



# MASTERMIND CONSULTING NETWORK

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## Fundamentals for Entrepreneurial Success\*

### The Entrepreneurial Urge

Every year, over a million people in this country start a business. By the end of the first year at least 40% of them are out of business!<sup>1</sup> Within five years more than 80% of them have failed and within another five years more than 80% of those that survived the first five years have failed.<sup>2</sup> These statistics do not have to be since a business is nothing more than a reflection of its owner and his limitations. If his thinking is sloppy the business will be sloppy. If he is disorganized, the business will be disorganized. If greedy, the employees will be greedy always doing less and asking for more. If information about what needs to be done is limited, the business will reflect that limitation. In the end your business must change continuously to thrive and so must you! If you, the owner, are unwilling to change, your business will never be capable of generating the success you want.

The idea that small businesses are started by entrepreneurs is dead WRONG! Most are started by individuals obsessed with the idea of being their own boss, doing their own thing. Their fatal assumption is that if you understand the work you also understand how to start and build a business to do that work. The assumption is fatal because it is not true. To the workman obsessed with being the boss, a business is simply a place to go to work. He believes that by understanding the work, he is eminently qualified to run the business.

\* This paper based on MCN's consulting experience is a summary and paraphrase of information from the "E-myth Revisited" by Michael Gerber. This book is available on the MCN website and is recommended reading for aspiring entrepreneurs.

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<sup>1</sup> Department of Commerce

<sup>2</sup> E Myth Revisited page 2

However the job he understands is only one of many business functions, most of which he does not understand and once he is in; his dream becomes a nightmare. The work he loves becomes a chore, something to get through in order to make time for everything else that **MUST** be done.

Actually we all have three sides to our personality that can be characterized as Entrepreneur, Manager and Workman. Each wants to be the boss, but none of them wants to have a boss, after all, they went into business to get away from a boss, so a conflict begins, which no one wins.

- **The Entrepreneur** is the visionary, the catalyst for change who needs control of people and events in order to concentrate on his dreams. To him most people are lazy and get in the way of his dream.
- **The Manager** is pragmatic, the planner and organizer. He brings order and predictability out of chaos! Where the Entrepreneur craves control, the Manager craves order. He wants to cling to the status quo. Where the Entrepreneur sees opportunity, the manager sees only **PROBLEMS!**
- **The Workman** is the doer. Where the Entrepreneur lives in the future, the Workman lives in the present. As long as he's working, he is happy, but he only wants to work on one thing at a time and he is happiest when he is in control of the work flow. He mistrusts those he works for because they are always trying to get more done than is possible or necessary. He knows that if it were not for him nothing would get done! Everyone gets in his way, the Entrepreneur with the next "Great Idea" and the Manager trying to impose "Order." To him a "system" is dehumanizing and violates his individuality.

We all have these three personalities inside us, but they are not balanced with most of us being skewed toward our Workman side. When we go into business it is usually to take control of our work, but, this is a disaster for the business because the wrong personality is trying to steer it!

Your entrepreneurial side is your dreams, while your Manager side is you trying to keep things as they are. Your workman side is trying to get things done and it drives your other two personalities crazy in the process. For most of us these three are not in a balanced relationship, but without balance your business can only mirror that lack of balance.

Businesses, like people, are supposed to grow and change. However, if the Workman personality is running the business, he wants the opposite, a nice stable unchanging business free of

the disruptions and chaos that comes with change. To understand this, let's look at the first three phases of a business's life cycle: start up, growth and maturity.

At start up, the owner must juggle many tasks simultaneously because the owner and the business are one and the same. When the business achieves significant growth there is more work than he can get done and some tasks fail. Suddenly there is no way to get all the work done. This ends when the owner realizes that to survive, the business must change.

The growth phase begins when the owner decides to get help! Every business that lasts must enter the growth phase and every owner who survives must sooner or later seek help. The underlying purpose of going into business was to get free of a JOB so you could create jobs for other people by meeting market demand and thereby creating a new life for yourself!

The question is what kind of help the owner should seek. Usually it is another experienced Workman who can take on part of the work that the owner doesn't want to do. However, the pit fall is that management by abdication instead of delegation often occurs. The owner turns work over to the new employee without providing any structure, boundaries, guidance or supervision, relying solely on the new employee's knowledge, experience and expertise to create the desired result.

Eventually the owner realizes that his employees do not care about business the way he does. They are not willing to work as hard as he is. The hired hand lacks his judgment, ability, desire, or intent. The owner may conclude that if the job is going to get done "right" he will have to do it! But the more he does, the less the workers will do! The problem is that the owner simply does not know how to get the work done any other way. As a Workman he has reached the limits of his abilities and he needs to develop the skills of his Entrepreneurial and Managerial sides!

The start up business has reached the point where it has grown beyond the owner's ability, and he has lost control. This boundary is determined by how much the Workman can do himself whereas a Manager's boundary is determined by how many subordinates he can supervise and the Entrepreneur's boundary is how many people he can engage in the pursuit of his vision. When the business grows beyond its owner's abilities, there are only three courses of action he can take:

1. Downsize to a controllable level, but businesses that "get small again" die because the owner waits and works hoping for something to happen and it does when he burns out and packs it in!

2. Keep growing faster and faster until the business spins totally out of control and self destructs.
3. Or thirdly, the owner can prepare for growth by embracing the broader aspects of business so that as growth occurs there are structures and systems to support the added complexity!

The key is to envision the future, and understand the long term goals so that everyone can manage themselves by operating within established boundaries that support these goals. While any plan is better than no plan, it must be a written plan, so that everyone can clearly understand it. To reach maturity a company must be founded on a broad entrepreneurial perspective that works not because of you but without you. If it starts that way, it will continue that way, based on the ultimate VISION against which the present is shaped.

First you must envision what the company will be like when it reaches maturity. Second, ask how the company will have to act when it is mature and then begin to act that way! A GREAT company must begin to act like one long before it ever becomes GREAT. You are not just “doing” business, you are “building” a GREAT company. As the business grows it must reinvented itself frequently recreating its future to meet changing demands of the world in which it operates and the markets it serves! These changes must be built on a solid foundation of unchangeable core values that define the business.

The best businesses are based on a model that works, how it looks, how it acts, and on how it delivers products and services to customers. The leaders MUST have a passion for the enterprise always asking “How can the business work better?” in order to create a business that fulfills the needs of a specific market better than anyone else! In other words, the business must have a clear picture of its target markets and act accordingly if it is to succeed.

The customer must be an opportunity with needs and wants for the business to satisfy. This vision can exist only when we develop the underlying marketing information needed to meet the needs of our intended customers!

For a business system to work, it must satisfy the entrepreneurial, managerial and operational needs of all stakeholders. The system must transform a condition of chaos to a place of order, fulfillment and growth. The product of a successful business is the business system itself. The system allows a business to increase its success over extended periods of time by working better than any other! To create success the system must result in predictable and repeatable operations.

Performance is then system dependent, not people dependent, because when left to chance, failure is the only predictable outcome.

An underlying system is the basis of every successful business. It is the model you create to make your business work! Long after the entrepreneur has left the scene it continues to deliver exactly what customers expect every time. It says what will be done, and then delivers exactly that. It manages customer expectations, then meets or exceeds them! The incredible value of a workable system is demonstrated by the success rate of franchises in contrast to the high failure rate of other businesses.

### Developing a Business System

The initial system of a business is based on the VISION for the company's ultimate success. It is the creative thought that is then tested in the real world where it evolves into what really works. It is where assumptions are put to the test before becoming standard operating procedures. The only criteria being "How well does it work?"

The goal is for the system to run the business while the people operate the system. It is the answer to the problems that beset the business and it integrates the elements that make the business work. Discipline, standardization and logical order are the building blocks of a successful business system. They guarantee that customer expectations are met. The system leaves its operators limited discretion and is implemented by rigorous training of new employees. It is the answer to the question "How do I give my customer what he wants while maintaining control of the business?" It transforms the vision into reality in the marketplace.

A system provides the order, and predictability required to manage a business. It creates a place where workmen can accomplish their tasks without chaos and distraction. It provides an environment where entrepreneurial, managerial and operational needs can be efficient, allowing the business to meet the needs and wants of customers; it empowers a business that "WORKS." Systemization is at the heart of any extraordinary business. It is a proprietary way of operating that differentiates a business from its competitors.

### Working on Your Business

First you must accept that your business is not your life. They are separate and distinct and must be treated as such. The business is separate from its owner. It has its own rules and purpose

which is to acquire and retain customers! A business system is created so that operations can be replicated endlessly. Thus it will:

- Provide consistent value to all stakeholders (customers, employees, owners, and suppliers).
- Be operable by people with ordinary levels of skill, education and experience.
- Create an environment of order, cleanliness and safety.
- Be documented and available to stakeholders in the form of an Operations Manual or on-line. The documentation is managed to assure that only current versions are available.
- Ensure that uniformly predictable products and services are delivered to customers.
- Present a consistent image to customers that differentiates it from competitors.

### What is Value?

VALUE is what customers perceive and what you must seek to provide in order to meet their expectations. It could be:

- Good treatment
- An unexpected gift
- A compliment
- Reasonable prices
- A dedication to answering questions
- An attractive business environment

Thus, VALUE is essential to business and to the satisfaction that the stakeholders derive from it!

### Producing Extraordinary Results

Simplicity is the characteristic that enables successful systems to be operated by people with ordinary levels of skill, education or experience. This means that the operators only need the level of skill necessary to operate the system. You need a system that good; but ordinary employees can use to produce exceptional results. Thus a business needs to give its customers the results expected based on a system as opposed to being dependent on experts. We need to rely on an expert system rather than on hiring experts to operate the business. In an expert system, people are important because they make it possible for the system to produce the intended results. They must be systems

oriented people who learn how to continually improve the system. Great businesses are not built by extraordinary people but by ordinary people doing extraordinary things. For this to happen the “system” needs to compensate for the disparity between the skills people have and the skills the business needs. It is the job of the owner to develop these tools and to teach employees how to use them. It is then the employee’s job to use the tools and to recommend improvements based on their experience using the system. In order to run a business with ordinary people you must create a system that enables them to repeatedly produce extraordinary results that meet customer expectations.

### The Importance of ORDER

In a chaotic world, we all crave order. We have a sense of powerlessness and feel a need for structure that provides a reliable point of reference. An orderly business provides these points of reference for both customers and employees. Order shows that a structure exists; that you know what you are doing and that customers can trust the results. It is reassuring for all stakeholders; customers, employees, suppliers and owners alike!

### System Documentation

Documentation makes system information accessible, enabling workers to get the job done efficiently and effectively. Documentation whether in an Operations Manual or on-line is the “How to do it Guide”! It defines the purpose, specifies the steps, the decisions, and the standards to be met.

The details of the system are not as important as performing them the same every time. Customer expectations are driven by experience and the need to receive the same product, service and quality every time! Any deviation other than an improvement will receive a negative response. Be aware that even small details that are unimportant from a practical point of view have significant emotional impact on customers. These include colors, shapes, dress code, packaging, facility layout, cleanliness, lighting and decoration. The key issues in a business system are:

- How to design a business that works without the owners presence?
- How to create a “self-managed” work force?
- Can the system be replicated in varying environments and still operate as well as the original?

- How can the owner operate the business without being a slave to it?
- How can the owner work on his high pay off activities without being overwhelmed by day-to-day details of operating the business?

The problem of systemizing a business is the fact that the answers to these questions are unknown. What is needed is a way to obtain answers and use them to create, optimize and implement a system that delivers goods and services consistently without the full time involvement of the owner.

Systemizing a business is an on-going process that demands constant innovation. It is the process by which products and services are sold and delivered to customers. For system innovations to be significant, they must focus on what serves the customer's interests. Constantly ask "What is the best way to do it?" in all aspects of the business. While we can never discover the "best way," we can always find better ways through continuous improvement where all stakeholders benefit.

To sort out the best innovations, we must quantify and measure results. Only by doing so can we determine which improvements are truly valuable to the business. Unsuccessful changes must be promptly discarded and replaced with new ones which produce better results. To be effective we must have a firm vision to determine where we are going!

Finally, by systemizing we establish boundaries that limit discretion and provide workers with a detailed description of how their work is to be performed. Without boundaries, everyone does their own thing which creates chaos! Unbounded discretion is the enemy of the order that is required to consistently delivering high quality to customers.

By systemizing we establish a way of operating our business that differentiates us from our competition. It is our distinctive way of doing business. The only thing predictable about employees left on their own is that performance will be unpredictable. A system on the other hand is a method for creating predictable results from an otherwise unpredictable environment, a way to satisfy customers because otherwise they will seek a better supplier.

Our system is the way we do what we say, in the way we say we will do it, while always being who we are. Our system is maintained as long as it produces the desired results. When it does not we must promptly improve it!

Systemization is a dynamic process that must embrace continuous improvement, because the environment is chaotic; constantly changing and does not respond predictably to a static system. The goal is to manage change in order to provide flexibility, maintain momentum and achieve long

term success. It is the backbone of an extraordinary business, allowing workers to achieve predictable results in an unpredictable world. Without such a system, your business has nothing to improve upon!

For continuous improvement to work, we must constantly evaluate the way we work, the environment in which we work; always learning, growing and transforming, building what will follow on the foundation of our current system. The process is a search of the ordinary things we do seeking to learn what can be done to create more for all the stakeholders.

### Creating Your System

A successful system creates order, predictability and control of the operation so that it impresses the outsider, especially one seeking to acquire the business. Such a system can be replicated to open additional businesses identical to the original.

Before the process of creating your system begins, you must create a foundation, which begins with your VISION of WHAT and HOW the business will be when it reaches maturity, describing where you want the business to go. It is the first step in creating a business that has MEANING for you beyond simply generating a livelihood! It's the difference between passively going with the flow and actively steering a course to take you where you want to go! A well-defined VISION is necessary to bring a business to life, and make it an integral component of your life without letting it BE your life.

Once your VISION is well-defined we look at your PURPOSE which is WHAT has to happen to take you from the present to your VISION. The only realistic reason to create a business is to build an entity that has value and can be sold to someone who will pay you for it. The reason for a person to buy your business is because it works; the value being that the buyer doesn't have to create such a system on his own using only his personal resources.

Your MISSION is a statement of HOW the business will achieve its purpose. It is the template that you use to be sure that the resources you invest in the business produce the results you want from it!

The standards included in your VISION begin with money – the revenue the business will generate; how big it will become. This is partly determined by how much money you need to become financially independent. Secondly, you must envision an opportunity that is worth pursuing. Unless an opportunity is one that you can be the best at while fulfilling both your passion and your

financial requirements, it's not worth pursuing. When your opportunity also meets the needs and wants of a large group it is likely worthwhile. These criteria define the kind of business and who will be its intended customers. A conceptual marketing idea must be refined demographically by describing its prospects in terms of age, sex, income, family status, education, profession, etc. in order to determine how many selling opportunities there will be and how successful you could become. As a rule of thumb, large markets require you to take a smaller share and therefore increase the probability of success.

**Other considerations are:**

- How long will it take to move beyond start up?
- The size and location of the service area.
- How the product/service will be delivered to market?
- What infrastructure and standards will be required?
  - Reporting
  - Cleanliness
  - Clothing
  - Management
  - Hiring
  - Firing
  - Training
  - etc.

Once the basics of the business, have been established, it is time to begin creating a “system.” This framework is the boundaries within which the business and its employees will operate. Begin by defining “functions” and the “tasks” needed to perform them. This is the working level of the organization; the level at which customer work is performed. The policies and procedures that describe how work is performed are then developed based on experience and any existing initiatives for improvement. When enough information is available a process flow chart is created linking functions, tasks and the decisions that must occur to operate the business. Decisions are critical in terms of where they occur, why they occur and the consequences that can come as a result of each decision. When the first draft of the process flow chart is ready it is reviewed and

optimized. If no formal process has been in place many problems and discrepancies will be found during this review.

Key questions to ask:

- Is this the best way to do it?
- Are there redundant activities in the process?
- Is this particular activity really necessary?
- Is this the correct decision and is it at the right place in the process?
- Would the customer be willing to “pay” for this activity?
- If the customer is not willing to pay, is this activity essential?

When the process flow chart has been optimized, it is used to create a conceptualized organization chart of how the business will look when it is mature. It is composed of hierarchies that define the leadership, management, and working levels of the company.

A “working” organization is shaped by the work to be performed. The underlying driver is the “span of control” that is the number of subordinates a supervisor can effectively oversee. This varies based on the people involved and the kind of work being performed. It typically falls between six and twenty subordinates per supervisor. Thus the width and depth of a “working” organization chart is determined by these real world considerations. However, a “conceptual” chart considers only the number of functions and their manning requirements for each basic unit, with additional units being added in a modular fashion as the company grows..

When the conceptual organization chart is complete, detailed job descriptions are developed for each position. Policies and procedures defining the boundaries within which the job descriptions operate are then defined and documented. All of these materials are compiled into a comprehensive “Operations Manual” for the business. They quantify, define, and coordinate the business’ operating system. Then adding people and filling out the organization chart with names becomes the activity that produces the company’s growth and success. When you fill positions, you are seeking an apprentice, who will be trained to do the job your way, serving customers in the way they expect. “Experts” who qualify on education and experience are not needed, only persons who qualify based on intelligence, energy, interest, and a desire to build the business are to be hired.

Once the business is organized and staffed, the next job is to follow the system. If you do not follow the system, no one in your company will! Only when management, employees and the “system” come together will a “GREAT” company be built!

### The System is the Answer

When success requires extraordinarily capable employees, your problems are just beginning. First finding “experts” is costly and time consuming, with mistakes, delays and disappointments being the rule. Secondly, “experts” are rarely affordable. A “System” that embodies strategy and produces results, with less skilled labor is the answer. The system changes a people problem into a process that can be refined and improved. The need for management decisions is minimized as the system is refined and becomes more effective at finding and retaining customers.

### Performance Management

A frequent question of business owners is “How do I motivate my employees?” Actually you can’t “motivate” the wrong people to do the right things. Once the right people are in place, they must have a “system” that establishes what, how, why and when things are to be done. Such a system clearly establishes decision making expectations, and sets the boundaries within which employees can perform their work. In this environment doing the right thing is easier than doing the wrong thing. Furthermore the right people are correctible because they are focused on being the best at their assignments. They bring life to the VISION and focus on the opportunities for improvement and fulfillment that are embodied in their job. With a system, you are able to seek employees who want more than a job; they want an exciting environment with structure where they can advance to the limits of their capabilities. Doing what is expected then becomes the measure of their commitment to the VISION and to the system that implements it. People NEED to have a purpose, order, meaning and a system that enables success by defining:

- How we do the work
- How we hire the right people
- How we manage the operation
- How we incorporate continuous change

A business system details how you perform the tasks required to deliver product or service to customers. In most businesses people carry these details around in their heads, but they do not become real until captured, optimized and documented in a formal system. The Operations Manual then enables you to accurately communicate, train and manage your business in the “best” way of doing things. It is a reference and a baseline for improvement. It differentiates your business from its competitors!

### Marketing and the System

You must understand marketing in order to sell your products and services. Prospects are bombarded with advertising and promotions to the point of being overwhelmed. Their only “safe” course is to “tune out”; to JUST SAY NO! It is a simple stop loss strategy for avoiding unnecessary purchasing decisions. Unless the essential importance of marketing is understood, you cannot hope to create a business system that will overcome these barriers and empower success!

Marketing begins and ends with the needs and wants of your customer. Unfortunately these are both conscious and unconscious criteria that your performance will be judged against. When your performance is not compatible with the customer’s expectations he will react and may abandon your business in an instant!

When you have identified your target market segments; you can determine their “needs,” “wants” and the key events that precede buying decisions. Once you have made these determinations, it’s your job to construct a system that will satisfy prospects by meeting or exceeding their expectations. Your study of marketing begins with current and prospective customers:

- Who are they?
- Where do they live?
- How old are they?
- Family income? (approx.)
- Do they own their home?
- Are they married?
- Do they have children?
- What are their ages?

- What colors do they prefer?
- What shapes do they prefer?
- What words do they prefer?
- What brands do they prefer?
- Favorite sports?
- Favorite hobbies?
- Magazines/Newspapers read?
- Etc.

This information is obtained from customers, prospects, secondary sources, and some will simply remain UNKNOWN. If your business sells products that are purchased by many differing market segments you will need to develop demographic information for each segment. After developing the demographic profiles, you can purchase lists of additional prospects who fit the profiles and are located in your service area.

Finally it is necessary to brainstorm new market segments using customers, focus groups, and reference sources. Marketing activity is time consuming, but the time and energy spent on these “Entrepreneurial” activities provides the strong foundation needed for your system.

In summary a successful system starts with the Promise it makes to prospects, continues with the SALE, and ends with Delivery involving Marketing, Sales and Operational functions. These activities define what the business must be in order for prospects to choose it and for customers to be fully satisfied.

The goal then is to integrate functions, connecting them to each other so that customers will be eager to continue doing business with the organization. Getting customers to come back is a primary aim of the business, because adding new customers is many times more costly than retaining current customers. All employees must have the common goal of making a promise that prospects want to hear and then delivering on that promise better than anyone else! Continuous improvement keeps the promise alive, allowing the business to promise what no one else can, and then make good by delivering on it!

## Systems Strategy

Your system is the glue that holds the business together, but information is the bond that holds the system together. Measurements tell us how the system is performing, and must be reviewed regularly to determine when and why change is needed. Without data, the business is flying blind. Everything affects everything else and success depends on integration. When operating correctly, all elements will look to customers like an integrated, smoothly functioning whole, that delivers what it is intended to produce. A functional system works smoothly creating an effective customer experience that says there is no one else like this company!

## Summary

The path to systemizing a business is anything but certain and that's why it's so exciting! It can respond and adjust to changes in life and business. It provides the ability to duplicate a business whenever necessary. The enemy of GREATNESS is satisfaction which is embodied in saying "Good Enough". The way we view the world, becomes a refuge, a place to retreat to and hide from reality, giving the illusion of being in control. In the end, however, clinging to an illusion and avoiding necessary action, creates cowards because we must live by taking action not by thinking about it.

The world has experienced more change recently than occurred previously in thousands of years. The rules that govern business are constantly changing and many earlier boundaries no longer exist. Since businesses cannot survive without boundaries, structure and rules, new ones must be created to fill the void left by those that no longer apply. Our changing environment can cause us inner turmoil, and to cope, we must change ourselves and our business. But, we "want" to fix the world around us so that we don't have to make changes in our lives and business! In this environment a strong system coupled with continuous improvement can bridge the gap between ourselves and the world around us.

A "GREAT" business is one that responds quickly, by implementing new ideas in a way that changes lives. It is an environment in which assumptions are tested and where asking the right questions is as important as having the right answers; where generalizations are replaced by specifics in order to reduce chaos to a manageable size.

In the world around us people are going into business for the wrong reasons. Their enterprise is undertaken to escape by retreating into a world of their own. It is a yearning for structure, form, control and a relationship within themselves that is impossible on a job.

This outcome is often not realized as many new businesses end in failure because the owner brings chaos with him; he doesn't want change! Systemizing a business provides the discipline needed for successful change. It allows us to discover what works in the real world as opposed to what works in our mind or what we wish would work! It is a source for learning, and expanding beyond self-imposed limits; because it's not until we try something new that we truly understand it.

A business is a symbol for its stakeholders, a manifestation of who they are, what they believe, and a statement of their collective will. Begin by looking at the business through new eyes. See it as it is today, then envision what it will look like in the future, and determine the milestones required to get from here to there, what needs to be done to create the business you desire. The gap between reality and the future must be filled with a system; a way of doing things that differentiates us from our competitors. A way of allowing ourselves to achieve the milestones needed to reach our vision. The system is the bridge that takes a business from where it is to what it wants to become. It is the key to reinventing ourselves, a pragmatic approach that works. So in the end it's time to ACT, because until action is taken, the consequences remain unknown!