

Warren buffet case study

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The case study "Warren E. Buffet, 2005" produced by Darden Business Publishing provides tremendous insight into the investing and management style of legendary entrepreneur Warren Buffet. A clear examination and exploration of this case study provides a brilliant analysis and insight into how Buffet explores his investing and management philosophy in relation to companies such as Berkshire Hathaway and MidAmerican Energy Holding. A summary of the case study is as follows: Warren Buffet remains the most successful entrepreneur in recent history.

His net worth is in the range of \$44 billion and it is the result of tireless hard work into making right investment decisions. This is typified by his management of Berkshire Hathaway which turned out to be significantly successful despite many misgivings by naysayers that did not believe it would be a viable acquisition. The wise choice of Buffet's involvement in Berkshire Hathaway is evidenced by the amazing growth of the company over a three decade period. The stock was of minor value in 1977 and in recent years it has grown enormously.

The holdings of Berkshire Hathaway have also grown significantly making it a company to truly keep an eye on. Buffet's success with this company can be considered the model method in which all companies should be managed. The success of this company represents Buffet's overall investing philosophy. Such a philosophy entails seeking out undervalued stock that has great potential to grow. This philosophy is based on a number of theories which including examining economic reality as opposed to accounting reality; realizing time is the most important asset

Warren Buffet Case Study - 2 associated with any stock venture; keeping an eye on the cost of lost opportunities; measuring performance by a gain in intrinsic value and not accounting profits; examine risk; diversify holdings; avoid emotions and hunches in investing; understand the alignment of agents and owners. Many may such approaches are overly simple. To a degree, they are. However, they are also very effective as the article never fails to point out. Such a process is further illustrated in examples present in various other Buffet ventures detailed in the article.

Hypothetical ventures are presented in order to illustrate the investing, management, and psychological strategies and methods that Buffet is known to employ. Balance sheets from MidAmerican Energy Holdings are offered. This provides a clear examination of what such a company holds and how it needs to perform in order to succeed. The Buffet paradigm is examined in light of the information presented on the balance sheets. To great interest, the Buffet Acquisition Criteria Sheet is included in the paperwork used to illustrate the various steps in the process.

What makes this further interesting is that it provides a unique psychological insight into the way in which Buffet operates. As odd as it may sound, the acquisition gives insight into the moral grounding of Buffet. He seems to be an individual that runs an honest and legitimate business. Such an approach helped Buffet's success quite significantly. Consider it a model all entrepreneurs should follow. Warren Buffet Case Study - 3 II.) Relation to Class Material The internal business analysis of the case study relates in many ways to material that was presented in the class.

A brief overview of components of the case is presented in this section. Analysis will follow in the third section. Two of the major areas covered in class as they relate to a business are profitability and long term planning. This becomes evident in the case study through exploring the general steps that Buffet takes with all of his business ventures. (Although in this case, we are looking mainly at Berkshire Hathaway and MidAmerican Energy Holdings. In terms of profitability, there is a desire to succeed via a long term strategy as opposed to any short term market gains. Or, more accurately, any potential perceived gains.

The hypothetical present in exhibit 4 covers the notion that a company will not pay dividends on profits. Rather, it will opt to reinvest the dividends. Commonly, many businesses will look towards the payout of dividends as financially attractive. However, by reinvesting the dividends, it becomes much more likely that the long term success and growth of the business can be more effectively maintained. This is because adequate cash reserves are 'pumped' into the business for those cycles where losses may be inherent. Additionally, the growth of the company is promoted which may potentially increase its overall value.

This, in turn, raises the potential for increased and enhanced profitability as a result. This would be considered among the approach that follows "investing activities" plans. Such an approach may be Warren Buffet Case Study - 4 frowned upon by some but it does possess great benefits as evidenced by the Buffet approach. Ultimately, to launch any reliable venture designed for long term impact, there needs to be a clear understanding of the value of the firm. This requires an analysts approach to what would be

the best way to approach the operations of the business as they relate to future investing.

There can be both insider and outsider investing analysis employed. In the case study, you could say that an insider perspective is employed since the Buffet model for investing and managing is employed and not particularly deviated from in any manner. This was, ultimately, a positive decision in the realm of Berkshire Hathaway since the company proved to be stunningly profitable beyond most expectations. In order to truly gain an insight into the Buffet methodology (and any venture for that matter), one needs to gain a proper and effective insight into the financial statements.

From this, a better and more logical understanding of the business might be procured. When one examines the holdings of Warren Buffet, a greater insight into his investment and managerial process is revealed. While we do not see a complete and total insight into the strategies he follows, we can see an overview of where his interests are and how he seeks to diversify his holdings. That alone opens the door for a greater understanding of the overall process that is at work. III.) Critique of the Case Warren Buffet Case Study – 5 This particular case does have a great many merits to it.

It truly does give a valuable insight into the internal process that is employed to effectively run a business venture. When one takes into consideration that great success Warren Buffet has had over the years, it would be safe to say that understanding his methodologies can prove helpful. This is illustrated through an analysis of the internal operational methodologies of how Buffet handles his managerial acumen. Unfortunately, we do not see much new in the case study and that can be problematic. But, the case study does <https://assignbuster.com/warren-buffet-case-study/>

present a detailed insight into some of the more commonly known motivations Buffet employs.

It is also important to point out that no one can completely duplicate the processes that Buffet follows. Not everyone is Warren Buffet and the need to tailor various components to suit one's own needs is certainly advised. That said, the material presented in the case study does present the valuable and viable 'food for thought' that budding entrepreneurs will find of great value. But, unfortunately, not much new ground is detailed in the case study. The case study gains much merit by detailing the many facets of the Buffet approach. The material is presented in a logical and orderly fashion that makes it very easy to comprehend.

The problem with such a presentation, however, is that there is a slight inference that one should follow the Buffet approach to investing and managing without deviating from it. This can be an absurd notion if followed to the extreme. Different investors will have different styles of investing. Different companies come with different levels of complexity. Political, economic, and even environmental factors all come into Buffet Case Study – 6 play and these can have significant impact on the way in which a managerial process is undertaken. The case model also follows a concept of low risk.

This is not to say that there is a decided warning against taking any risk. However, it would be very safe to say the theories presented and discussed in the case study provide an insight into a very Warren conservative investment and management strategy. Again, this is not an inherently bad approach. Many entrepreneurs are better suited to such an approach. But,
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not everyone is. Those looking for riskier and more volatile ventures would probably be better served examining case studies that are closer to their own individual styles and paradigms.

This is not to say one approach is better than the other. They are different approaches and one need to look towards those methods that are a better match. Overall, the case study can be considered an excellent and effective one that provides the proper look into the way in which Warren Buffet operates. (The case study is not presented in a cursory manner. Overly brief analysis can lead to inaccurate conclusions which would undermine the overall value of the case study) The clarity of the presentations allows for a deeper insight into the entrepreneur's methodologies.

Such methodologies are finely detailed in a series of financial analysis tables, charts, and hypothetical scenarios that further promote a better understanding of Buffet's ventures. Considering the somewhat complex nature of Buffet's holdings, the clarity of the organization deserves many accolades. Furthermore, the case study may be dated for the year " 2005" but it will have timeless value since its presentation into a simple - yet effective - strategy is so well thought out and detailed. Consider that among the greatest merits of the case study overall. Reference Darden Business Publishing. " Warren E. Buffet, 2005. " University of Virginia.