

The E-Myth Revisited

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Introduction

- Over 1 million new businesses are started each year in the U.S.
- At least 40% will not make it through the first year
- Within five years, more than 80% will have failed
- And 80% of those business that survive the first five years, fail in the second five years
- Therefore only 40,000 businesses or 4% of the original 1 million survive the first 10 years.

To change those odds you need to understand what a business really is and what it takes to make it work.

Part I – The E-Myth and American Small Business

1. The Entrepreneurial Myth –

- In this country there is a romantic belief that small businesses are started by entrepreneurs, when, in fact, most are not.
- Rather, one day you wake up and say to yourself, “Why am I working for this guy? I know as much about the business as he does. Why not start my own business?” So you go into business for yourself.
- But there is a Fatal Assumption in your thinking – if you understand the technical work of a business, you understand a business that does that technical work. Wrong!
- The technical work of a business and a business that does that technical work are two totally different things!

2. The Entrepreneur, The Manager and The Technician

- Everybody who goes into business is three people in one: The Entrepreneur, The Manager and The Technician who battle each other.
- The Entrepreneur
 - Is the visionary in us
 - Creates a great deal of havoc around him
 - Considers most people as problems getting in the way of the dream
- The Manager
 - Is pragmatic
 - Does the planning, keeps things in order
 - Cleans up the messes of the Entrepreneur
- The Technician
 - Is the doer

3. Infancy: The Technician's Phase

- Businesses, like people, are supposed to grow; and with growth, comes change.
- Three phases of a business's growth: Infancy, Adolescence, and Maturity.
- It's easy to spot a business in Infancy
 - The owner and the business are one and the same thing.
 - You are the business.
 - Without you there would be no business.
- Then subtle changes begin to occur –
 - You begin to fall behind.
 - There's more work than you can possibly get done.
 - You begin to drop some of the balls!
- Infancy ends when the owner realizes that the business cannot continue to run the way it has been; in order to survive it will have to change.
- To be a great Technician is simply insufficient to the task of building a great small business.
- If the Technician fills your work day, then you are avoiding the Entrepreneurial's challenge of learning how to grow a business.
- The purpose of going into business is to get free of a job so you can create jobs for other people.
- Your Entrepreneur needs to be encouraged to build a small business that actually works.

4. Adolescence: Getting Some Help

- Adolescence begins in the life of your business when you decide to get help.
- A critical moment in every business is when the owner hires his first employee to do the work he doesn't know how to do or doesn't want to do.
- Management by Abdication – let somebody else do it without supervision until your employee begins dropping the ball.
- As the balls continue to fall, you begin to realize that no one cares about your business the way you do. No one is willing to work as hard as you.

5. Beyond the Comfort Zone

- Every Adolescent business reaches a point where it pushes beyond its owner's Comfort Zone – outside of which he begins to lose control.
 - The Technician's boundary is determined by how much he can do himself.
 - The Manager's is defined by how many technicians he can supervise effectively.
 - The Entrepreneur's boundary is a function of how many managers he can engage in pursuit of his vision.
- As a business grows, it invariably exceeds its owner's ability to control it.

6. Maturity and the Entrepreneurial Perspective

- A Mature business knows how it got to be where it is, and what it must do to get where it wants to go.
- Maturity is not an inevitable result of the first two phases. Mature companies started out that way! The people who started them had a totally different perspective about what a business is and why it works.
- A person who launches his company as a Mature company goes through Infancy, Adolescence and Maturity in an entirely different way, with an Entrepreneurial Perspective.
- The Entrepreneurial Perspective
 - Asks the question: “How must the business work?”
 - Sees the business as a system for producing results
 - Starts with a picture of a well-defined future, and then comes back to the present with the intention of changing it to match the vision.
 - Views the business as a network of integrated components, each contributing to produce a specifically planned result.
 - ✓ Each step in the development of such a business is measurable.
 - ✓ There is a standard for the business
 - ✓ The business operates according to articulated rules and principles.
- The Entrepreneurial Model
 - It's a model of a business that fulfills the perceived needs of a specific segment of customers in an innovative way.
 - The commodity isn't what's important – the way it's delivered is.
 - It understands that without a clear picture of that customer, no business can succeed.
 - It answers the question, “How will my business stand out from all the rest?”

Part II – The Turn-Key Revolution: A New View of Business

7. The Turn-Key Revolution

- Turning the Key: The Business Format Franchise
 - It provides the franchisee with an entire system of doing business.
 - Is built on the belief that the true product of a business is not what it sells but how it sells it.
- Selling the Business Instead of the Product
 - Ray Kroc (founder of McDonald's) set about the task of creating a foolproof, predictable business.
 - A systems-dependent business, not a people-dependent business.
 - A system that can work without you.

- The Franchise Prototype is the model you need to make your business work successfully.

8. The Franchise Prototype

- Fact: While 80% of all new businesses fail in the first five years, 75% of all Business Format Franchises succeed!
- The Franchise Prototype is where all assumptions are put to the test to see how well they work before becoming operational in the business.
- The system runs the business. The people run the system.
- The system integrates all of the elements required to make a business work.
- The system leaves the franchisee with as little operating discretion as possible by sending him through rigorous training before ever allowing them to operate the franchise.
- Turn-Key Operation: the franchisee is licensed the right to use the system, learns how to run it, and then “turns the key.” The business does the rest.
- Business Format Franchise is a proprietary way of doing business that successfully and preferentially differentiates every extraordinary business from every one of its competitors.
- The question is: How do I build my Franchise Prototype?

9. Working *On* Your Business, Not *In* It

- The point is: your business is not your life – they are two totally separate things.
- The primary catalyst from this point forward is to work **on** your business not **in** it.
- Pretend that you are going to franchise your business.
- Six Rules to follow in “franchising” your business
 - 1) The model will provide consistent value to your customers, employees, and lenders beyond what they expect
 - 2) The model will be operated by people with the lowest possible level of skill
 - a. A systems-dependent system rather than a people-dependent system
 - b. A way of doing things in order to compensate for the disparity between the skills your people have and the skills your business needs.
 - c. A business that depends on the ability of the employee will ultimately not deliver consistently excellent results.
 - 3) The model will stand out as a place of impeccable order
 - 4) All work in the model will be documented in the Operations Manual

- a. Documentation provides your people with the structure they need and a written account of how to “get the job done” in the most efficient and effective way.
 - b. The Operations Manual – the company’s How-To-Do-It Guide.
- 5) The model will provide a uniformly predictable service to the customer
- 6) The model will utilize a uniform color, dress, and facilities code.
- Questions to ask yourself
 - How can I get my business to work, but without me?
 - How can I get my people to work, but without my constant interference?
 - How can I own my business, and still be free of it?
- To successfully develop a business you need a process, a practice by which to obtain that information and, once obtained, a method with which to put that information to use in your business productively.

Part III – Building a Small Business That Works!

10. The Business Development Process

- Building the Prototype of your business is a continuous process, a Business Development Process. There are 3 distinct activities
 - 1) Innovation –
 - It’s not the commodity that demands Innovation but the process by which it is sold.
 - The franchisor aims his innovative energies at the way in which his business does business
 - It is at the heart of every exceptional business.
 - It poses the question: What is standing in the way of my customer getting what he wants from my business?
 - It simplifies your business to its critical essentials.
 - It should make things easier for your people, or its not innovation.
 - Seeks the answer to, “What is the best way to do this?”
 - 2) Quantification –
 - To be effective, all Innovations need to be quantified.
 - Without it how would you know whether the Innovation worked?
 - Begin by quantifying everything related to how you do business.
 - Eventually, you and your people will think of your entire business in terms of the numbers. You’ll quantify everything.

- You'll be able to read your business's health chart by the flow of the numbers.
- You'll know what numbers are critical and which are not.

3) Orchestration –

- Is the elimination of discretion, or choice, at the operating level of your business.
- If everyone in your company is doing it differently each time you do a loan, you're creating chaos, not order.
- If you haven't orchestrated it, you don't own it. And if you don't own it, you can't depend on it.
- The definition of a franchise is simply your unique way of doing business.
- When your system doesn't work any longer, change it!
- The Business Development Process is not static: it's not something you do once and then are done with it. You do it all the time.
- Once you've innovated, quantified, and orchestrated your business, you must continue to innovate, quantify and orchestrate it.
- It is a habit – a way of doing something habitually.

11. Your Business Development Program

- Your Business Development Program is the step-by-step process through which you convert your existing business into a perfectly organized model for thousands more just like it.
- The Program is composed of 7 distinct steps
 - Your Primary Aim
 - Your Strategic Objective
 - Your Organizational Strategy
 - Your Management Strategy
 - Your People Strategy
 - Your Marketing Strategy
 - Your System Strategy

12. Your Primary Aim

- To determine what your role will be, you need to answer these questions
 - What do I value most?
 - How would I wish my life to be on a day-to-day basis?
 - How would I like people to think about me?
 - What would I like to be doing five years from now? Ten years from now?
 - How much money will I need to do the things I wish to do? By when will I need it?
- Your Primary Aim answers all these questions.

- Great people have a vision of their lives that they practice emulating each and every day.
- Great people create their lives actively, while everyone else is created by their lives, passively waiting to see where life takes them next.
- The difference between the two is
 - The difference between living fully and just existing.
 - The difference between living intentionally and living by accident
- The answers to these questions become the standards against which you can begin to measure your life's progress.
- Without such standards, your life will drift aimlessly, without purpose, without meaning.
- Your Primary Aim is the vision necessary to bring your business to life and your life to your business.

13. Your Strategic Objective

- It is a very clear statement of what your business has to ultimately do for you to achieve your Primary Aim.
- It is the vision of your finished product that is and will be your business.
- It is a product of your Life Plan, as well as your Business Strategy and Plan. Your Life Plan shapes your life, and the business that is to serve it.
- But unless your Business Strategy and Plan can be reduced to a set of simple and clearly stated standards, it will do more to confuse you than to help.
- Your Strategic Objective is just such a list of standards. It is a tool for measuring your progress toward a specific end.
- List of Standards
 - The First Standard: Money
 - ✓ How much money do I need to live the way I wish? Not in income but in assets.
 - ✓ In other words, how much money do I need in order to be independent of work?
 - The Second Standard: An Opportunity Worth Pursuing
 - ✓ It is a business that can fulfill the financial standards I've created for my Primary Aim and my Strategic Objective.
 - ✓ If it is reasonable to assume that it can, the business is worth pursuing.
 - ✓ If it is unreasonable to assume that it can, then no matter how exciting and interesting the business is, forget it. Walk away from it.
 - Standards Three Through? There is no specific number of standards in your Strategic Objective. Only specific questions.
 - ✓ When is your Prototype going to be completed? In two years? Three? Ten?
 - ✓ What geographic market are you going to be in?

- ✓ What standards are you going to insist upon regarding reporting, training, customer service, etc?
- Standards create the energy by which the best companies, and the most effective people, produce results.

14. Your Organizational Strategy

- The Organization Chart can have a more profound impact on a small company than any other single Business Development Step.
- If everybody's doing everything, then who's accountable for anything?
- Once your Strategic Objective is completed, which defines how you will be doing business based on your list of standards, then the creation of your Organization Chart is next.
 1. Identify all of the positions in the company as you visualize it in the future when the company has matured to it's optimal size.
 2. Next write a Position Contract for each position on the Organization Chart. It is a summary of
 - ✓ The results to be achieved by each position
 - ✓ The work the position is accountable for
 - ✓ A list of standards by which the results are to be evaluated
 - ✓ And include a line for the signature of the person who agrees to fulfill those accountabilities.
 3. Finally, identify who is going to fill that position, understanding it cannot be more than one person.
- Prototyping the Position: Replacing Yourself with a System
 - When you find the right person, hire him, hand him the Operations Manual, have him learn the system and finally let him go to work.
 - You have now replaced yourself with a system that works in the hands of someone who wants to work it.
 - Now your job becomes managing the system rather than doing the work.
 - Your Organization Chart flows down from you Strategic Objective, which in turn flows down from your Primary Aim.

15. Your Management Strategy

- A Management System is a system designed into your Prototype to produce a marketing result.
- Its purpose is not to just create an efficient Prototype but an effective one.
- An effective Prototype is a business that finds and keeps customers better than any other.
- The Operations Manual is nothing but a series of checklists. Each checklist itemizes the specific steps to produce the desired result.

16. Your People Strategy

- How do I get people to do what I want? Create an environment in which “doing it” is more important to your people than not doing it.
- The idea behind our work
 - 1) The customer is not always right, but whether he is or not, it is our job to make him feel that way.
 - 2) Everyone who works here is expected to work toward being the best he can possibly be at the tasks he’s accountable for. If he is unwilling to do this, he should leave.
 - 3) The business is a place where everything we know how to do is tested by what we don’t know how to do, and that the conflict between the two is what creates growth, what creates meaning.
- People want to work where there is a clearly defined structure for acting in the world. Such a structure is called a game.
- The very best businesses represent to the people who create them a game to be played in which the rules symbolize the idea you, the owner, have about the world.
- The Rules of the Game
 - First create the game with defined rules.
 - Never create a game for your people you’re unwilling to play yourself.
 - Make sure there are ways of winning the game without ending it.
 - ✓ The game can never end
 - ✓ But unless there are victories along the way, your people will grow weary.
 - ✓ Victories keep people in the game and make the game appealing.
 - Change the game from time to time – the tactics not the strategy.
 - ✓ Know when change is called for, watch your people as they will tell you when the game’s all but over.
 - Never expect the game to be self-sustaining. People need to be reminded of it constantly.
 - The game has to make sense. The best games are built on universally verifiable truths.
 - The game needs to be fun from time to time.
 - ✓ No game needs to be fun all of the time.
 - ✓ Part of the thrill of playing a game well is to learn how to deal with “no fun” part of the game.
 - ✓ Fun needs to be planned into your game, not too often maybe once a quarter.
 - If you can’t think of a good game, steal one.
 - ✓ Always be on the look out for how another company’s game can be incorporated into your game.

- What's wrong with hiring experienced employees? They will work by the standards they have been taught at somebody else's business.
- You must set the standard by establishing a Management System through which all managers, and all those who would become managers in your company, are expected to produce results.
- In short, you want people who want to play your game, not people who believe they have a better one.
- The foundation of your Management System is composed of four distinct components.
 - 1) How We Do It Here.
 - 2) How We Recruit, Hire, and Train People to Do It Here.
 - 3) How We Manage It Here.
 - 4) How We Change It Here.
- The "It" refers to the stated purpose of your business.
- Every bit of which is documented in your Operations Manual. It is the system, not only your people that will differentiate your business from everyone else's.

17 Your Marketing Strategy

- When it comes to marketing, what you want is unimportant – it's what the customer wants that matters.
- When a customer says, "I want to think about it," don't believe him. He is saying one of two things:
 - He is emotionally incapable of saying no for fear of how you might react if he told you the truth, or
 - You haven't provided him with the "food" his unconscious mind craves.
- The Two Pillars of a Successful Marketing Strategy –
 - Demographics – who your customer is
 - Psychographics – why he buys
- Having determined the who and why, you then begin constructing a Prototype to satisfy your customer's unconscious needs.
- What must our business be in the mind of our customers in order for them to choose us over everyone else?
 - Lead Generation – the promise you make to attract them to you.
 - Lead Conversion – the sale you make once they get there.
 - Client Fulfillment – it ends with the delivery of the promise before they leave your door.
- The primary aim of every business to get them to come back for more.
- The customer you've got is a lot less expensive to sell to than the customer you don't have yet.

18. Your Systems Strategy

- There are three kinds of systems

- **Hard Systems** – inanimate things, e.g., a computer system
- **Soft Systems** – animate, living things or ideas. You are a Soft System, so is a script of Hamlet.
- **Information Systems** – provide us with information about interaction between the other two. Inventory control, cash flow forecasting, and sales activity reports are all examples.
- The integration of these three kinds of systems in your business is what your Business Development Program is all about.
- A Sales System is a **Soft System** – a selling system is a fully orchestrated interaction between you and your customer that follows six primary steps.
 - 1) Identification of the specific Benchmarks – or consumer decision points – in your selling process.
 - 2) The literal scripting of the words that will get you to each benchmark successfully.
 - 3) The creation of various materials to be used with each script.
 - 4) The memorization of each Benchmark's script.
 - 5) The delivery of each script by your salespeople in identical fashion.
 - 6) Allowing your people to communicate more effectively by engaging each and every prospect as fully as he needs to be.
- An **Information System** to interact with your Sales System it should provide the following information:
 - How many prospects were reached?
 - How many appointments were scheduled?
 - How many Needs Analysis Presentations were completed?
 - How many Solutions Presentations were completed?
 - How many sales were made?
 - What was the average dollar value?
- The Information System will track the activity of your Selling System from benchmark to benchmark.