

BERKSHIRE HATHAWAY INC.

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WARREN E. BUFFETT, CHAIRMAN

August 8, 1983

Mr. Louis Blumkin,  
7011 Farnam Street,  
Omaha, Nebraska 68132.

Dear Louie:

Here are a few thoughts I wanted to get down on paper after our conversation of the other day.

Most business owners spend the better part of their lifetimes building their businesses. By experience built upon endless repetition, they sharpen their skills in merchandising, purchasing, personnel selection and management, etc. It's a learning process, and mistakes made in one year often contribute to competence and success in succeeding years.

In contrast, owner-managers sell their business only once - frequently in an emotionally charged atmosphere with a multitude of pressures coming from different directions. A major source of such pressure often is brokers whose compensation is contingent upon consummation of a sale, regardless of its consequences for both buyer and seller. The fact that the decision is so important, financially and personally, to the owner can make the process more, rather than less, prone to error. And, mistakes made on the once-in-a-lifetime sale of a business are not reversible.

Price is very important, but often is not the most difficult part of the sales process. You and your family have an extraordinary business - one of a kind in your field - and any buyer is going to recognize that. And it's a business that is going to get more valuable as the years go by. So if you decide not to sell now, you are very likely to realize more money later on. With that knowledge you can deal from strength and take the time required to select the buyer you want.

If you should decide to sell, I think Berkshire Hathaway offers some advantages that most other buyers do not. Practically all buyers will fall into one of two categories:

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- (1) a company located elsewhere but operating in your business or in a business somewhat akin to yours. Such a buyer - no matter what promises are made - usually will have managers who feel they know how to run your business operations and, sooner or later, will want to get into hands-on activity. If the acquiring company is much larger, they often will have layers of management, recruited over the years in part by promises of future acquisitions to run. They will have their own way of doing things and, even though your business record undoubtedly will be far better than theirs, human nature at some point will cause them to believe that their methods are superior. You and your family probably have friends who have sold their businesses to larger operating companies, and I believe that their experiences will confirm the frequency of parent company takeover of subsidiary operations - particularly when the parent has experience in similar activity.
- (2) the financial maneuverer, usually operating on large amounts of borrowed money, who plans to resell either to the public or to another corporation as soon as the time is favorable. Frequently, this buyer's major contribution is to change accounting methods so that earnings are presented in the most favorable light shortly before bailing out. I'm enclosing an article from last week's New York Magazine that describes this sort of transaction, which is becoming much more frequent due to a rising stock market and a great supply of funds around for such transactions. Usually this sort of proposal is easy to recognize; a giveaway is that the buyer will end up securing most of the purchase price based upon the assets of the acquired business.

If the sole motive of the owners is to cash their chips and put the business behind them, either of these types of buyers is satisfactory. Plenty of sellers fall in this category. But if the sellers' business represents the creative work of a lifetime and remains an integral part of their personality and sense of being, both of these types of buyers have serious flaws.

Berkshire is another kind of buyer - a rather unusual one. We buy to keep but we don't have - and don't expect to have -

Louie had been a friend for decades; this letter to him is what I would have written my customers if they were selling a business they owned. —W.B.



Exterior image of Nebraska Furniture Mart's Dallas, Texas store that opened in the Spring of 2015. The retail and warehouse space for this store total more than 1.8 million square feet. Mrs. B would love it. —W.B.



Warren Buffett graduated from the University of Nebraska's College of Business Administration in 1950. Afterward, he went to Columbia University to study under the legendary investor, Benjamin Graham. He then returned to Omaha to establish an investment firm that made him a multi-millionaire. Today he is regarded as the "investor's investor". According to Fortune (August 1983) Buffett's personal wealth in corporate shares increased in value by \$248 million between August 12, 1982 and July 1, 1983 — less than one year. Above Mr. Buffett is shown after his corporation acquired the Nebraska Furniture Mart from its long time owner Mrs. Blumkin who is also shown.



Image and caption from Probe Magazine — 1984.

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operating people in our parent organization. All of our businesses are run autonomously to an extraordinary degree. Most of our managers of important businesses we have owned for many years have not been to Omaha, or even met each other. Sellers go on running their businesses just as they ran them before sale; we adapt to their methods rather than vice versa.

We have no one - family, recently recruited MBA's, etc. - whom we have promised the chance to run businesses we have bought from owner-managers. And we won't have.

I am enclosing some material about Ben Rosner, whose retail apparel chain we bought in 1967. Ben intended to run the business for only one year; he was rich, about 65, and newly married. He stayed on fifteen years until almost 80. Gene Abegg, who sold me his bank in Rockford, stayed on until his death at 81.

You know of our local purchases from Jack Ringwalt and Stan Lipsey. It's far easier, of course, to have good human relations when a purchased business is a big winner. The Sun was unsuccessful economically, and you are welcome to check with Stan Lipsey as to our behavior under difficult conditions. (In fact, you are welcome to check with anyone from whom we ever have bought a business as to performance versus promises.)

Any buyer will tell you that he needs you and, if he has any brains, he most certainly does need you. But a great many, for the reasons mentioned above, don't subsequently behave in that manner. We will behave exactly as promised, both because we have so promised, and because we need to.

This need explains why we would want the operating members of the family to retain a 20% interest in the business. We need 80% to consolidate earnings for tax purposes, and such consolidation is important to us. Equally important is keeping the operating family members as owners. Very simply, we would not want to buy unless we felt key members of present management would stay on as partners. Contracts cannot guarantee such behavior; we would rely on your word.

The areas I get involved in are capital allocation and selection and compensation of the top man. Other personnel decisions, operating strategies, etc. are his bailiwick. Some managers talk over some of their decisions with me; some don't. It depends upon their personalities and, to an extent, upon

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their own personal relationship with me. For example, Stan talks with me quite a bit about various decisions at the Buffalo News, but that's because it's the way he likes to operate, not because such an arrangement is standard with us.


If you should decide to do business with Berkshire, we would pay in cash. If selling members of the family wanted to use me as a sounding board on reinvestment decisions, I would be available. Your business would not be used as collateral for any loan by Berkshire. There would be no brokers involved.

Furthermore, there would be no chance that a deal would be announced and then the buyer would back off or start suggesting adjustments (with apologies, of course, blaming banks, lawyers, boards of directors, etc.). And finally, you would know with whom you are dealing; you would not have one executive negotiate the deal and then a few years later have someone else in charge (this happened at Data Documents), or have the president regretfully tell you that his board of directors required this change or that (or possibly required sale of your business to finance a new direction for the parent).

I am writing this not knowing whether there is a 1% or 50% chance that the family is interested in selling. But it costs me nothing to write - it may be helpful to have some of these thoughts down in writing - and I would feel pretty silly if I hadn't expressed them and then read one day in the paper that there had been a sale.

I will not bother you; if you have any possible interest, I would appreciate your call. I would be extraordinarily proud to have Berkshire, along with the operating members of your family, own Nebraska Furniture Mart. I think we would do very well financially; and I think both the selling members and the operating members of the family would have a good taste in their mouths five, ten, and twenty years later.

Sincerely,

  
Warren E. Buffett

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Enclosures