March 2025

Why Most Startups Fail to Launch

Over-focus on Product Design and VC Influence

6ai Technologies Inc.
McGill University
DataShare Lab

www.6aitech.com

https://www.mcgill.ca/bensadoun-school/data-sphere-lab

Founder and VCs

Founders are constantly pressured by investors, particularly VCs, to create a pilot or secure a lighthouse client to validate their idea or business model. However, no evidence indicates that this focus improves the entrepreneur's chances of success.

Many VCs today are analysts turned fund managers, primarily managing risk instead of focusing on building great companies. They focus on fund performance, collecting management and performance fees and executing exits.

VCs put founders through their investment processes instead of allowing them to create and focus on building their vision and executing their strategy.

Inexperienced entrepreneurs often adhere to VC interests instead of focusing on solidifying market fit, product development, and identifying sales and distribution channels.

These entrepreneurs end up overdoing it on product design...perfecting the final prototype without a good grasp of what it actually takes to succeed in business.

Founders typically require more than a year to develop fully functional and impressive software with a sleek UI and appealing features that align with VC investment models. While this approach can secure venture capital funding, it often compromises efforts in sales, distribution, and the exploration of **Blue Ocean** demand opportunities.

The simple question that must be asked is, *"How are you going to get customers?"* The standard unaware answer from many founders is usually: *"We'll do marketing," or "Once people see our product, it will sell itself or we'll be bought out because our tech is so awesome."*

Effective product development must sit at the intersection of **customer needs, business objectives, and technical feasibility**. Ensuring that a product can serve a big common and diversified market rather than a niche one.

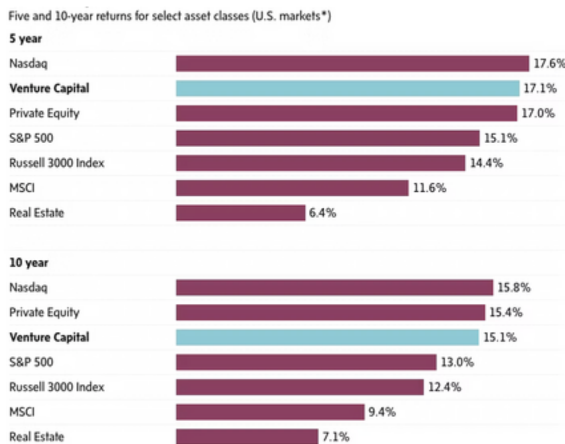
The biggest pitfall of relying on a customer lighthouse or pilot project is that the customer's needs and challenges usually do not represent those of the broader market.

Overly focusing on a single lighthouse customer input, startups risk creating a custom solution that only works for that one customer. They learn very little and limits the product's broader relevance, appeal and scalability, as other potential customers have different needs. This often leads to developing a product nobody wants.

- **The lighthouse customers:** only care about themselves; they won't be flexible and drain resources, time and funds spent on features for them only. Delaying broader market validation.
- **Market confusion:** other potential customers may struggle to see the product as solving their specific challenges if it appears overly tailored.
- **Startup viability:** failure to get an inclusive product message out and secure a diverse customer base, risks future financial instability and eventually screws up nailing the big market opportunity.

A broader strategy and discovery process allows for better scaling, product design, identifying and verifying market fits. Broad market appeal accelerates a robust feedback loop; adoption and word-of-mouth referrals, highly relevant to sales, marketing and distribution in the social media era.

In a Harvard Business Review article by Diane Mulcahy, titled *Six Myths About Venture Capitalists,* Mulcahy advises aspiring entrepreneurs against falling victim to those common myths. Warning that VCs are not the primary source of start-up funding and success; that *"Actually, angel investors fund 16 times as many companies than VCs."* It is also a myth "*that VCs take big risks with start-ups. (Often they're insulated against risk by hefty annual fee streams.)"* Another myth is that *"Most VCs offer great advice and mentoring."* And, the myth that *"VCs are innovators, (Apparently not. The innovation is not coming from them whatsoever but from other places.")* Returns have been average at best:



Vinod Khosla, co-founder of Sun Microsystems and the founder of Khosla Ventures, says that **90% of investors don't add value, and 70% add negative value to a company.** *"Just because you have an MBA and joined a venture fund doesn't mean you've earned the right to advise an entrepreneur...have you built a large company, have you gone through how hard it is, how uncertain it is and how traumatic it is to go through?"*

This has been a widespread VC fund investor complaint, according to a Globe and Mail article titled *Wealthy Canadians Investing More In Government-backed Venture Capital Funds*.

"Very few Canadian venture capital funds have returned any meaningful cash distributions to investors over the many years," says Aki Kakko, Founder of Alphanome.AI, an Finance AI Research Lab.

For example, Georgian Capital, Canada's largest VC fund group, has even gone so far as creating their own investing model by developing their own software. Georgian has five of the oldest active funds and all of them are in the single digits: the bottom quartile of funds of their vintage, according to the Globe and Mail.

Some of the excuses: *"Georgian grew too fast,"* they *"overpaid," "too many inexperienced managers, too enamoured with the companies they invested in," "they were not necessarily focused on managing future down cycles."*

Georgian was "*willing to pay up as valuations soared... When they crashed, Georgian was left with many overpriced holdings that were eventually devalued—Georgian missed or ignored several chances to cash out at high prices and didn't sell as others bought in at penthouse prices, taking increasingly bigger bets as the market peaked," says the Globe and Mail.*

Group think and exploiting hype afflicts the VC world and hurts startups, everyone is chasing the same thing, i.e., 'generative-AI'. This stifles creativity and innovation; the weaponization of capital to get entrepreneurs to bend to VC demands. Altering visions and teams that results in poor fund returns that also leads to high entrepreneur failure rates (lose-lose).

Distribution Reality

"Most founders operate under the false assumption that a great product sells itself. And I get it. When you're an entrepreneur, your product is your baby. You nurture it, tweak it, refine it, and obsess over every little detail. You convince yourself that if you just make it perfect, the world will reward you. But every founder eventually has to learn the same, harsh truth: you can build the greatest product in the world, but, if nobody knows about it, nobody will ever buy it," says Aaron Dinin, PhD.,

Professor Dinin teaches entrepreneurship and software engineering at Duke. He studies and writes about the mistakes entrepreneurs frequently make.

The reality is that many VCs lead startups to failure because they demand adherence to their own investment/business models that suit their funds interests, instead of those of the entrepreneurs business.

Dinin's work advises that the best product doesn't always win. The victor is the product that reaches customers the fastest, most efficiently and effectively.

Therefore, dedicating significant time to product design, pilots and lighthouse customer projects can be detrimental to the main business objective.

Entrepreneurs must focus on the core fundamentals of business: product development, sales, marketing, and distribution for authentic demand and quicker profitability. Rather than the VC push for the next fundraising round that serves the VC fund interests, but dilute entrepreneur equity and creates inflated phony valuations.

Startups must build distribution channels to find potential customers and get broader feedback. The larger the sample size the better. There are many not-so-amazing products out there, but they have managed to get people to use and rely on their product. Hence, they are succeeding.

Professor Dinin's research provides some examples:

"Think about the biggest business successes in history. Was Amazon the first online store? No. Was Facebook the first social network? No. Was Tesla the first electric car company? Again, no."
network? No. Was Tesla the first electric car company? Again, no."

None of these companies won because their products were fundamentally unique. They won because they figured out how to get their products in front of customers more efficiently and effectively than anyone else.

None of these companies would exist today if they'd focused solely on product design.

VC Interests Don't Align With Yours

The obsession with product design/pilots, again, is not substantiated. **It's a group think constructed illusion which stifles competition, creativity and innovative thinking and creates a controlled top-down, institutional, academic investing ecosystem that suffocates authentic entrepreneurship.**

The assumption that a single pilot project can accommodate all organizational structures and cultures is not logical, a significant pitfall and a primary reason why so many start-ups fail to launch.

An over-reliance on VC influences: finding a lighthouse customer can lead to over-customization, misaligned priorities, and, the failure to scale and capture the market fit and genuine opportunity. The development process is neither linear nor predictable; hence, **learning is always paramount to success!**

The lighthouse or pilot approach oversimplifies the process, making it seem more straightforward than it really is. This underestimation of complexity can lead teams to failure when they confront the inevitable messiness and unpredictability of product development.

Over coding every feature, crafting every UI element, and testing every edge case to ensure it worked exactly as envisioned but not focusing on developing an effective sales and distribution strategy, can lead to a high rate of failure the research shows.

VC Adventure published an analysis highlighting data from *Correlation Ventures* showing that 65% of investment rounds fail to return 1x capital and only 4% return greater than 10x capital.

Prof. Dinin's research case study reveals:

- A year spent building
- Zero time spent distributing
- Even worse, when I asked the founder what his acquisition strategy was, he had vague plans:
- "We'll run some ads"
- We'll do SEO"
- "Maybe go viral on social media"

And in all that time, they hadn't sold a single unit.

Whitespaces of Market Opportunity

Inexperienced entrepreneurs tend to be overly excited, fall in love with their products, and listen to VCs way too much. Not having the courage and resilience to stand up to them and taking the time to develop proper and relevant STRATEGIES! They never becoming effective leaders and fade or crash and burn with assistance from the VC.

Identifying the whitespaces of opportunity is a series of processes that identifies opportunities in industries or sectors, that can generate 100M+ market opportunities. This has four main components:

- **0.1 Understanding the Landscape**
- **0.2 Confirming the POV**
- **0.3 Identifying Opportunity & Areas of Risk, and**
- **0.4 Decisioning**

Acquiring knowledge and developing common sense strategies to execute effectively has been, and will always be, the most proven and effective way to succeed in business.

Identify Distribution Before the Product

It is critical to identify real market fits first and Blue Ocean demand opportunities, and work backwards of sort to develop strategies and tactics to capture the opportunity. *"Knowing the importance of customer acquisition, the best founders never start by building products. They start by figuring out how they'll acquire customers," says Prof. Dinin.*

- **How will people hear about this?**
- **How much will it cost to acquire a customer?**
- **Can I reach them cheaply and repeatedly?**
- **How do I develop strategic clients?**

These basic questions must be answered through a coherent strategy. Successful entrepreneurs understand that one can't ever get around the realities of business/markets. Forget the hype and the self-serving and disingenuous VC pitches. Focus instead on a priority-ranking decisioning strategy and relevant execution tactics that align with reality...the core fundamentals of business.

6ai Technologies | **McGill University, DataSphere Lab**: a collaboration to discover and deliver fact-based strategy solutions through software, helping organizations and people thrive in the digital era. Building strategies through software: discovering new growth opportunities and areas of risk and thinking through executing potential innovations and transformations.

Joining entrepreneurial startup efforts with advanced analytics, using algorithms as necessary to validate big ideas through relevant business model assessments, market analysis, and identifying the riskiest assumptions. Finding the smallest possible experiments to test and iterate relentlessly in constructing strategies for winning!