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Learning From Warren Buffett 3 Life-Changing Business Ideas

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February 13st, 2019

I am fascinated by Warren Buffett's ideas. Buffett is a legendary investor and one of the richest men in the world. His success is manifested by the wealth he has accumulated. But what makes Warren Buffett distinctive among other rich people is the wisdom he represents.

Buffett's understanding of the business issues is strikingly simple, yet extremely powerful. He suggests concepts that grasp the core of issues. I've identified 3 of them. Each illuminates a different angle of our lives: individual, management, corporation.

Circle of Competence

An individual's circle of competence is a fundamental asset. As Buffett says, "knowing your competences is enormously important because it tells where you'll have an edge." This means making an accurate self-assessment and identifying possible areas of development. The truth is, we can all grow as much as our circle of competence allows. And it is probably much bigger than we think.

But I see two risks. First, misestimating our circle of competence can mean overstepping into areas where we cannot compete with others and eventually fail. Second, underestimating our circle of competence because our comfort zone is much smaller. Both are sure ways to unhappiness.

Skin in the Game

Your skin is in the game if you invest something, such as money, reputation or career. This concept indicates that you can only duly assess the risks and make choices when your own interest is at stake. Buffett's concept is a response to a fundamental issue called "agency theory." Agency theory indicates that there are inherent contradictions between the agent (i.e. CEO) and principal (i.e. shareholder) because while the agent is supposed to

operate in the best interest of the principal, his/her interest might be different due various reasons.

Having skin in the game solves the agency problem because it aligns the interests of the principal and those of the agent.

Moat



The core of strategic management is to achieve and sustain competitive advantage. What would a moat (a deep, wide ditch surrounding a castle) have to do with corporate strategy? Buffett wants you to think of a profitable company as a castle. What other fiefdoms (competitors in the market) will do is to try and conquer your castle and share the profits.

“In business, I look for economic castles protected by unbreachable ‘moats,’” says Buffett. Because moat makes it difficult or expensive for your competitors to acquire the core capabilities that make your company profitable. Obviously, the strategic question is to find out what that moat should be, and widen it over time. It can be the cost structure, brand value, employee engagement, technology, patent, and so forth.

I’m sure Buffett has more ideas that make him so successful and wealthy. The ones I discussed above can provide a fundamental understanding to start with.

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