

# Deciphering the Market Creator's Dilemma

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# Executive Summary

*New market ventures—ones that bring new-to-world products to life—rarely succeed. Across innovation and startup circles, there prevails a flawed assumption that the high failure rate is an unavoidable consequence of operating under high uncertainty.*

*The true source of the problem is far more insidious: By defining product ideas based on what customers want and need—a proven principle of new product innovation—market creators unwittingly import a faulty core business architecture.*

*A core business architecture is the DNA of a market. It solves for the commercial viability of the market itself, not the profitability of any one company. It defines the basic shape of the product and operations for all competitors and sets a cost floor and a value ceiling for their business models.*

*When the core business architecture is faulty, the cost floor sits above the customer value ceiling. In that case, every business model built from it will face unit costs that exceed the value that can be generated for customers. The venture, in other words, is doomed to fail from the very start.*

*The only way to solve the problem is by engineering a new, robust core business architecture.*

*In this paper, we pull back the curtain on the unique innovation challenge of market creation. We then introduce a methodology that applies key principles of systems engineering to innovating robust core business architectures. The methodology has been tested and evolved through more than two dozen corporate new venture teams and startups in both emerging and developed markets.*

Over the past 25 years, scholars and businesspeople have seemingly put to rest the big questions about new market creation—that is, the innovation of new business models that bring new-to-world products into people’s lives and generate big sources of profitable growth.

The two biggest questions confronted were 1) how do you innovate new-to-world products that people want; and 2) how do you innovate new, transformative business models that can make, sell and deliver them profitably?

Based on the past decade’s performance, we’ve arguably cracked the first big question. New-to-world products show up regularly on our proverbial doorsteps, and they attract a lot of users. From subscription meal kits, digital therapeutics for disease treatment and prevention, plant-based packaged meat, online rental of designer women’s clothing, electric bike and scooter rentals, digital music streaming, to buy now pay later financing.

So too in the developing world, where fortified foods, clean cookstoves, solar lighting systems, pay-per-use showers and toilets, primary eye care vans, and telemedicine have become commonplace.

But where it’s been a complete failure is on the second big question. In the new markets noted above, you’re hard pressed to find a scaled venture generating sustained profits.

In fact, a market creator’s chance of achieving enduring profitability is a hair’s breadth above zero. Venture Genome calculates that 90% of startups fail completely, and 1.5% produce a successful exit of \$50 million or more.<sup>1</sup> Based on the last decade of IPO performance, less than 20% of those will become profitable. The likelihood of turning out a sustainable venture, in other words, is lower than 1%.

Corporate ventures don’t fare better, including celebrated market creators like Google and Amazon. Alphabet, the parent company of Google, was bleeding \$1 billion quarterly from its “X” unit—a division set up in 2010 to pursue market-creating innovations like glucose-measuring smart contact lenses, hot-air balloon-deployed rural internet service, drone delivery, and self-driving cars.

Alphabet shuttered most of the unit’s ventures in January of this year, as their path to profitability remained dim. Amazon’s equivalent unit—its Grand Challenge Lab—suffered the same fate, with most of its ventures decommissioned in 2023.

Scholars and practitioners have “explained” the dismal business model performance as the natural consequence of the high uncertainty that accompanies market creation. In other words, the near-zero probability of success is simply the nature of the innovation challenge. The best you can do is to minimize losses by getting out

into the market with minimal investment, experimenting as you run the business, and quickly pivoting directions if things aren't working.

The puzzling thing is that we know how to bring big, complex companies in or on the brink of bankruptcy back to profitability. Success stories include the likes of Apple, GM, Harley Davidson, Marvel Entertainment, Delta Air Lines, Xerox, and Pabst Blue Ribbon. Boston Consulting Group calculates that, over the past two decades, complex corporate turnarounds have a 20% to 30% chance of success.<sup>ii</sup> Turnaround M&A deals work 40% of the time.<sup>iii</sup>

Why does the business model knowledge used to revive failing companies in established markets fail *completely* when used by market creators?

While we aren't dismissing uncertainty as a variable, we believe it's a red herring. As the late Clay Christensen and his co-authors remarked about companies' continued failure to reliably innovate profitable new business models, "*...when the business world encounters an intractable management problem, it's a sign that business executives and scholars are getting something wrong — that there isn't yet a satisfactory theory for what's causing the problem, and under what circumstances it can be overcome.*"<sup>iv</sup>

Something must be radically different. And it is.

To create products that match customers wants and needs, innovators must be customer-led. It's a fundamental principle of product innovation. Research proves that it works in established markets.

But when innovators creating new markets are customer led, they unwittingly import a *faulty core business architecture*. The core business architecture is the DNA of a market. It defines the basic shape of the product and operations for all competitors and sets a cost floor and customer value ceiling for all their business models.

When the core business architecture is faulty, the cost floor sits above the customer value ceiling. Every business model built from it will face unit costs that exceed the value that can be generated for customers.

Unlike business models made up of thousands of components and activities which all can be optimized, a core business architecture is made up of a handful of deeply intertwined strategies, like a strand of DNA. They can't be optimized. Modifying or eliminating one strand simply triggers problems with the others.

The subscription meal kit industry, for example, has been perpetually unprofitable because of a faulty core business architecture. Every effort made to significantly bring down costs or create more customer value causes other problems that offset the gains. It's an unwinnable game of Whac-A-Mole.

Consider former subscription meal kit unicorn Blue Apron. The company experimented briefly with delivering meal kits through grocery stores to avoid the crippling cost of overnight shipping that eroded profitability. But in so doing they significantly compromised their time-saving value proposition and competed alongside every other prepared food option on store shelves, putting greater strain on marketing to acquire and retain customers.

Like others, they experimented widely: expanding to 50 meal options; partnering with celebrity chefs; forming sales and marketing partnerships with Blue Cross Blue Shield, Planet Fitness, Jet.com, Walmart Marketplace, and Amazon; automating distribution centers; launching an order management system across its warehouses; and sourcing ingredients directly from farmers and ranchers.

But nothing worked. Blue Apron's assets were sold off in late 2023 after having accumulated \$700 million in losses.

The only way to solve the problem of a faulty core business architecture is by engineering a new one. The key to doing it well is counterintuitive: by harnessing the product form factor to do things typically handled by the operational model, like customer acquisition.

In this article, we unpack the market creator's dilemma that today traps ventures in core business architectures with little to no hope of discovering profitability. We'll then share insights for innovating robust core business architectures that we've uncovered working closely with more than 40 teams in corporations that include Barclays, Pearson, BMW, Mars, Dupont, and SC Johnson.

## The Core Business Architecture

Understanding the concept of a core business architecture is key to understanding the source of the market creator's dilemma.

While the concept of an "architecture" is well established in engineering, it rarely appears in management science and is often confused with the term business model. That's because the founding principles and concepts of *management* science came from research about *managing* established companies in already existing markets.

The architectural level becomes relevant only when innovating new markets.

A core business architecture is the "deep strategy" or logic for commercializing a core functionality. It solves for the commercial viability *of the market itself*, not the profitability of any one company.

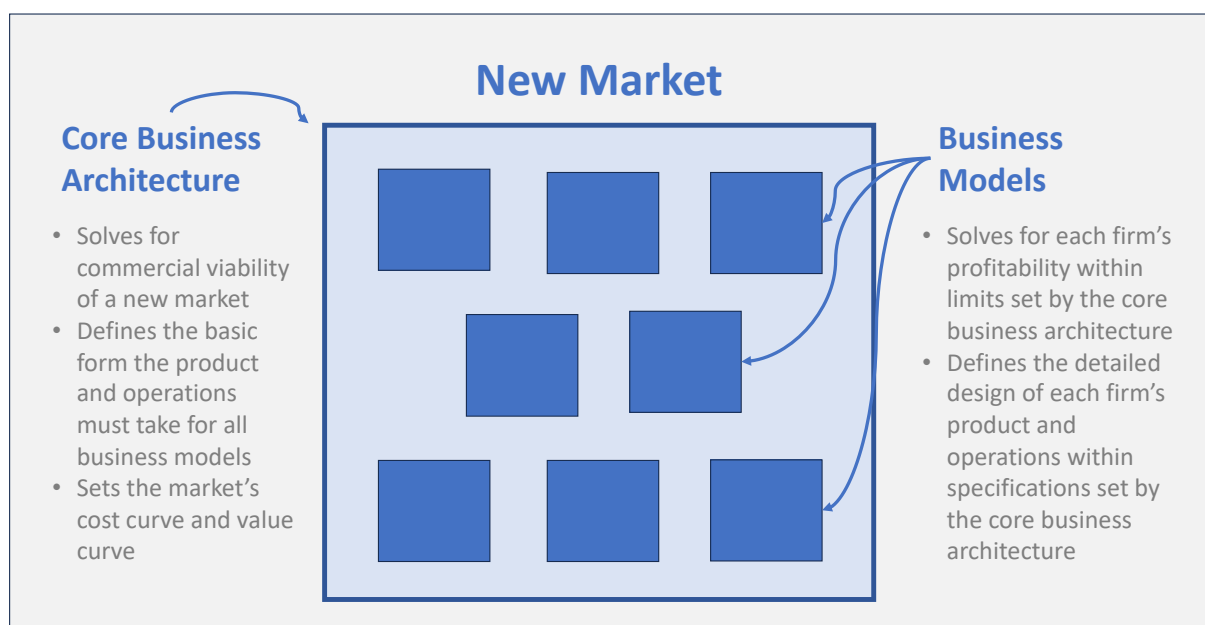
It explains how all companies in a market contend with a handful of basic commercial forces, the same way the architecture of a flight solution explains how it balances the forces of lift, thrust, drag, and gravity. That's why it's made up of just a handful of tightly coupled strategies.

You can't "see" an architecture looking at the components of a business, the same way you can't see the engineering strategy that keeps a plane aloft by looking at its components. What is visible, however, is the form factor. It's the essential shape a solution takes for a given architecture. Think helicopter, fixed wing aircraft, or jet pack.

A business form factor is the essential shape the product and business operations take. It's *shared by all companies* competing in a market.

For example, the core business architecture innovated by Henry Ford gave birth to a business form factor used by every automotive company since then: "standardized passenger cabins assembled using continuous flow manufacturing that are sold, financed, and serviced through dealerships." It's why General Motors, Volkswagen, and Toyota look alike.

A business model is *a company's unique strategy for outcompeting other companies within a core business architecture*. The core business architecture, in other words, defines the sandbox within which business models play.



Business model strategies get into the weeds. They shape the literally thousands of components and activities that make up each company's product and operations. It's why General Motors, Volkswagen, and Toyota each have very different car designs

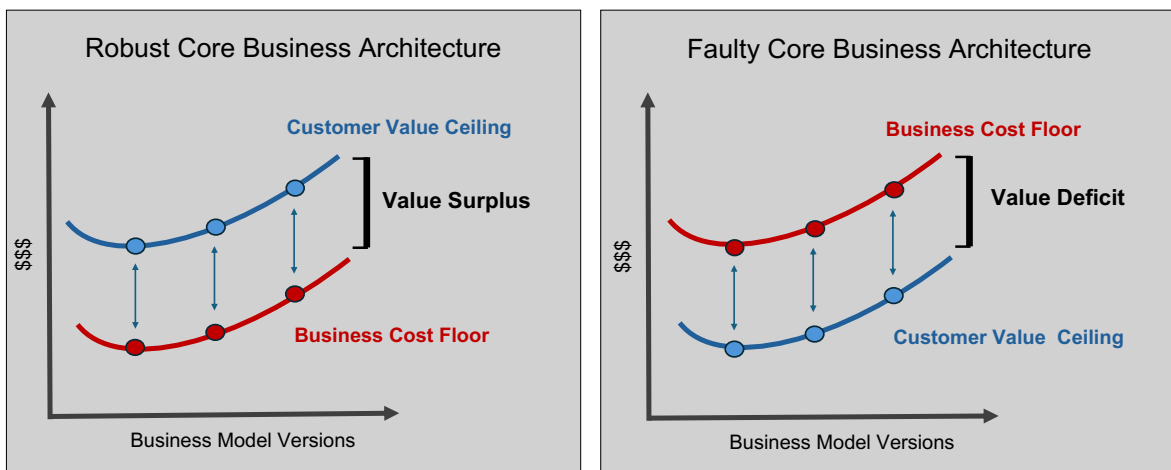
and aesthetics, different levels of integration across the value chain, and emphasize different technologies and capabilities.

Most importantly, the performance potential of every business model is constrained by its core business architecture. The core business architecture sets a cost floor and a value ceiling for the entire market. It's why auto manufacturers' gross margins all fluctuate between 16%-20%, and their five-year average net profit margins between 3%-7%, despite their different business models.

And that's where the market creators' dilemma resides.

When a core business architecture is robust, the customer value ceiling sits above the cost floor. That creates a *value surplus*. So, there are lots of profitable pathways that competitors' business models can explore. Every profitable, enduring market rests on a robust core business architecture.

When a core business architecture is faulty, the curves invert. When that happens, there is a *value deficit*. Even the most optimal business model can't solve a customer problem at a cost required for profitability.



When there's a faulty core business architecture, the breakdown first shows up in a key operation in the business form factor. We call it a "critical limiting operation" because it disproportionately drives up costs and resists optimization.

For example, working together with a BMW new ventures team in the UK, we probed the "peer-to-peer car sharing" form factor to understand why no one was profitable, despite years of effort by dozens of startups and billions invested. We uncovered a critical limiting operation: managing risk.

With peer-to-peer car sharing, insuring a random driver of a random car comes with much higher risk. And neither the sharer's nor user's existing car insurance provides

carry-over coverage. The result is that insurance alone adds 40% or more to the price, making it cheaper to lease a car in most cases.

Working with several global food companies aiming to solve the pervasive nutrition challenges among low-income consumers in the developing world, we uncovered a critical limiting operation in the “fortified, packaged snack food” business form factor: educating customers.

Every business model built on this core business architecture had to use behavior-change campaigns and high-touch marketing to teach customers about nutrition and convince them that the product can materially impact longer-term, future outcomes, like a child’s school performance and career prospects. We calculated that the cost of those demonstrations and campaigns added 70% to the cost of the product, pushing the price well beyond customers’ ability to pay.

Because the core business architecture is tightly coupled, making a big change to an operation in the business form factor triggers problems elsewhere. William Deming, who pioneered the application of systems dynamics into manufacturing, called these complications, “interaction effects.”

One global food company tried to eliminate the need for high-touch nutrition education campaigns by shifting sales over to modern grocery stores where the product could sit alongside other healthy snacks and foods, like energy bars.

But that created a different problem: the lower-income target customers didn’t shop there, as the price of staple goods was lower in the informal, mom-and-pop shops they frequented. It became clear to the global food company that trying to solve the newly created problem of changing consumers’ shopping routine was equally onerous and costly.

Failing to understand that the architecture underlying a business form factor is faulty, market creators experiment relentlessly, continually falling short of profitability.

The president of a global foundation that has invested for over a decade in renewable energy startups in the developing world trying unsuccessfully to profitably serve customers without grid access sensed this underlying problem. When the organization brought us in to assess the business models of their client companies, he remarked “I’ve watched these companies grow and optimize every aspect of their operations. They’ve squeezed out everything they can, but they’re still sitting 10-15% over cost.”

## Importing Faulty Core Business Architectures

Market creators inadvertently import faulty core business architectures because they're doing the right thing: they're trying to give customers what they want.

Being customer-led works in established, profitable markets where customers have a product routine, value proposition, and customer journey to evaluate and draw on. With market creation, they don't have these anchor points.

When asked about unmet jobs-to-be-done and what might help them do those jobs better, customer naturally look to existing business form factors as reference points. In other words, target customers anchor on *existing core business architectures* they interact with to make sense of things.

It's the essence of the Henry Ford quote popularized by Steve Jobs, "If I'd ask customers what they wanted, they would've told me a faster horse."

For example, women being interviewed about whether they would choose a \$3,000 designer gown for a wedding reception are very likely to say that they can't afford it. They are also likely to naturally offer up that they would happily rent it for the occasion.

Renting costly assets that are used infrequently is a model everyone is familiar with; and tuxedos are rented, so why not fancy designer gowns? It's how former unicorn Rent the Runway was born—an unprofitable, struggling venture that tries to rent designer clothing.

Entrepreneurs fall into the same trap. The idea for Zebra Fuel, a now defunct on-demand fuel service founded in 2016 in London that refueled cars parked at people's homes, came about when the founder ran out of fuel in central London. Pizza is delivered direct to people's homes, why not petrol?

The problem is that every existing core business architecture has boundary conditions—basic circumstances needed for it to work. Boundary conditions come in two types: functional and human.

With market creation, at least one, but often both, are violated.

Functional boundary conditions stem from the product form factor—the basic shape a product solution takes. The tuxedo rental model works because tuxedos are easily tailored, have standard sizing, and don't go out of style. Designer gowns are not. The result is that Rent the Runway and every other startup that followed them are saddled with a costly, highly perishable inventory that significantly drives up rental prices.

The pizza delivery model works because pizzas are differentiated and delivered by unskilled drivers using a bicycle or motorcycle. A commodified, highly explosive product like petrol cannot. The result is that Zebra Fuel is saddled with a very high capital depreciation cost that drives up the price for a liter of fuel.

Human boundary conditions deal with the competence level of customers and key partners. Consider the “packaged snack food” core business architecture.

Customers already understand why packaged snacks are worth buying and know where and how to fit them into their eating routines. They are comfortable with key routines in the customer journey: paying attention to television and print ads, reading point of sales promotions, and seeking out product at a retail store where they shop. They have money already budgeted.

None of those routines are in place when the packaged snack food business architecture is used to try and solve nutritional deficits among low-income consumers. Using business model levers—e.g., brand campaigns, promotional events, introductory offers, generous payment and delivery terms—to get customers to learn new routines puts a load on the business model it wasn’t built to support.

It’s like driving a tractor trailer over a bridge built for pedestrian use. Ultimately, it’s going to collapse.

## Engineering Robust Core Business Architectures

To solve the challenge of faulty core business architectures, we turned to systems engineering. Systems engineering is used to innovate architectures under conditions of high uncertainty in applications ranging from aerospace, bridge and building construction, to urban transportation networks and national health care policy.

Systems engineering’s approach to innovating new, robust architectures can be boiled down to three processes.

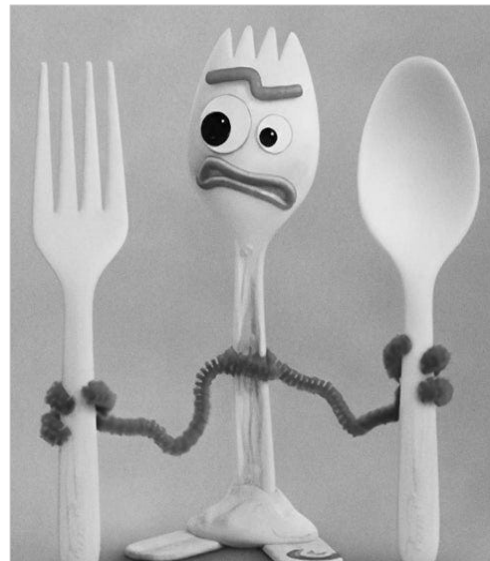
First, define the critical jobs or “functions” the system must do to work. A bridge’s critical functions, for example, are to link disconnected areas and to support a load.

Next, figure out the “requirements” behind the functions. Requirements are what must be solved for a function to be performed. They surface the physics behind the functions. For example, for a bridge to support a load, it must withstand three different forces: downward compression forces, outward tension forces, and twisting torsional forces.

Lastly, design the form factor to solve all the requirements in the most simple, elegant way. The focus is on creating synergies—designs that simultaneously solve multiple jobs.

Synergies in the high-level form factor eliminate lots of parts.<sup>1</sup> That’s what generates the dramatic improvement in cost *and* performance—there are fewer inputs needed for the solution, and there’s less to build, integrate, manage, repair and replace. It’s why “simple design” was Steve Jobs’s famous obsession.

An amusing yet instructive example of design synergy is the “spork”—the cutlery innovation that performs the job of both a spoon and fork. Because of the spork’s design synergies, 50% of the parts are eliminated.



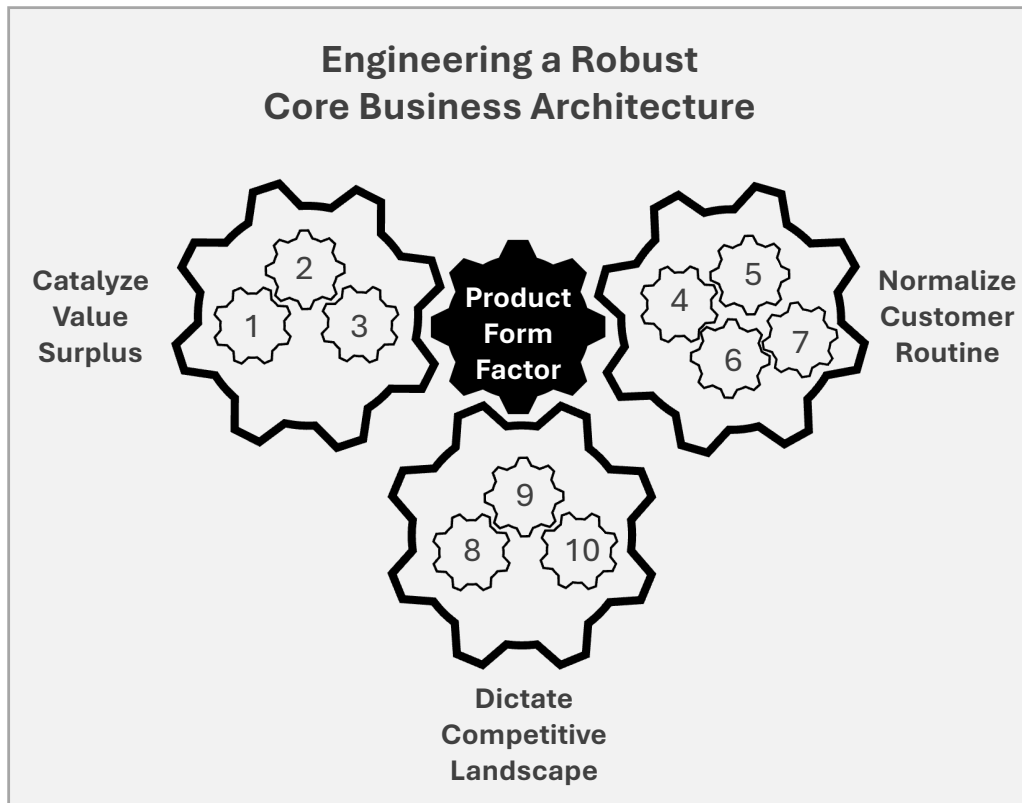
In the bridge example, the steel truss cantilever bridge form factor was an engineering breakthrough. Using cantilevered beams supported by piers, the bridge allowed for much longer spans than before and was easier—and much cheaper—to build in challenging crossings, as it needed little to no temporary supports during construction.

Over the past decade, we’ve developed an innovation approach that harnesses these insights to engineer robust core business architectures.

Our key discovery was the central role played by the product form factor. To generate big operational synergies that eliminate big chunks of costs, the product form factor must be harnessed to drive three critical business functions: catalyze value surplus, normalize customer routine, and dictate competitive landscape. The way to do that is by “productizing” ten requirements behind those functions—i.e., changing the shape of the product to solve them.

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<sup>1</sup> Walter Isaacson, *Elon Musk*, Simon and Shuster, New York, 2023.



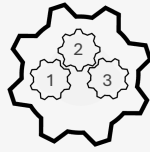
Shaping a product to facilitate business operations is an established concept in manufacturing and logistics. Products are designed to make them easy to produce and transport as a way of lowering costs.<sup>v</sup> A similar idea is behind the recent SAAS-driven concept of product-led growth or product-led sales, where the product is adjusted so that it helps “sell itself” and reduce customer acquisition costs.<sup>vi</sup>

In this case, the “productizing strategy” is being applied comprehensively to the core product idea itself at the very start of the innovation process.

The three critical business functions and their ten requirements reveal the science behind market creation. We arrived at them by deconstructing the core business architectures behind market creating ventures, including Ford, Apple, and Hershey, and extracting recurring principles. We then partnered with corporate incubators at Barclays, Pearson, BMW UK, Disney, Mars, and others to test, evolve, and refine them.

### *Catalyze Value Surplus*

“Catalyze value surplus” creates the potential for value surplus to materialize—i.e., customers deriving greater value from the product than its cost. It consists of three requirements that address the biggest drivers behind the cost and value curves.



## Catalyze Value Surplus

### **Requirement 1: Circumvent At-scale Cost Bottleneck**

Circumvent the operational procedure in the “default” business form factor that contributes the greatest share of running costs once the venture is operating at-scale.

### **Requirement 2: Eliminate Customers’ Value Bottleneck**

Eliminate the target customers’ biggest cost as measured in money from their current routine for achieving a high-value outcome.

### **Requirement 3: Circumvent Scaling Cost Bottleneck**

Circumvent the operational procedure in the interim business form factor that commands the greatest amount of working capital as the venture scales.

“Circumvent at-scale cost bottleneck” targets for elimination the biggest cost the business would otherwise face once a venture is running as a going concern. In the peer-to-peer car sharing industry example shared earlier, the at-scale cost bottleneck was managing driver risk. Insuring drivers accounted for 30% or more of the rental price.

“Eliminate customers’ value bottleneck” flips the script and targets the biggest monetizable cost that customers’ face in their own routines for “getting a job done.” Getting rid of the customer’s biggest value bottleneck is how ventures set the value curve high and raise the price customers are willing to pay.


Digital therapeutic companies, like former unicorn Pear Therapeutics which was liquidated in 2024, have been unable to generate sustained profits, in part, because they don’t solve a value bottleneck for the insurance companies that must pay for patients to use their products. While the industry has research that shows their products help patients, they haven’t demonstrated that those products save insurance companies a meaningful amount of money.

“Circumvent scaling cost bottleneck” eliminates the factor that drives up the amount of working capital needed as a venture launches and grows. Working capital costs money, particularly for early-stage ventures that depend on higher-cost equity capital.

Off-grid solar companies targeting rural consumers with little to no grid access in emerging markets, for example, have faced an enormous working capital cost as they scale. Their current core business architecture forces them to finance their cash-strapped customers’ purchase of solar lighting units over the course of a year or more. We estimated that the cost of working capital doubled unit costs.

*Normalize Customer Routine*

“Normalize customer routine” eases the customer into learning the new routines that come with new-to-world products. It contains four requirements.

 <b>Normalize Customer Routine</b>
<p><b>Requirement 4: Circumvent Customer Want Block</b> Circumvent the main reason why target customers would either be unaware of the big cost the product solves for them or would doubt that the product works.</p>
<p><b>Requirement 5: Circumvent Customer Use Block</b> Circumvent the main reason why target customers would find learning the product routine to be difficult or disruptive of their current life/work routines and mindsets.</p>
<p><b>Requirement 6: Circumvent Customer Buy Block</b> Circumvent the target customers’ absence of an existing budget line item from which to pay for the product offering.</p>
<p><b>Requirement 7: Eliminate Gateway Partner’s Value Bottleneck</b> Eliminate the biggest cost for a gateway partner that can position the product and product information centrally in target customer’s current routines for the high-value outcome.</p>

“Circumvent the customer want block” solves customer’s inability to intuit the value a product holds. In one case we advised, a global bank developed a fintech venture to give average consumers access to the higher interest generating potential of investing. Research showed that many of these consumers were unaware that inflation was diminishing the real value of their savings — a problem the new product would solve.

“Circumvent the customer use block” solves the challenge that customers need to learn new behaviors for a new product to work effectively. Global food companies like Mars, Pepsi, and Danone have all struggled to get consumers across emerging

markets to eat specially formulated snack foods the three to four times a week needed to correct the nutrient deficiencies they suffer from.

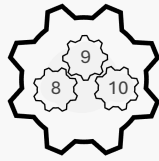
“Circumvent the customer buy block” addresses the problem that new to world products represent “new spend” for customers—they don’t already have a line item in their budgets to pay for them. The home solar panel industry in the US has depended on government intervention in the form of tax breaks to spur demand, as customers don’t have cash ear-marked to buy solar panels.

The final requirement under normalizing the customer routine is “eliminate the gateway partner’s key value bottleneck.” It solves for the problem that new-to-world products aren’t already embedded in a market ecosystem where customers shop for solutions. To attract a centrally positioned partner that facilitates access into the customer’s existing market ecosystem, the venture must eliminate the biggest cost the partner faces in their routines.

Mental health platforms have faced profitability challenges as they’ve relied largely on brute-force marketing to acquire customers. Consider that the sales and marketing spend for industry leader BetterHelp, which registered sales of over \$1 billion in 2024, exceeded 35% of revenue. Companies in established professional services industries, by contrast, spend on average less than 10% of revenue on sales and marketing.

### *Dictate the Competitive Landscape*

“Dictate the Competitive Landscape” creates a stable market immune to commoditization and positions the venture in a position of power within it. It’s made of three requirements.



## Dictate Competitive Landscape

### **Requirement 8: Manufacture a Customer Store of Value**

Create a pool of value for the customer that is lost or put at risk upon switching to a future competitor's offering.

### **Requirement 9: Manufacture Key Resource Scarcity**

Create a state of scarcity for a resource or asset needed for delivering on the customer value proposition.

### **Requirement 10: Manufacture Key Input Interchangeability**

Create a state of interchangeability for the supplier input or service with the highest cost and volume in the core business operating system.

“Manufacture a customer store of value” solves the problem of customers routinely jumping to future competitors’ products or substitutes by generating switching costs. The absence of customer switching cost in the meal delivery kit industry’s core business architecture has resulted in monthly customer churn rates of 25% and the use of costly free product giveaways to acquire customers—both of which have driven up the industry’s cost curve and destroyed profitability for everyone.

“Manufacture key resource scarcity” insulates future market competitors from price-wars by elevating the importance of a resource in delivering the customer solution and creating a condition of scarcity around it. The mobile payment app industry, for example, has remained unprofitable as competitors can readily enter and launch competing apps, leaving pricing as their only lever of differentiation.

The final requirement, “manufacture key input interchangeability,” negates the leverage of future key suppliers over input pricing by making their input interchangeable. Former startup unicorn Rent-the-Runway—an online rental place for designer clothing launched in 2014 that has never been profitable—pays high royalties to attract exclusive designers, as the platform itself is seen by designers as non-exclusive and counter-productive to their own brands.

## Peer Group Loans: Powering a Robust Core Business Architecture

Shaping the product form factor to solve critical functional requirements powered the emergence of new markets ranging from Henry Ford's mass-market automobile to Steve Jobs' family home computer industry. Look closely and you see it in Elon Musk's approach to Tesla and Space X.

An under-the-radar, but powerful case comes from the micro-finance industry—a new market pioneered in the late 1970s by economics professor Muhammad Yunus, founder of the Grameen Bank. Grameen's core business architecture cracked a seemingly unsolvable problem that changed the lives of billions of people: lending to unbanked, informal sector businesses, like small farmers and petty traders.

Yunus succeeded because, deliberately or not, his product form factor elegantly productized the 10 requirements into one, deeply integrated solution: “a peer group loan issued in tranches to self-formed teams centered around mutual responsibility and community empowerment that meet regularly in the village as a group to make repayments.”

The peer group loan circumvented the need for costly “due diligence” by harnessing peer pressure and peer support to change people's repayment behavior (requirement 1). Due diligence—the conventional way lenders minimize loan defaults that relies on delving into borrower's financial health and credit history— was enormously time consuming and expensive for informal borrowers, as they have don't have a credit footprint nor file business tax returns.

By creating a sense of mutual loan responsibility, the form factor pushed up repayment rates to over 98%. That let Grameen extend loans at an interest rate that allowed farmers to buy yield-boosting fertilizers and pocket several hundred dollars of extra profit (requirement 2).

Peer groups created significant economies of scale in loan issuance, customer care, and cash collection—all of which greatly reduced the working capital cost of recruiting and training what otherwise would have been an enormous network of loan agents (requirement 3).

The peer groups were self-formed and transacted in public centers where others could watch, thereby harnessing customers to recruit and educate other customers. That eliminated significant customer want and use blocks (requirements 4 and 5). Repaying the loans on a weekly basis enabled members to support one another financially as they learned the new budgeting routines (requirement 6).

Linking the mission of the peer group loans to the broader empowerment and development of the villages where customers lived also gained the commitment and

support of local government bodies and non-profits already embedded in the communities, thereby facilitating entry into new communities (requirement 7).

The solidarity and friendships forged by the group made it unlikely for any one customer to leave for a competitor offering (requirement 8). It also turned the loan agent into a key, but limited resource, as their effectiveness required that they have deep roots in the communities they served (requirement 9).

The extensive social impacts created—including poverty alleviation, gender empowerment, and skill development—enabled micro-finance institutions to tap into a wide range of capital providers, including governments, development agencies, social investors, along with traditional banks and financial institutions. That kept the supply of capital, microfinance’s key input, flowing (requirement 10).

Today, micro-finance remains a highly profitable, global market valued at over \$200 billion and growing at a rate of more than 10% annually.

## Conclusion

For society to address the mounting global challenges and pressing problems threatening human and planetary life, the business sector must step up and build more, as Marc Andreessen has eloquently argued.<sup>vii</sup> But in a world of limited resources, today’s 99% failure rate for new market ventures isn’t sustainable. Hundreds of billions of dollars of taxpayer and investor money are being squandered, with millions of hours of human talent and ingenuity going to waste. For business to build more, it must first build smarter—a lot smarter.

Having uncovered the central role of the core business architecture in determining ventures’ profitability potential, we believe we now have the theory and understanding to build new market ventures smarter. While there remains much to be learned, it’s within reason that new market ventures can approach the 20-40% success rates seen with turnarounds. That would drive a dramatic reduction in waste. It would also radically decrease risk, thereby bringing down the cost of capital and enabling even more new market ventures to be launched. It’s a virtuous cycle that would unlock the business sector’s full potential to drive positive change in the world while opening new, large sources of wealth creation.

## Endnotes

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