

Wisdom from Warren Buffett

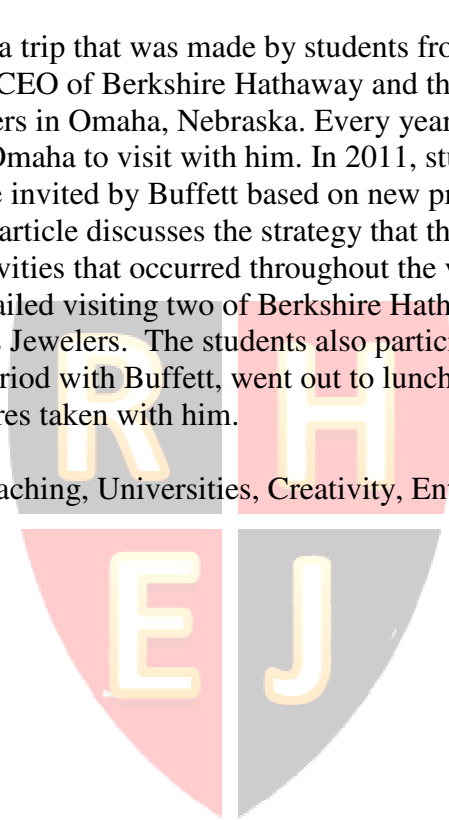
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ABSTRACT

This article documents a trip that was made by students from a U.S. University to visit Warren Buffett, chairman and CEO of Berkshire Hathaway and the third richest man in the world at his Global Headquarters in Omaha, Nebraska. Every year, Buffett invites students from a select number of schools to Omaha to visit with him. In 2011, students from Gonzaga University were fortunate to be invited by Buffett based on new products that they created in an entrepreneurship course. This article discusses the strategy that this university used to get invited to visit Buffett, the activities that occurred throughout the visit, the lessons learned from Buffett. The trip to Omaha entailed visiting two of Berkshire Hathaway's subsidiaries: Nebraska Furniture Mart and Borsheim's Jewelers. The students also participated in a two hour and thirty minute question and answer period with Buffett, went out to lunch with him, and each student and university group had pictures taken with him.

Keywords: Warren Buffett, Teaching, Universities, Creativity, Entrepreneurship, Investments, Values



INTRODUCTION

Every year, Warren E. Buffett invites students from a select number of schools to Omaha, Nebraska to visit with him. The list of schools that want to visit him is years long. In 2011, Gonzaga University was fortunate enough to be invited by Buffett based on products that were created in an entrepreneurship course that incorporated creativity, innovation, and entrepreneurship. This article documents the process that was used to get this school invited to visit Buffett. The article also discusses the activities that occurred during the visit in Omaha. For example, the trip entailed visiting two of Berkshire Hathaway's subsidiaries: Nebraska Furniture Mart and Borsheim's Jewelers. In addition, the students participated in a two hour and thirty minute question and answer period with Buffett, went out to lunch with him, and each student had her/his picture taken with him. Other schools can benefit from the methodology that was used to get the invitation to visit Buffett. Specifically, schools can have a competitive advantage by assigning their students creative and innovative projects that catch Mr. Buffett's attention. Moreover, this paper will outline the lessons that will be learned from the visit with Warren Buffett.

OVERVIEW

In the fall 2011, twenty Gonzaga students spent a day in Omaha, Nebraska, learning about the various facets of business, ethics and life from the third richest man in the world, Warren Buffet, the "Oracle of Omaha". Berkshire Hathaway is a conglomerate of over 70 companies with over 246,000 employees that also invests in numerous companies and investment vehicles. Buffett invites schools to visit him because it is more efficient that they come to Omaha rather than him having to travel to schools. He has previously expressed that he enjoys these visits because even if he can have a positive effect on 5-10% of the students he will make an impact.

PROCESS FOR SECURING AN INVITATION

Creativity, Innovation, Invention, Experimentation, and Entrepreneurship

In one of the school's junior-level entrepreneurship courses, the first author wanted the students to experience aspects of creativity, innovation, and entrepreneurship. One of the projects he assigned the students was to create a product that would make Gonzaga University and its students attractive to Warren Buffett and compel him to invite them to visit him in Omaha. Some brief definitions from the class are provided below:

Creativity is the ability to think and act in ways that are new and novel. In our minds, there are two kinds of creativity, innovation and invention (MHA Institute, Inc., 2011).

Innovation is thinking creatively about something that already exists (e.g., the tape recorder, Walkman, and CD player are all innovations on the phonograph). Innovation is a process that begins with an invention and results in the introduction of a new product, process, or service to the marketplace (Edwards and Gordon, 1984).

Invention is creating something that did not exist before (e.g. the phonograph). A business example illustrates the difference clearly. When a team bases its plans on the way the team has operated in the past, they are open only to innovation, such as increasing efficiency.

However, a team that is inventive will ask itself: Can we create a different way to operate, one that will produce a different way of doing business? Experimentation is the process by which people become creative. When you experiment, you don't know the outcome. You can only guess. Often, experimentation leads to a surprise -- something you didn't expect. This is the power of creativity. (MHA Institute, Inc., 2011).

For the purposes of this paper, entrepreneurship was defined as more of an attitude or opportunity seeking behavior. It is a behavior that can be taught and used in any “for profit” or “non-profit” organization, not just for starting a business. Whether you are interested in starting a business, buying a franchise or small business, expanding your current business, working for a large corporation or a small fast growth company, working for your family business or working in a non-profit organization, entrepreneurship can benefit your organization.

The Invite

Warren Buffett admires persistence, hard work, thriftiness, humility, creativity, innovation, and entrepreneurship. Buffett first started being an entrepreneur at six years old selling chewing gum door-to-door during the Great Depression. He progressed through a number of different entrepreneurial experiences throughout his life. In 2009, Buffett stated, “The most successful people that I have met in my life are the ones who have thought “Way Outside of the Box” (Buffett, 2009). Knowing this, and realizing that Buffett only invites a select number of schools every year to Omaha, the authors realized that we had to do something extremely special to get invited to Omaha. This would entail creativity, innovation, entrepreneurship and possibly invention.

With Buffett, you have to earn your trip. After all, on June 11, 2011, someone had just paid a record \$2.6 million just to have lunch with him (Crippen, 2011). If someone paid \$2.6 million for lunch with Buffett and our school was attempting to spend a day with him, then we knew that we had to do something unique. So the authors assigned an innovative project to some entrepreneurship students. Their assignment was to create a new product to send to Buffett with the objective of having him invite us to Omaha. Students were required to incorporate what the university stood for. Freedom was given to the students. They could create whatever they wanted as long as it was legal. It could be a DVD (e.g., movie, documentary, advertisement), music (song), play, paper (e.g., analysis of a company, or recommendation to Buffett), or anything else that they could create.

The goals were to get the students invited to Omaha, but also to get the students thinking and acting like entrepreneurs by utilizing their creative energies. Few classes give students the freedom to create new products. This approach allowed students to go through the entrepreneurial process to create products to actually sell to Buffett to get us invited to Omaha.

The Products

At the end of the semester, five products were produced by five different teams of five students each. The authors evaluated each product and determined that three of the most innovative ones would be sent to Buffett.

The first product was the design of a Warren Buffett Pinball Machine. The team felt that this would be a great idea because Buffett owned a pinball machine company when he was a teenager. Initially the team wanted to purchase a used pinball machine, redesign the machine,

and create a machine focusing on Warren Buffett's life. The authors advised the team to act like a startup, create promotional material and go out and raise funds for the purchase of a used pinball machine. Unfortunately, the team did not have the time to do this during the short semester so they focused on the design. The team has visions of potentially receiving the licensing rights to a future Warren Buffett Pinball Machine.

The second product was the creation of a parody of the game Clue. Instead of focusing on the game Clue, the students created a new game board based on the campus and Warren Buffett. For example, instead of using the Clue game pieces of Mrs. White, Professor Plum, Colonel Mustard, etc., the team created new pieces that included pictures of Buffett, the President of the university, a student, etc. The team also created a game board with buildings located on the Gonzaga campus.

The final product was a DVD accompanied by music featuring the distinguishing aspects of the university including its mission, culture, entrepreneurship program, and values.

The authors sent these products to Buffett and within five days heard back from him. Buffett said that he liked all of the products and was inviting us to visit him in Omaha in 2011.

The Students

The invitation was for twenty students; a minimum of seven students had to be women. Since there were twenty five students in the class that developed the projects, the authors first opened the available slots to the fifteen students that created the winning products. Out of those fifteen, three of them could not attend due to conflicts in their schedules. The remaining eight slots were then filled by other students based a competitive process. To be eligible for the trip, a student had to submit their current resume and GPA and a statement of why they wanted to attend "Warren Buffett for a Day". The students also had to be able to pay their own way.

To determine which students would attend the event, the authors developed a rubric of specific factors: GPA, one page written statement, service to others, and leadership/miscellaneous (something significant that really separated a student from the others). An independent panel of two faculty members selected the best applications to fill the remaining slots. All of the twenty students were asked to pay their own travel expenses (air fare, hotel and some meals) to and from Omaha. The total cost of the trip was about \$500 for each student. The two authors and one other faculty member accompanied the students on the visit.

Nebraska Furniture Mart & Borshiem's

The students began their day with a tour of Nebraska Furniture Mart, a subsidiary of Berkshire Hathaway and the largest independent furniture store in the country. Rose Blumkin (Born 1893, aka, Mrs. B) founded the company in 1937. She was a Jewish Russian immigrant who never attended school and could not write or read.

Mrs. Blumkin began working in her mother's store in Minsk Russia at age six. She was managing 6 people by the time she was 12 years old. In 1917, Mrs. B. moved to the U.S. and by 1937, she had borrowed \$500 to start a used furniture store in the basement of her husband's pawn shop. She called the company the Nebraska Furniture Mart. Mrs. B. grew the firm to the largest independent furniture store in the U.S. and sold it to Warren Buffett for \$55 million on a hand shake. Mrs. B.'s key to success was to tell the truth and sell cheap. She also worked very hard, retiring only a few days before her death at age 103.

Once the tour of the Furniture Mart was over the students took a bus to the Omaha Field Club, which is located near Berkshire Hathaway's Global Headquarters. The students participated in a two hour and thirty minute question and answer period with students from seven other schools. Each school had an opportunity to ask him three questions. The Q & A session began with a student from one school asking a question, followed by a student from the next school, and so on, until each school posed three questions. The specific questions and respective answers are located later in this paper.

Once the question and answer period was over, the students went to lunch at one of Buffett's favorite restaurants, Piccolo's, located in South Omaha. Buffett drove four students to the restaurant in his older Cadillac. Buffett ate lunch with students who asked a variety of questions. Each student and student group also had the opportunity to take pictures with him.

The final stop was at Borsheim's, an upscale luxury jewelry store and subsidiary of Berkshire. The CEO was from South Africa and spoke to the students for about an hour.

QUESTION AND ANSWER SESSION WITH BUFFETT

Note: The following is based on notes taken during the Q&A session as recording devices were not allowed.

Buffett on Entrepreneurship, Innovation & Job Creation

Q: How can the U.S. encourage more entrepreneurship and innovation so we can increase new businesses and create more jobs in today's difficult economic environment? Who should be in charge of this initiative? The U.S. appears to be losing a lot of the top entrepreneurial foreign students to their home countries. How can we be more accommodating to them?

A: Immigration policies need to change in the U.S. They do not make any sense. Entrepreneurship and innovation has been working since 1790. Back then the U.S. had 4 million people in 1790 and had 25% of the world's output. The system works. It unleashes the potential of the individual.

I was born in 1930. Since 1930 the GDP per capita has increased six times. Unfortunately, the rest of the world has caught on. China has figured out a way to unleash the potential of its people. It went thousands of years without doing this and now it is. Unleashing the potential of people is more important than any government action or policy. Bill Gates wrote a book called the *Road Ahead* in 1984. Nowhere in the book does he mention anything about the Internet. The point is we do not know where the next big idea or industry is going to come from.

Buffett on the Economy

Q: What surprises you about the economy?

A: Most people think the economy is getting worse than it is. In fall 2008 most people thought that the economy was going to get better and it got worse. In fall 2011 most people think the economy is going to get worse and I see it getting better. Home construction will pick up. We have too many housing units versus households, although it is getting better. We have a 5-6 year overhang in the market.

Q: What are your thoughts on the European Crisis?

A: The problem is that there are 17 countries and no one has the power to print money. It's

a big structural problem to work out. You need to change the structural rules. They will have to cede authority to someone and the system is not well designed for a crisis. In the end, people will do whatever it takes to solve the problem. It may take a few years to solve, but it will get done. I would try to recreate what the U.S. did in 2008 and give it to someone with a lot of power.

Q: Manufacturing has been declining in the U.S. and is down to 10% of GDP. What is going to happen to the U.S.?

A: They have been saying this for the past 30 years; since 1980. After 1980, we created 40 million new jobs in the next 20 years. Who would have predicted Google? Microsoft? One-hundred years ago we had 32 million workers on farms. Today we only have 6 to 7 million. In 1970 we exported 5% of GDP. Today we export 12% of GDP. I cannot tell you what the jobs will be in 10-12 years. Each person in the U.S. has an average of seven pairs of shoes. That's over 2 billion pairs of shoes. Now we produce 2% of the shoes in the U.S. But it has not hurt us to let the Chinese produce shoes.

Q: What are your thoughts on inflation?

A: Today, \$1 from 1930 has a purchasing power of 6 cents. Yet the country has done well. Over time, most currencies depreciate primarily due to inflation. To me, that means you want to own good businesses. The best thing you can do is to own a business or expertise (whether you're a doctor, lawyer, etc.). You own that talent, which is your most important asset. I would pay \$100,000 for 10% of your future earnings.

I would recommend that you improve your oral and written communication skills. This will improve your pay by at least 50%. They will not teach you this in business schools. Good communication of good ideas gets you much further in life. Any investment in you is best.

The next 10 years we will see significant amounts of inflation. Europeans gave up their printing press. When you do this and you get into trouble, you cannot borrow money in your currency. In the U.S., we have printed a lot of money. This will bring inflation, but it will not end the world. Fixed dollar investments are a mistake. It makes no sense. Money markets lose money every day because of inflation. The riskiest investment is currency. You would need to have a country where the currency is rising.

Q: What are your predictions on the defaults of municipal bonds?

A: The problem is that we are making too many promises to employees. The ability to solve the problem exists, however we may have to change the promises. We owe \$48,000 per person and \$120,000 per household. Readjustments will always need to be made. Massive defaults will not happen. But we may be on the cusp of them. It will get postponed due to the consequences.

Buffett on Politics

Q: What are your thoughts about the current state of the political process in the U.S.? What role do you think the government should play? What can we do to change the current flawed system?

A: The politicians are doing what is right for them to get reelected and not what is right for the country. I do not care who is in office because I would be doing the same thing whether the Democrats or the Republicans were in office. We would still buy good companies at good prices.

We do not look at the stock market. We buy stock in a company that an idiot can run because one day one will.

Buffett on Education & Health Care

Q: What part should cost play in college? Is college worth it? Could you please comment on the massive student loan debt.

A: I did not want to go to college. I thought that I could get just as good of an education reading something than just going to school. My father made me go to school. I don't know what my degrees were, but they mean a lot when you are seeking a job. There is a lot of value in education. Ninety-nine percent of companies value education. At Berkshire Hathaway we value it at 50%.

When you have high demand you can increase prices at schools. When I was in school I learned a lot from a few courses. A few people inspired me and got me excited about doing things. Benjamin Graham had a huge influence on me. If you have a few teachers that have an influence on you, you are a lucky person.

Q: What advice would you give me in College?

A: Do anything that excites you. Do what sparks your interest. Go work for a person or company that you admire

Q: What would you like the U.S. education system to look like? What steps do you think should be taken to improve the U.S. school system in the immediate future? What do you think that we as soon-to-be college graduates can/should do to best help society/community/economy?

A: If you do not have a good public school system, equality is a joke. All of my children went to public schools. Today all of my friends in New York send their children to private schools. Test scores at schools correlate inversely with the number of free lunches at schools. The income level of a family is the best indicator of the achievement level of students.

We are spending \$6 billion on our children and not getting any improvement on our investment. Once you lose a good public school system you need to get it back. Our education and health care systems are really hard to change. Four-percent of our GDP is spent on education and 17% of GDP is spent on health care. The rest of the world spends an average of 10% of their GDP on health care. This puts the U.S. at a disadvantage. Despite spending 17% of our GDP on health care, the U.S. does not have any more doctors, nurses, etc. per capita than other countries. Our education and health care system are the two worst problems in the country and will be in the future. The U.S. is the richest country in the world and has lots of resources. We will be better 20 years from now. Our competitive problem starts with health care issues in the U.S.

Buffett's Value System

Q: How can students better prepare themselves for the global economy?

A: Read a lot. It is important to be able to communicate your ideas both orally and written. This will increase your value in the market by at least 50%. Berkshire Hathaway has hired a net 5,000 jobs this year and does not have a hard time filling jobs. Eighty-percent of the people that I run in to need to improve their ability at explaining their ideas both orally and written. Make

yourself a person that you would want to hire. We look for people with not necessarily the highest IQs, but people who have a good work ethic, are loyal, honest, and reliable.

Q: Who has impressed you the most?

A: My father, first wife, Susie, Benjamin Graham and Joseph Rosenfield. Tom Murphy on Berkshire Hathaway's Board of Directors who ran Capital Cities ABC for about 20 years is another person. He started out as an entrepreneur. Always hang around people better than you are. Work for someone that you admire. You want a marriage that lasts so marry someone with low expectations. You want to be around people that bring out the best in you. You want to be around people that you like. You want to be around people that make you want to jump out of bed in the morning. Tom Murphy makes me want to behave well. The most important decision you will make in your life is who you marry.

Q: Has there ever been a time when you were not positive or were there times where you were less positive and wanted to give up?

A: My set point has always been to be happy. My dad got elected to Congress and I did not want to move away from Omaha to Washington D.C. Success is getting what you want and happiness is wanting what you get. Today, the population of the world is 7 billion. The U.S. population is 311.8 million. If you were to draw a ticket out of a lottery (that included all the people in the world) the odds that you would draw a person from the United States are 4.45%. The odds that you would draw a person from the U.S. who is the same sex as you are 2.225%. The odds get less if you take into consideration race and social class. The U.S. is the richest country in the world. You are lucky to be born in the U.S. Better things happen to people who are optimistic.

Q: How do you feel about Occupy Wall Street?

A: The tax laws over the past 10 to 20 years have tilted towards the wealthy. In 1992 the top 400 incomes averaged \$40 million a year. By 2011, the average was \$220 million; a 5 fold increase since 1992. Since then the tax rate has dropped by 7%. I pay less percentage of taxes now than 40-50 years ago.

Buffett on Berkshire Hathaway

Q: What Berkshire Hathaway management practices can be improved or changed?

A: I had the luxury to create my own company. It is like creating your own painting. You are able to define what you want the company to be and how to run the company. There were no institutional barriers in terms of compensation and policies. Berkshire Hathaway does not have stock options, but have other things to motivate employees. The company has a strong culture. At Notre Dame, if you work there, you buy into their culture. You buy into what they stand for and what they are about. This is the same for our company.

Q: Why did you hire Todd Combs among several hundred portfolio managers that applied?

A: All of the applicants had high IQs. However, I hire not just for IQs, but I also look for the following: How have they done and do things? Do they have a love for Berkshire Hathaway and they are not interested in working at other companies?

Since 1965, I cannot think of anyone that has left for another job. You want a self

selection process in investment and operation arenas. By working at Berkshire they give up the opportunity to make more money. The people Berkshire hires are extraordinary human beings! Their character is essential and our Board of Directors and I have to feel good about the hires.

Q: Which one of your CEOs did the best job last year?

A: All areas have done well except for construction. Home construction is in a depression. I have a number of CEOs that have hit it out of the ball park and have hit all-time sales records. At Geico, Tony Nicely is the CEO. He started there when he was 17 years old and has been there for 50 years. The market share is 9% and goes up every year. Most of my CEOs do not work for the money. They work because they like to work and love their jobs. Berkshire has extraordinary managers that love their jobs. One manager sold his company 5 to 6 years ago and I only talked to him one or two times in the past six years.

Buffett on Investments

Q: What is the most important aspect of your selling discipline?

A: I do not have a selling discipline. I have a buying discipline. My philosophy is to buy a business at the right price. I have no exit strategy. All you have to do is have one good decision. Buy something that you should keep for five years if the stock market closed.

Q: How have the principles of value investing changed with tech companies?

A: I started in the investment arena at age seven. I read all of the books on investing at the Omaha Public Library. Read Chapters 8 & 20 in the *Intelligent Investor*. Those are the best chapters written on investing. I have been doing the same thing since I was 19 years old when I first read the *Intelligent Investor*. I learned what I could learn. Look for margin of safety and look for stocks that are undervalued.

Q: Share with us an investment opportunity that you turned down, but wished that you bought.

A: In 1981, I should have bought Bill Gates' stock in Microsoft. I did not know the company, competition, or industry. I stick to what I know. I remember two times that I wanted to buy X and it went up in price. However, I thought I could get it at a cheaper price so I waited. It never came back down and I lost billions. All because I was unwilling to pay for a moderately high price. I will make mistakes in the future.

Q: How do you value social ventures?

A: These are ventures that someone is going to subsidize for a while. Berkshire does not do this because it does not make economic sense to its shareholders. The market system will not solve social problems. That's for governments to solve. Maybe through private philanthropy of shareholder's returns can social ventures succeed.

Q: Is it necessary to have 100% of the market information to outperform the market?

A: The stock market is an incredible place to make money and it is liquid. I like it when farm prices go up and down in a year. That gives an investor an opportunity to buy at a low level. In 1950, I got out of school and bought a *Moody's*. I read 7,000 to 8,000 pages twice. When I got to page 1433 I found the company Western Insurance Securities and noticed that it was selling at a bargain price of .5x earnings.

When people get afraid there are investments to do. You have to think differently from those around you. You will have options that do not require a lot of intelligence. You have to get into a position where people do not pull the rug from underneath you. My partner, Charlie Munger says you get into trouble with the following three things: liquor, ladies, and leverage.

In 1998, Long Term Capital Management (LTCM) had around 200 employees with IQs in the 150s. The employees of LTCM had some of the highest IQs in the U.S. They each had 15-20 years of experience, worked with their own money, and were good people. However, they almost took down the whole financial system. They became too comfortable and their models did not predict a hiccup like the East Asian currency crisis. Leverage got them into trouble. Stay away from emotions, the crowd, and borrowed money.

CONCLUSIONS

This paper discussed the strategies that were used to get invited to spend a day with Warren Buffett, probably the brightest business mind since J.P. Morgan in the 1930's. This opportunity of a lifetime event was made possible through an innovation in curriculum that was implemented in an entrepreneurship class. This innovation, that allowed students to apply their creative energies, led to the development of several innovative products which eventually led to Gonzaga University being invited to visit Warren Buffett for a day.

The feedback from the students, the community, and the press was tremendous. Some students' parents stated that it was one of the most amazing experiences that their sons/daughters have ever had. The trip will potentially have benefits far beyond the students' individual learning, as they pass along their lessons to society as a whole. One of the most valuable aspects of the trip was the students learning about how to live a better life, or as Buffett states, how to manage your life. It is hard to see how Buffett's value system cannot have a significant impact on the students and ultimately to the greater communities in which they live.

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