROAD WHEN YOU'RE FIELDING A LOT OF DIFF VIEWERS

ANNOUNCE VO: Julia Boorstin CNBC for the Business of Innovation.

MARIA BARTIROMO:

We had Larry Huston from Procter and Gamble on earlier. What is P&G doing right, Robert?

ROBERT TUCKER:

Just about everything at the moment, I would say. I think that what Lasly has done in terms of breaking down the barriers between divisions, between business units, looking outside for ideas, creating an environment, rebranding, reinvigorating the brands there, I would give them a-- an A plus at the current time.

MARIA BARTIROMO:

Get--

ROBERT TUCKER:

Also GE and other companies too.

MARIA BARTIROMO:

Gary?

GARY HAMEL:

Yeah, I'd-- I'd agree. You know, I think the big thing that Lafly's kind of blow up is this idea that ideas only start inside. Obviously, today they come from everywhere. You've got to look at this world like this Lego kit of competencies and technologies and-- and put them together in new ways.

But I think it's also kind of challenging the notion that innovation always has to be really expensive and a bet-the-farm kind of thing, you know. Innovation, in a way, is like

anything else in business (UNINTEL). You know, you have to be able to do it efficiently and cheaply. And that means borrowing ideas from outside.

VIRGINIA POSTREL:

One thing that P&G-- is getting-- one thing that we haven't talked about that P&G is getting right right now is-- and that's very difficult for them-- is taking their traditional idea which was innovation equals technological innovation, that is something that can win in a white box, a new and improved product and marrying that to a new appreciation and design and aesthetics. And my-- my favorite example of this because it's so mundane is there is a gorgeous bottle that the Crest Pro-Health mouthwash comes in. And it looks like a perfume bottle. It's beautiful. And in the past, you know, just having a new alcohol-free mouthwash would have been-- enough for them. And today they're paying much more attention to that-- those intangibles in the consumer product--

ROGER SCHANK:

I sure wish we'd stop talking about--

(OVERTALK)

ROGER SCHANK:

--toothpaste. You know, innovation (LAUGHTER) is a much more interesting subject than toothpaste. The last show we were talking about toothpaste. We're talking about toothpaste--

VIRGINIA POSTREL:

I'm talking about bottles.

ROGER SCHANK:

--again. Enough with the toothpaste.

MARIA BARTIROMO:

Well, they've been innovation with their toothpaste.

ROGER SCHANK:

I get it. But there's more important issues in the world than innovation.

ROBERT TUCKER:

Then we talk about frappacino.

ROGER SCHANK:

(LAUGHTER) Yeah, sure.

MARIA BARTIROMO:

That's innovative.

ROBERT TUCKER:

Let me tell you, frappucino's a good example. You know where that came out from? Not out of the corporate labs or the corporate headquarters at all, two barristers in Santa Monica, California. They were serving coffee on hot afternoon in Santa Monica, started messing around with different concoctions and lo and behold came up with a breakthrough product. So, you know--

(OVERTALK)

ROBERT TUCKER:

--not all innovation--

ROGER SCHANK:

They got someone to listen to them.

ROBERT TUCKER:

--is coming out of labs. Not all--

ROGER SCHANK:

Not that they did that--

ROBERT TUCKER:

--innovation is with technology.

ROGER SCHANK:

--but that someone listened to them is what's interesting. The thing about corporations is they so often don't listen. The fact that someone did that, I can imagine that happened in 100 Starbucks. But whoever those folks were were listened to and figured out how to get listened to. Our last guest had the same issue. People figure out how to get listened to. That's a key issue in innovation.

MARIA BARTIROMO:

It's a great conversation. Thank you so much all of you. We so appreciate it, Virginia, Robert, Gary, terrific conversation. Thank you.

¶=====announce vo=====

¶NEXT WANNA KNOW A SECRET?

SOT: ROGER SCHANK

You know why people don't innovate? They're afraid of being told they're stupid. "You know, what a dumb idea that was." People hate that.

====ANNOUNCE VO====

THAT'S THE BUSINESS OF INNOVATION

EPISODE 2 SEGMENT 4:

¶====ANNOUNCE VO====

THIS IS THE BUSINESS OF INNOVATION WITH MARIA BARTIROMO.

MARIA BARTIROMO:

Rodger, what a show. This whole idea about revolution and evolution is-- is really interesting. I mean, the-- the idea that-- that struck home for me was the Toyota idea where, you know, you have Ford Motor not doing well. And they say, "You know what? We want to do what Toyota does." That's not evolution.

RODGER SCHANK:

No, it's not--

MARIA BARTIROMO:

That's not innovation.

RODGER SCHANK:

--anything. It's not a recipe for success either. The question is what would Ford do if they wanted to be successful. They'd have to hire a whole set of people they'd never had working for them before, people who didn't get 800 on their SAT's and graduated

from MIT, people who were actually doing things in their garages and coming up with good-- good ideas. But they don't hire that way. So, it's about people.

MARIA BARTIROMO:

But you know, you-- you seem to keep saying that a lot-- most companies can't evolve and innovate. And I-- and our experts, they disagreed. I mean, they feel that companies can actually teach people--

RODGER SCHANK:

Our experts are selling a product (LAUGHTER) is that clear. They're a selling a product of, "Oh, I can make your company innovative. You sit there and hire me." Okay, so you have to discount a lot of what they say on that basis.

MARIA BARTIROMO:

Okay, I (LAUGHTER) still am an optimism-- an optimist. I want to believe that if I'm a big company and I'm-- I've done well but I've sort of fallen in a ditch that I can actually dig my way out of it with innovation.

RODGER SCHANK:

You can hire smart people and listen to them. But I think, in general, big companies don't want to do that. What they want to do is take the guy that's sitting in the corner office and say, "Come up with an idea. I'll listen to it for a minute." But they don't mean it.

You know why people don't innovate? They're afraid of being told they're stupid. "You know, what a dumb idea that was." People hate that. So, they have to feel like they're in a comfortable environment to have an idea. And typically corporations are not environments for radical, game changing ideas.

MARIA BARTIROMO:

The other idea that came out of tonight's show was this idea of identity. You really have to your own identity in order to innovate.

RODGER SCHANK:

You need to know who you are. Let me tell you a story. I shop at a local supermarket, a big supermarket. This supermarket has three or four items I love. Suddenly, none of them are there. I ask why aren't they there. They said, "Oh, they were too popular." Huh? (LAUGHTER)

MARIA BARTIROMO:

I don't get that.

RODGER SCHANK:

You know what they-- what they meant? They have a ghost shopper walks around and sees if the shelves are stocked. These are so popular that the shelves are always empty at these spots. So, they were getting bad marks. The manager of the-- of the supermarket was getting bad marks from the ghost shopper on having full shelves.

MARIA BARTIROMO:

Oh seriously.

RODGER SCHANK:

So they got rid of the-- I'm not making this up.

MARIA BARTIROMO:

Give me a break. That's just--

RODGER SCHANK:

I'm not making this up.

MARIA BARTIROMO:

--that's just-- by the way, that's not innovation or not innovation. That's just bad management.

RODGER SCHANK:

No, no, that's exactly what-- why-- what prevents people from innovating. This guy isn't going to sit there and call the man-- the head of the supermarket and say, "You know, we really have a problem here." No, he's just trying to keep his job.

MARIA BARTIROMO:

Uh-huh (AFFIRM), so when you look at innovation, can it be revolution, the lightning in-- in a bottle as well as evolution, where you get there over time?

RODGER SCHANK:

If you have the right to argue, clearly the manager of the supermarket does not feel he has the right to go up the chain and say we have a problem here. You guys are fools. He doesn't do that.

In general, people don't do that. They don't make waves. They don't want to cost themselves their jobs. And that's the problem.

MARIA BARTIROMO:

That is the problem. I mean, I just feel like there are certain employees, people working, who are true innovators. And they don't necessarily always get the shot to take the risk and-- and try, you know-- try new things that will lead to innovation new products.

RODGER SCHANK:

They're scared. They're scared.

MARIA BARTIROMO:

Yeah, they're scared.

RODGER SCHANK:

Innovation is scary. The thing about the guy you had on earlier is he's not scared of anybody. That's why--

MARIA BARTIROMO:

Russell Simmons.

RODGER SCHANK:

--he did-- Uh-huh (AFFIRM), that's why he did okay.

MARIA BARTIROMO:

Well, Russell Simmons is a great, great example of innovation. Because not only is he innovating new products that are actually helping a lot of people. But then he's getting the money and he's giving it back to places that need it like--

RODGER SCHANK:

But did you hear the key word—

RODGER SCHANK:

--he said. I said, "How'd this work?" He said, "Beg, beg." You have to be willing to-- to put yourself in a horrible circumstances, to yell, scream, take risks, about getting fired and actually have 100 people say you're a moron and still go to the 101st.

That's what innovation requires. It's not just brains. It's also an attitude.

MARIA BARTIROMO:

So, it's not just brains. And it's not just this-- idea that you have to take risks. But it's also push, push, push, push, push, just relentless.

RODGER SCHANK:

Endlessly trying to make things change. And no one wants it to change. You know, I was a professor for 35 years. I worked at-- every university president I worked for, I used to say, "You know, this university isn't working right. Let's change it."

What do you think their answers were? "Oh sure, we're going to go redo the university." People don't want to change anything.

MARIA BARTIROMO:

What a great subject. Rodger, thanks for this. I thought it was really terrific. And that is the business of innovation for this week. I'm Maria Bartiromo. Now, here's a look ahead at next week's program.

ROGER SCHANK:

Can you ask somebody what they really want? This is Marketing 101. Ask your customers what they want. Has to be the wrongest move there is. 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. 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.

ANNOUNCE VO: THAT'S NEXT WEEK ON THE BUSINESS OF INNOVATION.

¶====ANNOUNCE VO====

AND FOR MORE INFORMATION ON OUR PROGRAMS GO TO
INNOVATION.CNBC.COM FOR VIDEOS, TRANSCRIPTS AND MORE.

CREDIT ROLL:

MARIA BARTIROMO:

Well, I mean, there is-- there is an argument to be made, though, that you've got to keep up with your competition and make what consumers want. I mean, if consumers want energy efficient vehicles, for example--

ROGER SCHANK:

I'm not convinced that consumers want energy efficient vehicles. Consumers want a set of things that people understand.

CHRISTIE HEFNER:

We live or die based on our ability to know what the consumer wants, what his passions are, what's driving him. I mean, you publish that best selling magazine for men in the U.S. in the world without that.

TERRY JONES:

Well, guessing is a bad idea. That's one of the things that's fun about running internet companies, is you get so much feedback so quickly.

ROGER SCHANK:

What you-- what people who are running Internet companies are going to have to start to do-- start to do-- is understand each individual customer, what they particularly want.