

Warren Buffett on Competitive Advantages.

- As Chairman of Berkshire Hathaway, he is considered to be the most successful investor of the 21st century.
- A "moat" is his term for a Competitive Advantage.
- "Widening the moat" is the management action of protecting and extending a company's Competitive Advantage over rivals, the result of which is a high Return on Invested Capital (RoIC) % spread above Cost of Capital.

Selected quotes:

A truly great business must have an enduring "moat" that protects excellent Returns on Invested Capital.

2007 Berkshire Hathaway annual letter to shareholders.

The most important thing in evaluating businesses is figuring out how big the moat is around the business. I want to know how big the capital is on the inside and then I want to know how big the moat is around it. What you love is big capital and a big moat.

Lecture by Buffett to Notre Dame Faculty, MBA Students and Undergraduate Students. Spring, 1991

The key to investing is not assessing how much an industry is going to affect society, or how much it will grow, but rather determining the competitive advantage of any given company and, above all, the durability of that advantage.

The products or services that have wide, sustainable moats around them are the ones that deliver rewards to investors.

Buffett interviewed by Carol Loomis. November 1999. Fortune Magazine.

Both Coke and Gillette have actually increased their worldwide shares of market in recent years. The might of their brand names, the attributes of their products, and the strength of their distribution systems give them an enormous competitive advantage, setting up a protective moat around their economic castles.

The average company, in contrast, does battle daily without any such means of protection.

1993 Berkshire Hathaway annual letter to shareholders.

We like a business with enduring competitive advantages that is run by able and [shareholder] owner-oriented people. When these attributes exist... it is hard to go wrong.

1994 Berkshire Hathaway annual letter to shareholders.

(Soon after 9/11; operating during external pressures):

What should you be doing in running your business? Just what you always do: Widen the moat, build enduring competitive advantage, delight your customers, and relentlessly fight costs.

With the exception of insurance pricing and coverages, almost all operating decisions that made sense a month ago make sense today.

MEMO TO: Berkshire Hathaway Managers ("The All-Stars")

FROM: Warren E. Buffett. DATE: September 26, 2001

Every day, in countless ways, the competitive position of each of our businesses grows either weaker or stronger. If we are delighting customers, eliminating unnecessary costs and improving our products and services, we gain strength. But if we treat customers with indifference or tolerate bloat, our businesses will wither. On a daily basis, the effects of our actions are imperceptible; cumulatively, though, their consequences are enormous.

When our long-term competitive position improves as a result of these almost unnoticeable actions, we describe the phenomenon as "widening the moat." And doing that is essential if we are to have the kind of business we want a decade or two from now. We always, of course, hope to earn more money in the short-term.

But when short-term and long-term conflict, widening the moat must take precedence. If a management makes bad decisions in order to hit short-term earnings targets, and consequently gets behind the eight-ball in terms of costs, customer satisfaction or brand strength, no amount of subsequent brilliance will overcome the damage that has been inflicted.

2005 Berkshire Hathaway annual letter to shareholders.

A company's management should first examine reinvestment possibilities offered by its current business – projects to become more efficient, expand territorially, extend and improve product lines or to otherwise widen the economic moat separating the company from its competitors.

I ask the managers of our subsidiaries to unendingly focus on moat-widening opportunities, and they find many that make economic sense.

2012 Berkshire Hathaway annual letter to shareholders.