

A STRATEGIC BRIEF FOR FOUNDERS

The First Three Years

The strategic choices that define whether a startup endures, stalls, or quietly disappears.

Prepared by Allington Advisors

Discussion document · April 2026

“The first decisions cast the longest shadows.”

EXECUTIVE SUMMARY

Strategy is a sequence of disciplined choices — not a plan

Most startups do not die from competition, bad luck, or a weak idea. They die from the compounding consequences of a handful of strategic choices made — often implicitly — in the opening thirty-six months. The task of the founder is not to have answers to everything; it is to take the small number of decisions that genuinely shape the trajectory, and to take them deliberately.

01

Seven choices dominate

Market, team, business model, capital, product scope, go-to-market engine, and organisation — in that rough order of irreversibility.

02

Sequence matters as much as substance

Year 1 is about picking the beachhead and proving value. Year 2 is about pattern. Year 3 is about building a company, not just a product.

03

People problems outrank product problems

Research across 10,000 founders finds that 65% of startup failures trace back to people issues, not product or market missteps.

Source: Allington Advisors synthesis of CB Insights (431 post-mortems, 2023–26); Wasserman, *The Founder's Dilemmas* (dataset of 10,000 founders).

THE STAKES

Most startups fail — and the causes are strategic, not tactical

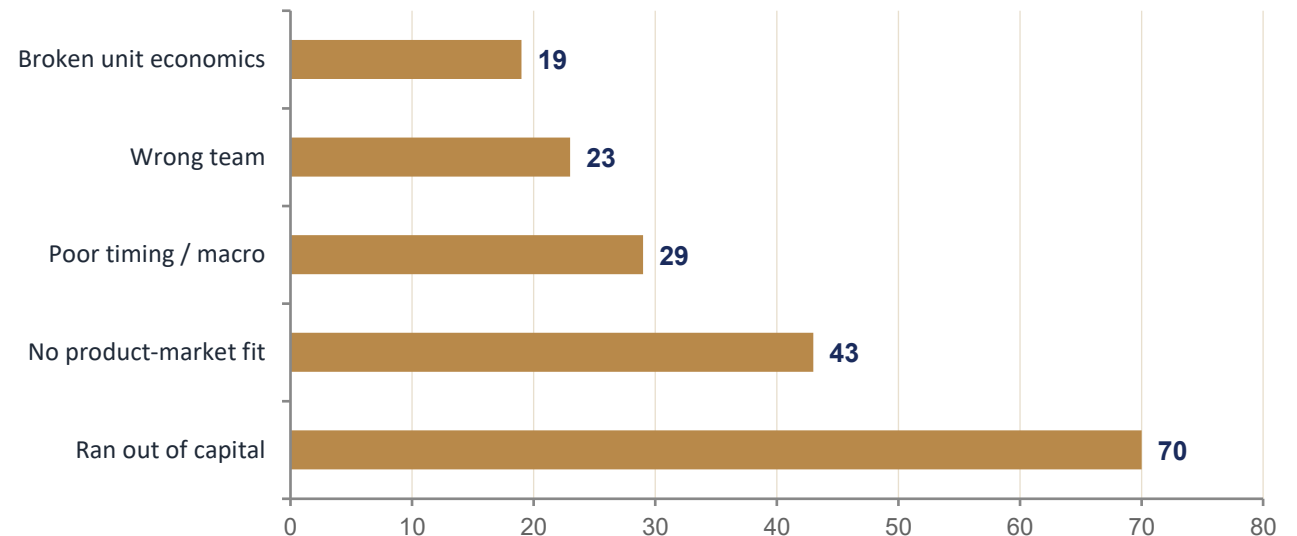
~90%

of venture-backed startups fail

Roughly one in ten does not survive its first year. The mortality curve is steepest in years one to three — precisely when the most consequential strategic choices are made.

Primary causes of failure

Share of 431 post-mortems citing each cause



“Running out of capital is how startups die. The underlying diagnoses — no PMF, poor timing, wrong team — are what killed them.”

Source: CB Insights, *Why Startups Fail* (analysis of 431 VC-backed shutdowns, 2023–26). Totals exceed 100% as companies cite multiple causes.

THE ARC

Different strategic questions dominate each phase of the first three years

YEAR 1



Opening

From idea to earned conviction

KEY QUESTIONS

- Who is our first customer — and why now?
- Do we have founder–market fit?
- What is the smallest version of the product that answers the question?

YEAR 2



Pattern

From signal to product–market fit

KEY QUESTIONS

- Which customer segment pulls hardest — and what do they actually pay for?
- Is the business model unit-economic?
- What growth engine are we building?

YEAR 3



Shape

From product to company

KEY QUESTIONS

- Are we organised to scale, or to stay small?
- What capital structure supports the next 24 months?
- What do we refuse to do?

The best founders live in all three phases at once — but the centre of gravity shifts each year.

THE CHOICE ARCHITECTURE

Seven decision clusters ordered by how hard they are to reverse



REVERSIBILITY: choices earlier in this list are harder and more expensive to reverse than choices later in the list.

CHOICE 01 · MARKET & CUSTOMER

Pick a beachhead narrow enough to dominate — and be specific about “why now”

THE DECISION

Founders routinely over-estimate their addressable market and under-estimate the value of a concentrated early segment. The most durable early-stage strategy is to pick a specific, pained, reachable set of customers — a beachhead — where you can be the best answer in the world.

WHY “WHY NOW” MATTERS

Most successful companies ride a shift — a regulation change, a platform, a cost curve, a behaviour change — that makes them possible this year when they were not last year. If a founder cannot articulate what has changed in the world, the idea has probably existed and failed before.

Source: Sequoia Capital, Arc Product-Market Fit Framework (2024).

Three archetypes of fit

Customer's relationship to the problem they are solving

HAIR ON FIRE

Customer has an urgent, known problem. Dynamic: crowded market, fast sales cycles, must be clearly best-in-class.

HARD FACT

An existing problem, accepted as a fact of life. Dynamic: must change behaviour. Slower adoption, but defensible once won.

FUTURE VISION

Customer didn't know they wanted it. Dynamic: long build, market education, but potentially category-defining.

CHOICE 02 · FOUNDING TEAM

Who is in the boat — and on what terms — is the most underpriced early decision

65%

of startup failures trace to people issues, not product or market

73%

of founding teams split equity within a month of starting — often before they know what they are building

The Rich vs. King trade-off

A founder who gives up more equity tends to build a more valuable company, but gives up more control. The choice between wealth and control cannot be avoided — it can only be made consciously.

R I C H

Maximise enterprise value

- Accept significant dilution
- Bring in strong co-founders and investors
- Be prepared to give up the CEO seat
- Optimise for exit value

K I N G

Maximise control

- Keep equity and votes
- Raise less (or bootstrap)
- Stay as CEO for the journey
- Accept a likely smaller outcome

Source: Wasserman, *The Founder's Dilemmas* (Princeton, 2012), drawing on 10,000 founders; CompStudy dataset.

CHOICE 03 · BUSINESS MODEL

Unit economics are a strategic choice — not a later problem to solve

Pricing, packaging, and the shape of the revenue model shape who buys, how fast they buy, and how defensible the business becomes. Founders often defer this decision, treating pricing as something to optimise later; in practice, early pricing choices select the customer, and the customer selects the company.

LEVER 01

Revenue model

Subscription, transaction, usage, licence, advertising — each selects a different customer, sales motion, and moat. The model is not a detail; it is the shape of the company.

LEVER 02

Pricing & packaging

Price signals quality, filters customers, and sets the ceiling on margin. Price too low and you disqualify enterprise buyers; too high and you cannot establish habit in a consumer market.

LEVER 03

Unit economics

A business with negative contribution margin is not a business scaling inefficiently — it is a subsidy programme. CAC payback, gross margin, and retention must be measurable by year two.

19% of recent startup failures cite broken unit economics as a primary cause — a symptom of undisciplined early pricing and GTM choices.

CHOICE 04 · CAPITAL STRATEGY

Whose money you take, and how much, is a strategic choice — not a financial one

Capital path at a glance

Path	Speed	Dilution	Optionality
Bootstrap / revenue-funded	Slow	None	High
Angel / pre-seed	Medium	Low	High
Venture capital (seed)	Fast	Medium	Medium
Venture capital (Series A+)	Very fast	High	Low
Strategic / corporate	Variable	Variable	Low

Three principles that hold across paths

● Raise against a milestone, not a runway

Each round should fund a specific, observable de-risking event — not a fixed number of months of burn.

● Take money from investors you would want on the cap table in a downturn

In the good case, investors matter little. In the bad case, they matter enormously. Select for behaviour in the bad case.

● Venture capital is a choice, not a default

VC commits the company to a venture-scale outcome. If the market doesn't support that outcome, VC makes the company more fragile, not less.

CHOICE 05 · PRODUCT SCOPE

Strategy is what you refuse to build — especially early

The temptation of the early-stage product is to expand: one more feature, one more adjacent segment, one more use-case. Almost every early-stage startup is better off doing fewer things better. The job of the founder is to hold the line against scope creep, which is the single most common way young companies lose focus and burn capital without moving forward.

YEAR 1

The wedge

One job, for one customer, done better than anyone. Narrow enough that word of mouth is credible. This is where the company earns the right to exist.

YEAR 2

The product

Adjacent features the same customer needs, that deepen the moat. Expand usage, not audience. The test: would losing this feature cause cancellation?

YEAR 3

The platform

A second job for the same customer, or the same job for a second customer. Never both at once. This is where most companies over-reach.

CHOICE 06 · GO-TO-MARKET

The engine must match the customer, the price point, and the product

One of the most common early errors is picking a go-to-market motion that does not fit the economics of the product. A £100/year product cannot support an enterprise sales team. A £100,000 contract cannot be closed through self-serve signup. The choice of engine shapes hiring, burn, and the speed at which the company can learn.

PRODUCT-LED

The product sells itself

Fits when: Low ACV, viral, horizontal tool

Requires: Fast time-to-value, free tier, self-serve onboarding

Risk: Hard to move upmarket; enterprise revenue is slow

SALES-LED

Humans close deals

Fits when: High ACV, complex buying centre, regulated buyer

Requires: Founder-led sales until £1m ARR; then hire the repeatable pattern

Risk: High burn; slow learning; cannot compensate for a weak product

MARKETING-LED

Demand is manufactured

Fits when: Known category, intent-driven buyer, commoditised offer

Requires: Content, SEO, or paid engine with payback under 12 months

Risk: Channel dependency; margin compression as competition arrives

CHOICE 07 · ORGANISATION & CULTURE

The first twenty hires set a cultural direction that is almost impossible to reverse later

THE DECISION

Culture is not what is written on the wall; it is who is promoted, who is fired, what is tolerated, and what is rewarded. The first twenty people choose the next two hundred. A founder who hires for short-term capability without filtering for long-term fit will spend year four replacing year two.

THE PRACTICAL TEST

Before every senior hire, the founder should be able to answer: what specifically about our way of working must this person strengthen, and what must they never dilute?

The hiring order that compounds

A sensible default for the first 18 months

- 01 Co-founders**
Complementary, long-tenured, aligned on ambition
- 02 First 2–3 engineers (or equivalent builders)**
Hire for range, ownership, and taste — not title
- 03 First customer-facing hire**
Sales, CS, or product-marketing — whichever the model requires
- 04 Head of finance or fractional CFO**
Before Series A. Cash discipline cannot be retrofitted
- 05 First functional leader**
Only once the pattern is clear — never to invent the pattern

THE DECISION CALENDAR

When each choice demands real attention — and where founders commonly mis-sequence



Common mis-sequences: scaling the organisation before product–market fit; raising Series A before the business model is unit-economic; hiring a sales team before founder-led sales is repeatable.

REVERSIBLE AND IRREVERSIBLE DECISIONS

Decide quickly on most things — deliberately on the few that cannot be undone

Not all early decisions deserve equal weight. The most useful distinction — popularised by Jeff Bezos — is between decisions that can be reversed and decisions that cannot. Treating the two symmetrically is one of the most reliable ways to waste a founder's time, and to take the wrong call on the things that actually matter.

TYPE 2 · REVERSIBLE

Decide fast — optimise for speed of learning

- Product features and packaging
- Marketing tactics and messaging
- Tooling and most vendor choices
- Operational process design
- Office and location decisions

TYPE 1 · IRREVERSIBLE

Decide deliberately — optimise for being right

- Co-founders and equity splits
- Cap-table and lead investor choice
- Board composition and governance
- Core architecture and IP structure
- Founding values and hiring bar

The single most common strategic error is applying Type 1 deliberation to Type 2 choices (and thereby moving too slowly), while applying Type 2 speed to Type 1 choices (and thereby locking in the wrong answer).

CONCLUSION

Five questions every founder should be able to answer before month thirty-six

- 01 Who is our customer — specifically, not hypothetically — and why are they choosing us now?
- 02 What is the one job we do extraordinarily well, and what have we deliberately refused to build?
- 03 Is our unit economics a business, or a subsidy? If the latter, when does that change — and who decides?
- 04 Who sits on our cap table and our board, and do we trust them in the bad case as well as the good?
- 05 What kind of company are we building — and do our first twenty people agree?

A handful of strategic choices.
*Made deliberately, at the right time,
by the right people.*