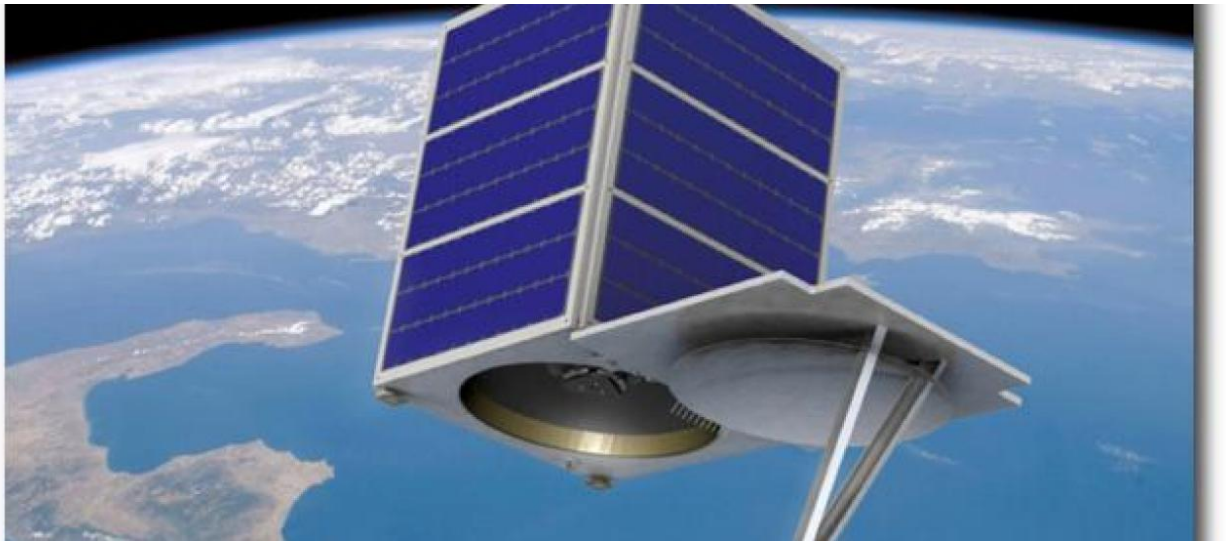
Innovation Through Acquisition



By Henrich Greve , INSEAD Professor of Entrepreneurship

Google’s acquisition of Skybox is a good example of complementary innovation.

Google has just acquired satellite firm Skybox, and got plenty of attention for the acquisition. Two things stood out. The first was the low price (well, $500 million), reasonable for a firm with the capabilities of Skybox. The second was the potential for new services combining the satellite imagery with other technologies and services. Skybox has six satellites in space and is launching 18 more, giving it the majority of satellites in the world that can take very high resolution images and sell them commercially, as opposed to delivering them to the government that owns them, like spy satellites do. This advantage is likely to continue for a while because its satellites are currently the cheapest high-resolution satellites in the business.

What exactly does high resolution mean? They can take pictures of parking lots that allow counting of vehicles parked there, a capability that has already been used to predict revenues of Walmart and iPhone release dates (although Apple is secretive, it is still necessary to park trucks outside Foxconn factories in order to ship out iPhones). All it takes to use the capability is to know a location and a good time to take the picture, because the satellites pass frequently, so you can now check for cars parked near

your house when you are away for the weekend and have told your teenager not to host a party.

Of course, the main use of such satellite imagery is corporate intelligence. And, I am using the word intelligence in the same way the CIA does: as code for spying. Although some of it will have no particular target and much potential usefulness, such as finding out whether crops are failing in some part of the world (helps speculators, but also farmers elsewhere) or giving real-time improvements of maps (the first use of these satellites that Google is planning), other uses are less benign. Corporations can monitor each other's facilities easily, just as Foxconn is now being monitored. Governments that do not have the resources to launch spy satellites, meaning most governments, can now order images whenever they want to check something -- such as the location of refugees that they would like to remove or imprison.

As I write this, it strikes me that the examples I am giving are simple and might not be enough to justify the price of Skybox. But, that is where the complementarity comes in. Skybox satellites have good flight paths and optics, but at the end of the day they are flying cameras with decent software. Add Google to the equation, and you get flying cameras, excellent software, and immense databases. These two companies have different capabilities, and when listing them it looks like they could be combined to make something completely new. Skybox and Google are complementary and complementarity is a good start to innovation. The innovations might involve valuable new products and services, and they might also involve worrying levels of monitoring and privacy breaches. We don't know in advance, except that there will be surprises.

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