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The Power of Market Creation

How Innovation Can Spur Development

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Excerpt:

"For certain system-level constraints, finally, instead of waiting for the system itself to change, entrepreneurs are best served by trying to internalize the problem and control more of the outcome. For example, although traditional capital markets may not be keen on market-creating innovations, the concept of “royalty financing” could help individual businesses. Under this scheme, rather than raising traditional equity or debt, the entrepreneur can license investor capital. The investor receives nothing until revenues are generated, and then the entrepreneur pays a royalty to the investor—a percentage of revenues—just as is common with licenses for intellectual property. As revenues increase, royalties increase, until the accumulated royalties paid have reached some multiple of the initial

principal amount. Such an approach precludes the need for a liquidity event, that is, an opportunity to cash out, whose outcome is hard to predict when capital markets are poorly organized and policed. Instead, investors benefit from a liquidity process, which they can monitor and confirm firsthand."

Source:

<http://www.foreignaffairs.com/articles/142495/bryan-c-mezue-clayton-m-christensen-and-derek-van-bever/the-power-of-market-creation>