



**THE E - MYTH REVISITED**  
**Why Most Small Businesses Don't Work, and What to do About it**  
**by Michael E. Gerber**  
(Harper Collins, 1995)

Forward: The thing about exceptionally good business people is not what they know, it's their *insatiable desire to know more*. The best-of-the-best are:

- (1) are extraordinarily grounded people
- (2) are compulsive about detail
- (3) are pragmatic, down-to-earth, in touch with the seamy reality of ordinary life
- (4) know business don't fail over lofty, principled shortcomings ... but in the stuff that goes on in every nook and cranny of the business.
- (5) are fascinated with the astonishing impact of *little things done exactly right*.

Introduction: 4 profound ideas behind extraordinarily exciting, rewarding small businesses:

- (1) Small businesses are NOT started by entrepreneurs risking capital to make a profit.
- (2) There is a revolution going on today ... the Turn-Key Revolution.
- (3) At the heart of the Turn-Key Revolution is the Business Development Process (BDP).
- (4) The BDP can be applied systematically to any small business.

**Your business is nothing more than a distinct reflection of *who you are*.**

## **PART I: THE E-MYTH AND AMERICAN SMALL BUSINESS**

### **CHAPTER #1: Entrepreneurial Myth**

Entrepreneurial Seizure: You probably worked for somebody else ... until cutting-the-cord consumed you, independence ate at you, becoming-your-own-boss obsessed you.

Technical work of businesses, and businesses that do technical work, are *two totally different things*.

Fatal Assumption: This is the root cause of most small business failures:

**If you understand the technical work of a business,  
you understand a business that does technical work.**

It is simply not true!

Make this mistake and the business that was supposed to free a person from the limitations of working for somebody else actually *enslaves* him.

### **CHAPTER #2: Entrepreneur, Manager, Technician**

Small business owners are usually 10% entrepreneur, 20% manager, 70% technician

Every business-owner is 3-people-in-one:

Each of these personalities wants to *be* the boss, and none of them wants to *have* a boss.

Entrepreneur: Lives in the future, visionary, dreamer, innovator, grand strategist, creative personality ... turns trivia into exceptional opportunity.

- (1) He has a strong need for control ... can bully, harass, scream, create a lot of havoc
- (2) He believes most people are problems that get in the way of dreams

Manager: Lives in the past, likes planning, schedules, predictability, order, clings to status quo.

- (1) He runs after the Entrepreneur and cleans up the mess.
- (2) Where the Entrepreneur sees opportunity, the manager sees the problems.
- (3) The Entrepreneur builds a house, then starts planning the next one. The manager builds a house and lives in it the rest of his life.

Technician: Lives in the present, the doer, happiest when in control of the workflow, tinkers.

- (1) He mistrusts his bosses ... they always try to get more than is possible or necessary.
- (2) He is suspicious of abstractions ... ideas need to be *õhardenedö* to be of any value.

Predictions: The strength of these personalities varies among different people.

- (1) An *Entrepreneurial-driven* business, without a Manager to give orders or a Technician to do work, is doomed to suffer an early, dramatic death.
- (2) A *Manager-driven* business will die very neatly.
- (3) A *Technician-driven* business will die of exhaustion.

### **CHAPTER #3: The Technician Phase**

Infancy: The owner and the business are the *same* thing. Master Juggler. Your business becomes the boss you thought you left behind.

Most businesses operate according to what the *owner* wants, not what the business needs.

Infancy ends when the owner realizes the business will have to change. This is when most business failures occur. The owner either:

- (1) Technicians lock up and walk away.
- (2) Grow into adolescence.

The Technician has a *tactical* view rather than a strategic view. It's the strategic work that will lead the business forward.

**If your business depends on you, you don't have a business ... you have a job.**

### **CHAPTER #4: Adolescence**

What kind of help do you need?

*Technical* help for the work you don't like. Your 1st employee will discover your secret ... *you don't know what you're doing!*

We don't know when it will happen, but it *always* happens ... the business realizes it must ask for help.

You're unaccustomed to being a Manager, but try to avoid *Management by Abdication* ... don't turn it over to the new employee and run away.

- (1) Eventually there will be a problem, and you'll step back in ... you'll think you should've done it yourself, anyway.
- (2) The employee will react ... the Boss always interferes, he can never be satisfied, etc.
- (3) But you just don't know how to do it any other way.

### **CHAPTER #5: Beyond the Comfort Zone**

As the business grows beyond the owner's CZ, there are 3 courses of action possible:

Technician's CZ is how much he can do.  
Manager's CZ = # Techs he can supervise.  
Entrepreneur's CZ = #Mgrs he can engage.

- (1) Return to Infancy ... go back to doing everything yourself. Face the unavoidable ... *you don't own a business, you own a job.*
- (2) Go for broke ... keep growing faster and faster until you self-destruct. Hi-tech equivalent of Russian Roulette, sometimes played by people who don't know the gun is loaded.
- (3) Hang on for dear life ... you've got to be there *all the time*. Eventually, you explode!

Secret = prepare yourself and your business for growth. Don't leave everything up to chance.

**Build a business that works *without* you, not because of you.**

## **CHAPTER #6: Maturity and the Entrepreneurial Perspective**

McDonalds, FEDEX & Disney didn't end up mature companies, they *started* that way!

Entrepreneurial Perspective: It's not the commodity or the work itself that is important. What's important is the *business*.

### Technician's Perspective

*What* work has to be done?

Place where people work for income

Fragmented vision of the world

Future is modeled after present

Product is that delivered to the customer

Customer is always a problem

### Entrepreneurial Perspective

*How* must the business work?

System for satisfying customer profitably

Integrated vision of the world

Present is modeled after future

Product is the business

Customer is always an opportunity

**Without a clear picture of the customer, no business can succeed.**

## **PART II: THE TURN-KEY REVOLUTION** (a new view of business)

### **CHAPTER #7: Turn-Key Revolution**

The true product of a business is the business itself!

It used to be true that the success of a business depended on the success of its product. No more. It's not *what* it sells, it's *how* it sells it.

Create a business that will continue to work, no matter who buys it ... systems-dependent, not people-dependent. Fool-proof. Predictable.

Business Format Franchise: The Franchiser lends its name and *provides an entire system of doing business*.

### **CHAPTER #8: The Franchise Prototype**

80% of all businesses fail in the first 5 years.

75% of all Business Format Franchises succeed!

The *system* runs the business, the people run the system.

The Franchise Prototype is the model of a business that works.

- (1) It's balanced to satisfy the Entrepreneur, the Manager and the Technician
- (2) Once the franchisee learns the system, he is given the key to his own business

## **CHAPTER #9: Working ON Your Business, Not IN Your Business**

Your business is apart from you. Its sole function is to find and keep customers. *Your business is not your life.*

### Franchise rules:

- (1) Provide consistent value, beyond your customers' wildest expectations. *Value* is essential to your business.
- (2) Utilize the lowest possible skill level needed ... you're providing results *systematically*, not personally. Create an expert system, don't hire experts.
- (3) Demonstrate impeccable order ... structure provides fixed-points of reference.
- (4) All work is documented in Operating Manuals ... an affirmation of order.
- (5) Provide a uniformly predictable service ... act orderly. Same way, every time.
- (6) Use uniform color, dress and facility codes ... colors and shapes direct action.

### Ask yourself these things constantly:

- (1) How can I get my business to work without me?
- (2) How can I get my people to work without my interference?
- (3) How can I systematize my business and replicate it 5000 times?
- (4) How can I own my business and still be free of it?
- (5) How can I do the work I love to do rather than the work I *have* to do?

## **PART III: BUILDING A SMALL BUSINESS THAT WORKS!**

## **CHAPTER #10: The Business Development Process**

It's not the commodity ... direct your energies at the *way* the business does business.

The Business Development Process has three distinct activities ... the backbone of every extraordinary business:

- (1) INNOVATION: More than "creativity" ... creativity thinks up new things, innovation *does* new things. Innovation is the mechanism through which your business establishes itself in the mind of your customer.
- (2) QUANTIFICATION: All innovations need to be measured. With numbers, your business takes on a totally new meaning ... it comes alive with possibilities.
- (3) ORCHESTRATION: The elimination of discretion ... discretion is the enemy of order, standardization and quality. Make it policy. If you haven't orchestrated it, you don't own it.

## **CHAPTER #11: Business Development Program**

Imagine someone wants to buy your business, but only if it works ... w/o a lot of work, w/o you to work it.

There are 7 distinct steps:

- (1) Your Primary Aim ... what would you like to be said about your life when it's over?
- (2) Your Strategic Objective ... what you must do to achieve your Primary Aim.
- (3) Your Organizational Strategy ... an unstructured organization is just a mob.
- (4) Your Management Strategy ... this will be the *system*.
- (5) Your People Strategy ... create an environment where people *want to do* it.
- (6) Your Marketing Strategy ... forget about everything but your customer.
- (7) Your Systems Strategy ... *everything* is a system.

Think about your business as the prototype for 5000 *more* just like it.

## **CHAPTER #12: Your Primary Aim**

Great people:

- (1) Write their epitaph in advance, then make it happen
- (2) Know how they got where they are, and what they need to get where they're going.
- (3) Create their lives actively ... others are created by their lives.
- (4) See everything as a challenge ... others see everything as a blessing or a curse.

The first order of business is not the business. It is *YOU*.

Your Primary Aim is the vision that brings your business to life, and life to your business.

- (A) It provides your purpose
- (B) It give you energy
- (C) It gives you the grist for the day-to-day mill

## **CHAPTER #13: Your Strategic Objective**

A set of simple and clearly-stated standards:

- (1) Money ... revenues, profits, growth. When, and for how much money, will you eventually sell it?
- (2) Opportunity-worth-pursuing ... will I alleviate a frustration experienced by a large enough number of consumers to make it worth my while?
  - (A) Remember the difference between *commodity* and *product*:
    - (a) Commodity: what your customer walks out with in his hand.
    - (b) Product: what your customer feels as he walks out.

The vision of the finished product will be your business.

**In the factory, Revlon manufactures cosmetics. In the store, Revlon sells hope.**

- (B) Who is your customer? The Central Demographic Model = most-probable customer.
  - (a) Demographics is the science of marketplace reality.
  - (b) Psychographics is the science of *perceived* marketplace reality.
- (3) Other standards ... no fixed limit, but answer these questions:
  - (A) When will the prototype be completed?
  - (B) Where will you be in business ... locally? Regionally? Nationally?
  - (C) How are you going to be in business ... wholesale? Retail? Combination?
  - (D) What standards will you insist upon ... clothing, hiring, management, etc.

## **CHAPTER #14: Organizational Strategy**

Organize around functions, not personalities.

Start by:

- (1) Think of the business as a Corporation, owners as shareholders (not partners).
- (2) Draw out the logical OrgChart, assign appropriate partners' names to each block.
- (3) Develop a "Position Contract" for each block ... results to be achieved. Look at each position as if it were a Franchise prototype of its own. Replace people with systems.
- (4) Have owners not working in the business, but *developing a business that works*.

OrgCharts have a more profound effect than any other Business Development step.

Leadership by example: Owners must act exactly the way they expect their employees to act. Otherwise, the system will indulge the owner's preferences, not the business's needs. Demonstrate that you believe enough in the system to live it yourself.

## **CHAPTER #15: Your Management Strategy**

The Management System is designed into your prototype to produce a marketing result.

- (1) The more automatic it is, the more effective it will be.
- (2) Management Development (teaching newbies to use the system) is a marketing tool.
- (3) The objective is to find and keep customers, profitably ... better than any other.

The *system* will be the Management Strategy.

## **CHAPTER #16: Your People Strategy**

Your business is an expression of who you are, a symbol of what you believe in. You demonstrate that by how *you* act ... and your people will notice.

You can't make your people do anything ... they have to *want* to.

The *idea* behind the work people are asked to do is more important than the work itself.

- (1) The customer is not always right ... but make him feel that way.
- (2) Expect everyone to be the best they can possibly be. Otherwise, leave.
- (3) The conflict between what we know and what we don't know creates growth.

The business is like a dojo ... a place you go to practice being the best you can be. At work, people want a clearly defined structure for acting ... a GAME. Some rules of the GAME:

- (1) The GAME comes first, what your people do second
- (2) *You* must play the GAME, too.
- (3) There must be ways to win the GAME without ending it.
- (4) Change the GAME sometimes ... the *tactics*, not the strategy.
- (5) Keep the GAME visible ... keep talking about it.
- (6) The GAME must make sense ... logic.
- (7) The GAME needs to be fun sometimes.
- (8) It's OK to steal a GAME from someone else.

People need a place of community with purpose, order and meaning ... a place where discipline is prized.

- (1) You don't need professional managers to manage to these standards.
- (2) You need people who want to play your game, not people who think they have a better one.
- (3) Your managers don't simply manage people, they manage the *system*.

## **CHAPTER #17: Your Marketing Strategy**

What your customer wants may be significantly different from what you *think* he wants.

### Rules-of-thumb:

- (1) TV sales are made or lost in 3 seconds
- (2) On printed ads, the buying decision is made 75% of the time based on the headline alone
- (3) In a presentation, the sale is made or lost in the first 3 minutes

**Buying decisions are made *irrationally, unconsciously and instantaneously.***

### 2 pillars of successful marketing:

- (1) Demographics ... knowing *who* your customer is
  - (a) Ask them in a survey
  - (b) Buy a list of those customers living in your Trading Zone
- (2) Psychographics ... knowing *why* your customer buys

Reality exists only in perceptions, attitudes and beliefs. *Find a perceived need and fill it.*

Make a promise your customer wants to hear (that no one else in the industry dares to make), then deliver on it better than anyone else on the block.

## **CHAPTER #18: Your Systems Strategy**

20% of the people make 80% of the sales.  
What do the 20% know that 80% doesn't?  
20% use a *system*, and 80% don't.

### Three kinds of systems:

- (1) Hard systems ... inanimate things (PC)
- (2) Soft systems ... living things, or ideas
- (3) Information systems ... provide data about the interaction between the other two

By doing something the same way, every single time, you have a *system*. When you allow employees total discretion in the way they do things, you might have a top salesperson, or a top lender, but you don't have a top *system*.