

THE E-MYTH REVISITED – MICHAEL E. GERBER

BOOK SUMMARY

The material presented here is copyright © 2001 by Michael Gerber. 2nd Ed. ISBN: 0-88739-728-0. Summarized by C. Langtiw 4/2003. The summary arranger takes no credit nor responsibility for the ideas outlined. The purpose of this summary is to highlight the main points of the book. The majority of the text comes directly from the source; some content has been summarized or paraphrased for brevity. It is recommended that the entire book be read to obtain the full effect of the text the author of the work intended.

THE E-MYTH REVISITED

People who are exceptionally good in business aren't so because of what they know but because of their insatiable need to know more. Businesses fail when their owners spend their time and energy defending what they think they know.

A business doesn't miss the mark by failing to achieve greatness in some lofty, principled way, but in the stuff that goes on in the multitude of seemingly insignificant, unimportant, and boring things that make up every business (and life as well).

The greatest business people have a genuine fascination for the truly astonishing impact little things done exactly right can have on the world.

The book is about four profound ideas that can mean the difference between the success and failure of a small business:

1. There is a myth in this country (the E-Myth) that says that small businesses are started by entrepreneurs risking capital to make a profit. This is not true.
2. The Turn-Key Revolution is changing small business around the world, in the way we do business, who goes into business, how they do it, and the likelihood of their survival.
3. At the heart of the Turn-Key Revolution is a dynamic process called the Business Development Process. This process, when systematized and applied, has the power to transform any small business into an incredible effective organization. When the process is incorporated into every activity, the company stays young and thrives. When ignored, the company commits itself ultimately to failure.
4. The Business Development Process can be systematically applied in any small business in a way that incorporates the lessons of the Turn-Key Revolution into the operation of that business. This process then becomes a predictable way to produce results and vitality in any small business whose owner is willing to give it the time and attention it requires to flourish.

The book is about producing results, not simply "how to do it." Books like that don't work. People do. And what makes people work is an idea worth working for, and a clear understanding of what needs to be done. Only when such an idea becomes firmly integrated into the way you think and operate your business that "how to do it" becomes meaningful.

The idea the book is based upon is that your business is simply a distinct reflection of who you are. If your thinking is sloppy or disorganized, your business will be sloppy or disorganized, etc. So if your business is to change, you must change first.

The Entrepreneurial Seizure

Most people start out working for someone else doing technical work – be it a mechanic, doctor, salesman, hairdresser, what have you. Then for whatever reason these technicians get hit with an Entrepreneurial Seizure, and suddenly have to go into business for themselves.

The **Fatal Assumption** they just made is that *if you understand the technical work of a business, you understand a business that does that technical work. This is not true.* The technical work of a business and a business that does that technical work are *two totally different things!*

Every technician suffering from an Entrepreneurial Seizure goes through the same process of exhilaration, terror, exhaustion, and despair as the work that they were so good at becomes the thing they despise the most as their businesses move from the Infancy stage through Adolescence, described later.

Everybody that goes into business has three distinct personalities:

- **The Entrepreneur** – This is our creative personality; the visionary, dreamer and innovator. It lives in the future, pondering “what if” scenarios and is the catalyst for change.
- **The Manager** – This is our pragmatic personality; the part of us that craves order, planning and consistency. It lives in the past, clinging to the status quo, and abhors change.
- **The Technician** – This is the doer, the worker, in all of us. It lives in the present and only sees the work that needs to be done at the moment.

Each personality has its advantages and disadvantages. The problem is that each personality wants to be the one in charge of the business. For a business to thrive, all three personalities should ideally be balanced in an individual. This is rare, however. Most people are 10 percent Entrepreneur, 20 percent Manager, and 70 percent Technician. Typically, most businesses are run by a Technician. Unfortunately, most Technician-run businesses fail.

There are three distinct phases in a business’s development:

- **Infancy** – This is the initial phase of the business. The owner and the business are one and the same. The problem is that most businesses are run according to what the owner wants instead of what the business needs. The Technician wants a place to go to work, to be free from the constraints of working for The Boss, not realizing that the business becomes The Boss as it grows. Infancy ends when the owner realizes that the business cannot continue to run the way it has been; in order for it to survive, it will have to change. Once this reality occurs, most of The Technicians walk away. The rest go on to Adolescence.

- **Adolescence** – This is the point in the life of your business when you decide to get some help, precipitated by a crisis in the Infancy stage. Every Technician then goes out and gets experienced technical help for the work that isn't getting done. Unfortunately, at that point the owner then falls into Management by Abdication rather than Delegation as he relies on the experienced employee to handle things for him. Once this happens, the business begins to deteriorate quickly; the work is ultimately never done to the owner's satisfaction, who ends up taking back ownership of all the jobs from the employees and once again does them himself. The adolescent business has just reached the limits of its owner's Comfort Zone.

The **Comfort Zone** is the boundary within which the owner feels secure in his ability to control his environment, and outside of which he begins to lose that control. The Technician's boundary is determined by how much he can do himself. The Manager's is defined by how many Technicians or subordinate managers he can organize. The Entrepreneur's is how many managers he can engage in pursuit of his vision.

Once the business grows beyond the owner's Comfort Zone, one of three things will happen:

Getting Small Again – The owner will revert the business back to Infancy, when things were simpler, where they did everything. The drudgery of routine sets in as the owner realizes that they own a job. Despair and cynicism sets in. The business ultimately implodes.

Going for Broke – The business continues to grow at an increasing rate until it self destructs from its own momentum. The results are typically catastrophic.

Adolescent Survival – The owner is strong willed and stubborn, and works constantly, doing whatever it takes to survive. The owner ultimately ends up consumed by the business.

These endings don't have to happen. The job of the owner is to prepare himself and his business for growth; to dictate your business's rate of growth as best you can by understanding the key processes to be performed, the key objectives to be achieved, and the key position you are aiming your business to hold in the marketplace. The key is to envision, plan and articulate what you see in the future for yourself and your employees.

- **Maturity** – The third stage of a company's growth. Maturity is not an inevitable result of the first two phases, as shown above. A mature business does go through Infancy and Adolescence, but it does so in an entirely different way. Mature businesses began as mature businesses – *they began with the end in mind*. They started out with the Entrepreneurial Perspective.

The Entrepreneurial Perspective versus The Technician Perspective

The Entrepreneur

- Asks “How must the business work?”
- The business is a system for producing outside results – for the customer – resulting in profits
- Starts with a clearly defined vision of the future, then changes the present to match the vision. The present day world is modeled after his vision
- Envisions the business in its entirety, from which is derived its parts
- An integrated vision of the world

The Technician

- Asks “What work has to be done?”
- The business is a place in which people work to produce inside results – for The Technician – producing income
- Starts with the present and looks forward to an uncertain future with the hope of keeping it like the present. The future is modeled after the present day world.
- Envisions the business in parts, from which is constructed the whole
- A fragmented vision of the world

The **Entrepreneurial Model** looks at a business as if it were a product, sitting on a shelf and competing for the customer’s attention against a whole shelf of competing products (businesses). It has less to do with what’s done in a business and more to do with how it’s done. The commodity isn’t what’s important – the way it’s delivered is.

The Entrepreneur Model starts by finding the opportunity, then creates a solution – the business – for a specific group of customers that looks and acts the way the customer needs it to, not The Entrepreneur. It starts with not a picture of the business to be created but of the customer for whom the business is to be created. Without a clear picture of that customer, no business can succeed.

However, for the model to work, it must engage all three of the business owner’s personalities in equal measure. Such a model can be found in examining the Turn-Key Revolution.

McDonald’s calls itself “the most successful small business in the world.” Its founder, Ray Kroc, revolutionized American business with the advent of the Business Format Franchise.

The **Business Format Franchise**, unlike its predecessor, the Trade Name Franchise, in which the franchisor licenses the right to small companies to market its nationally known brand name product locally, not only lends its name to the smaller enterprise but also provides the franchisee with an entire system of doing business.

The Business Format Franchise is built on the belief that the true product of a business is the business itself and not the product it sells. The true customer of the Business Format Franchise is the franchisee – the person interested in buying the business itself. Thus, the business has to produce predictable results that can be replicated each time. To accomplish this requires a systems-dependent business rather than a people-dependent business. A business system that will work no matter who buys it.

The only way to ensure that the business system works is to build it out of predictable components and test the system in a Franchise Prototype. This is where you can find the appropriate model for your business.

Where 80 percent of all businesses fail in the first five years, 75 percent of Business Format Franchises succeed. The reason is the Franchise Prototype.

The Franchise Prototype is the place to conceive and perfect the business system. Where the business model is built. Where ideas can be tested before being integrated into the operational model.

The system is not something you bring to the business. It is derived from the process of building the business. The system integrates all the elements required to make a business work. It transforms the business into an organism, driven by the integrity and orchestration of its parts.

The system runs the business. The people run the system. All that's left is for the franchisee to learn to manage the system. If the franchisor has designed the business well, every problem has been thought through.

The Franchise Prototype is the balanced model that satisfies The Entrepreneur, The Manager, and The Technician all at once. It will allow you to develop your own Business Format Franchise.

All that a Business Format Franchise really is *is a proprietary way of doing business that successfully and preferentially differentiates every extraordinary business from every one of its competitors*. You can find this concept at the heart of every extraordinary business, franchised or not.

Working On your Business, not In It

The most important thing to remember is that your business is not your life. They are completely separate entities that have different purposes and functions. The purpose of your life is not to serve your business, while the purpose of your business is to serve your life. When you realize this, you can detach yourself from your business and begin working *on* it rather than *in* it, and build a business that will work without you. This is where we put the Franchise Prototype model to use.

To accomplish this, pretend that your business will be or is the prototype for 5000 business just like it – completely replicated. Pretend that you are going to franchise your business (or, if that is your intent, don't pretend.)

The franchise game has a set of rules that must be followed to win:

- 1. The model will provide consistent value to your customers, employees, suppliers, and lenders, beyond what they expect.** Value is what people perceive it to be, and nothing more. It is in the understanding of value, as it impacts every person whom your company comes into contact, that every extraordinary business lives.
- 2. The model will be operated by people with the lowest necessary level of skill.** If the model relies upon highly skilled people, it will be impossible to replicate. The goal is to create a business that is systems dependent rather than people dependent. The system becomes the tools that the people use to get the job done the way it needs to get done. It's the business's job to develop the tools and teach the people to use them. It's the people's job to use the tools and suggest improvements based on their experience with them. The system leverages ordinary people to perform extraordinary results consistently.
- 3. The model will stand out as a place of impeccable order.** In a world of chaos, most people crave order. The business should provide a set of relatively fixed points of reference to the people that interact with it in an otherwise unstructured world.
- 4. All work in the model will be documented in Operations Manuals.** Documentation provides the clarity structure needs if it is to be meaningful to your people. Without documentation, all routinized work turns into exceptions. The Operations Manual can be described as a company's How-To-Do-It-Guide. It designates the purpose of the work, specifies the steps needed to be taken while doing that work, and summarizes the standards associated with both the process and the result.
- 5. The model will provide a uniformly predictable service to the customer.** In addition to looking orderly, the business must act orderly. It must provide a consistent experience to the customer each and every time.
- 6. The model will utilize a uniform color, dress and facilities code.** Marketing studies state that all consumers are moved to act by the colors and shapes they find in the marketplace. Different consumer groups respond differently to specific colors and shapes. Your Prototype must be packaged as carefully as any box of cereal. The colors you show your customer must be scientifically determined and used throughout the model –from the facilities to your clothes to your sign to your business card. The model must be thought of as a package for your one and only product – your business.

When you go to work on your business rather than in it, ask yourself the following questions:

- 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 systematize my business in such a way that it could be replicated 5,000 times so the 5,000th unit would run as smoothly as the first?
- How can I own my business and still be free of it?
- How can I spend my time doing the work I love to do rather than the work I have to do?

The most important thing to remember, more important than all the points made in the book, is to keep the curtain up. That curtain is your Comfort Zone. That Comfort Zone is that space of familiarity we all remain in when our Spirit takes us to the unknown. Comfort makes cowards of us all.

This book is not simply a prescription for success, but a call to arms – a call to learning how to feel, think and act differently and more productively, more humanly than our existing skills and understanding allow. Today's world is a difficult place, full of chaos and disorder.

The trouble with the world didn't start "out there" in the world. It started within us. The world's apparent chaos is only a reflection of our own inner turmoil. If we are to change the world, we must start with changing ourselves. We must first change our lives.

Unfortunately, we haven't been taught to think that way. Our society is accustomed to thinking in terms of them against us. We want to fix the world so that we can remain the same. And for an "out there" society, coming "inside" is a problem. But we must learn to change now. Unless we do, the chaos will remain.

The lesson is that we can't change our lives by starting "out there." All we can produce in the process is more chaos.

We can only change our lives and create a world of our own if we first understand how such a world is constructed, how it works, and the rules of the game. That means we have to study the world and how we are in it. A small business is just such a world, and the Business Development Program is a means to study it most effectively. Our Franchise Prototype can provide our study with the discipline it needs to succeed.

The very process of Business Development creates instantaneous change in the people who engage in it – and that is the key to its success. Those who engage in the process must remember their aim in order to continue it. In the process of

remembering, their aim becomes tethered to something real in the world – their business, a place where aims can be tested in a concrete, practical way. The business becomes a symbol for the life they wish to live, a visible manifestation of who they are and what they believe.

Don't think about it anymore. It's time to act. Because until you do, you won't understand it. And when you do, there will be nothing left to think about – you'll be well on your way.

When you hear something, you forget it.

When you see something, you remember it.

But not until you do something will you understand it.

SUMMARY CONCLUSION

E-Myth Revisited, copyright © 1995, 2001 Michael E. Gerber. Second Edition. 268 pages. ISBN 0-88730-728-0. HarperCollins Publishers.

