



The E-Myth Revisited

Why Most Small Businesses Don't Work And What to Do About It

By *Michael E. Gerber*

In any given year, over a million new businesses are created in the United States and an astonishing 80 percent of them will fail within five years. Why? According to Michael Gerber, most business owners understand how to do the technical work of a business, but sadly, they don't know how to actually run a business.

Consider the mechanic who knows cars inside and out. He assumes that because he can fix cars, he can run a garage that fixes cars. Yet when he opens his new venture, he finds that there are hundreds of things he doesn't know about running the business, like accounting, advertising and so on.

For a business to be successful the owner needs to be three things. He must be an Entrepreneur, which is the creative force in the business, a Manager, which is the pragmatic part that oversees the operation, and a Technician - which is the part that has the skills needed to produce the product.

Unfortunately, most owners are 70 percent Technician, 20 percent Manager and only 10 percent Entrepreneur. They get lost in the day-to-day details - for example, the mechanic focuses too much on the oil change and neglects the managerial and entrepreneurial aspects of the business.

The E-Myth is the myth of the entrepreneur. It says that most business owners are entrepreneurs for only a brief, fleeting moment - the moment they quit their jobs and strike out on their own. After this short flirtation, they quickly fall into the role of technician, leaving behind the other two personality traits required for a successful business.

The key point Gerber is trying to make is that if you are to create a successful business, you must be more than a good technician. You must also learn and master the roles of the entrepreneur and manager.

So, how do you, the overworked technician, achieve this lofty goal? Gerber says you must look at your business in a new way. He suggests that all businesses should be organized as though they were franchises, whether franchising is a goal or not.

A Model For Business Success

Ray Kroc was astounded when he first visited the MacDonald brother's Hamburger Stand in 1952. The business worked like a well-oiled machine; hamburgers and everything else were produced quickly, efficiently, inexpensively and identically. And, what was truly amazing, was that the MacDonald brothers didn't need to do every job to attain this level of excellence - anyone could do the work, even high school kids. It was clear to Ray Kroc that what the MacDonald brothers had created was not just another hamburger stand - it was a money machine.

Ray Kroc secured the rights to franchise McDonald's and created one of the world's great businesses. But he created much more than that. He created a model for business success that we can emulate. He showed us the value of systematizing all parts of a business so you can create a profitable enterprise that runs effortlessly and flawlessly, even if you aren't there.

So, just like Ray Kroc, we need to create a franchise prototype where every aspect of the business is optimized and systematized.

The Business Development Program

Exactly how do we go about creating this franchise prototype? The answer lies in Gerber's Business Development Program.

The program involves seven steps:

1. determine your primary aim in life
2. create your strategic objective
3. define an organizational strategy
4. develop a management strategy
5. define your people strategy
6. create a marketing strategy and
7. develop a systems strategy

Now let's look at each of these seven steps in detail.

Step One

The first step is to determine your Primary Aim in life. This might seem like a strange place to start, but the purpose of a business is to serve your life, so you need to get a clear picture of the life that you want to live. To determine your primary aim you need to answer questions like: "What do I want to achieve in my life?" and "What do I value most?"

You need a clear picture of how you wish to live your life so you can determine what the business has to deliver to help you create that life.

Step Two

Creating your Strategic Objective is step two. Your strategic objective is a clear statement defining what the business has to become for you to achieve your primary aim in life. To define it, you need to ask yourself questions like: “How much money does the business need to make, can this business deliver that kind of profit, who will be my customer, and how long will it take to achieve the goal?”

Step Three

The third step is to develop an organizational strategy. This basically means describing the work required to accomplish your strategic objective. You do this by creating an organizational chart which lists each function performed in your company.

You also need to describe the work to be done in each function. For example, “The VP of marketing is responsible for finding new customers and finding new ways to create more value for customers while increasing profits. This position reports to the President.”

Each position also requires a “Position Contract” which is a summary of the results expected for that position. This document, signed by the person filling the position creates accountability and a sense of responsibility for the work.

Prototyping Each Function

Now that all of the functions in your business have been identified you can start the prototyping process. The goal of this process is to find the best way to do each of the functions on the organizational chart. How do we do this? We use Gerber’s Business Development Process. There are three stages to the process: first you test a new idea, second you quantify the results, and third you incorporate any innovations that work into your system.

Let’s say we have a business owner named Bill who is trying to determine the best way to sell his product. Bill will test many different ways of performing every aspect of the sales process. For example, he might test different scripts for handling customer inquiries to find the one that converts the most prospects into buyers. Next he will quantify the results to determine which worked best and he will take the best, most effective innovation and write it into the sales operation manual.

When Bill is done testing all aspects of the sales process, the manual will contain everything a salesperson needs to know to effectively sell their product. Bill will have created a prototype for the sales position.

Now he can go to another position, say accounts receivable, and begin the Business

Development Process all over again. Bill will continue this process until every function in the company is reviewed, tested, optimized and systematized.

Bill has begun to free himself from the technical work of the business because someone else can now do the job as well as he did, simply by using his system.

Step Four

Developing a Management Strategy is the fourth step. Gerber gives this rather unusual advice; do not hire managers with experience. Why? Because they will come in with their own way of doing things, and you need someone who will do it your way, the way that works best, the way that you prototyped.

You have created standards of performance and accountability for each function of your business. The job of your managers is to ensure that your standards are applied every single day. It doesn't take professional managers to manage these standards, it simply takes people who are deeply committed to upholding them.

The bottom line is that your whole business strategy revolves around giving customers what they want, and a great management strategy guarantees that your systems are used, which means your customers get what they want, each and every time.

Gerber illustrates this point with the story of an amazing hotel that he visited years ago and patronizes to this day. Within three minutes of entering this elegant hotel for the first time, he was checked in and standing in a beautiful room. After dinner in the hotel restaurant, he returned to his room and found a brandy on the night table - the same type of brandy he had at dinner. In the morning he awoke to the gurgling sound of coffee brewing. A note below the coffee machine said "your brand of coffee." Then there was a polite knock at the door. No one was there, but sitting on a mat was his favorite newspaper, the New York Times.

How in the world did they know all these things? How did they take such good care of him? It was their system. At check-in he was asked what newspaper he preferred, at the restaurant they noted his choice of brandy and coffee, and they put it all into the system. The system stores what Gerber likes, and delivers it to him, every single time he visits.

His room is double the price of a comparable room at other hotels, but he doesn't mind - he feels taken care of. And all they really give him is a brandy, a cup of coffee and a newspaper. But these few things show him that he is appreciated, they make him feel good, and that is what he wants, that is what we all want, we want to feel good. After all, we really don't buy products, we buy feelings. What feelings are you selling to your customers?

Amazingly, this great hotel wasn't run by a professional manager with years of experience and expertise. Quite the opposite, it was run by a man who had no previous hotel or management experience - he had something much more valuable

- dedication and commitment to ensure that the hotel's powerful systems were used each and every day, by every employee in the hotel.

Step Five

Step five is your People Strategy. This is really about answering two questions, "How do I find the right people?" and "How do I get them to do their jobs?"

Let's address the "How do I find the right people" question first. You may believe that finding good people is never easy. But Gerber would beg to differ. He believes you can't go wrong if you follow this one simple rule: Only hire people who already share the business's values and embrace its mission.

So how do you do this? As you interview people, show them the operations manual, tell them about the company's strategic objective and most importantly, talk about the primary aim of the company. By closely scrutinizing the applicant's responses, you can determine if her vision and values are in line with those of your company.

People who share your vision and values are the type of people you need to hire because they already buy into the idea of your business, they are already motivated and engaged and will work your system.

Now that you have the right people, how do you get them to do their jobs? This is the one question that Gerber hears most often from business owners and the answer he invariably gives them is: "You can't! You can't get your people to do anything." But you can give them one very important thing: You can make sure they understand the IDEA behind the work that they're being asked to do. This way they can see the value in their contribution and that will make them much more likely to buy into the system.

The degree of buy-in depends on two critical factors:

- how well you communicate your vision to them at the outset of your relationship and
- regardless of anything else, the vision has to be real to you. It can't be created as a device to manipulate your people.

Step Six

Next on Gerber's list is the Marketing Strategy. To create an effective marketing strategy you need to answer two questions: "Who is my typical customer?" and "Why does he buy?"

How do you learn who your typical customers are? You ask them! You ask each and every one of them to fill out a questionnaire asking for demographic information like their age, sex, income and education, and in return you give them a free product. With this information in hand you will know who is most likely to buy from you. Now you can get lists of people who have the same demographics as your current clients

from a list broker and get huge numbers of great prospects.

On the questionnaire you should also ask questions that give you an idea WHY your customers buy. Ask them what brands of perfume, cars, clothes and jewelry they purchase. Armed with the knowledge of the brands they buy and the type of marketing messages they've responded to favorably, you can construct similar marketing messages. Then you can send those messages to your list of great prospects and systematically create more and more customers.

Step Seven

Now to the final step, the Systems Strategy. Everything in your business has been prototyped and made into a system. Now you need to make sure all of your systems are fully integrated, in other words, they all need to support and reinforce each other. Your information systems need to support your marketing systems, your marketing systems need to support your sales systems and so on.

Review how all the systems work together and make changes where they don't support each other. If they don't compliment one another your employees will not follow the system. They will each do whatever they feel works best and you will lose your optimized and predictable results you worked so hard to create.

A Parting Thought

Now that you understand the seven step process to create your franchise prototype and you know that it is based on the concept Ray Kroc used to create one of the most successful businesses on the planet, it's time to take action and apply what you know.

Gerber's development company has worked with literally thousands of companies over the last few decades and they have proven that this seven step system works. Now it's your turn to work the system, and take your business to a whole new level of success.