




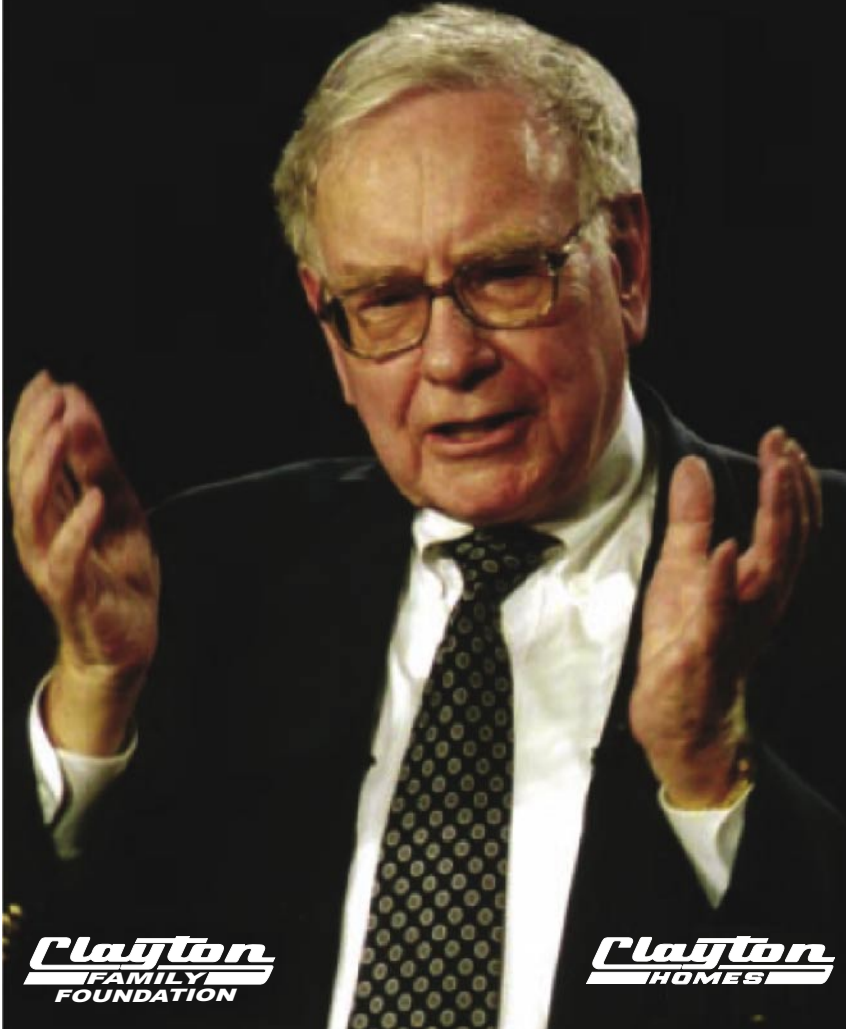
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THE UNIVERSITY of TENNESSEE 
College of Business Administration

presents

Vintage Buffett

Warren Buffett Shares His Wealth

A photograph of Warren Buffett, an older man with glasses, wearing a dark suit, white shirt, and patterned tie. He is gesturing with both hands raised as if speaking or presenting.

 Clayton Family Foundation 

Relating Clayton Culture & Philosophies

*Warren Buffett tells us that personal success is achieved when you do well and the people around you do well. In a story about a Jewish friend during WWII the bottom line became whether people would hide you. If others turn their backs, you're a failure. He continued by saying the **only way to be loved is to be lovable.***

Listen, look to those you admire, emulate those characteristics you admire, avoid the ones you and others hate. Again, throw out the bad first, the characteristics you don't like. It makes the good traits that much easier to recognize. As you become older, people are less receptive to change, adaptation. Identify those desirable traits early in life and start practicing them. Soon they will be yours. You can be whatever you want to be.

Ultimately it comes down to who loves you. –

Warren Buffett

02/2004



VINTAGE BUFFETT

A video guide relating CMH culture and philosophies to a presentation by Warren Buffett.

The following comments are made by **Warren Buffett** in the accompanying video VINTAGE BUFFETT, filmed at the University of Tennessee following the merger of Clayton Homes with Berkshire Hathaway. Select Buffett responses to student questions are detailed below, relating these comments to core cultural and philosophical keystones at Clayton Homes. The comments will generally follow the flow of the video. Buffett's comments are *italicized*.

*When asked about his greatest mistake Buffett explained that there were two types of errors made by all. Errors of **omission** versus errors of **co-mission** - the process of not doing anything versus actions you overtly exercise (things you do). Sometimes not doing something with an opportunity will cost you more than taking action. Opportunities lost.*

Likewise at Clayton, we understand that time is opportunity lost if not utilized for learning, progress, or advancement. The actions not taken lost weekends without a sales promotion, no follow up with a prospect, a good person not hired, no teaming on the unusual - can be the costliest action NOT taken. Wasted time, once lost can never be regained.

Buffett continued, describing the **Circle of Competence**, understanding your capabilities, your knowledge, understanding the perimeter and staying within that circle. Stay within the area of confidence. Expand that circle by listening, asking, reading, learning. Know what you don't know.

At Clayton there is no reward for doing things by yourself. We call it 90-10. Team with others to pool the knowledge and experience for a better, far more complete solution to the problem. Never assume you know everything. Continually probe the boundaries of your knowledge and expertise and recognize others as resources to whom you can turn. Understand your limitations and stay within that circle.

Buffett related the lesson of early investments when the price was just too good to pass up. Ultimately, these bargains cost him millions. He suggests; **Don't buy cheap, buy good.**

The old adage, "quality remains when price is long forgotten." The cheapest is not always the best, for you, the company, or the customer. Evaluate the need, and ask whether the results or the action will be remembered longer than the impression of a great deal. Fair is what it is all about. Following through on promises. Insistence on consistently producing promised results. Paying for a job well done is far wiser than saving pennies or dollars for patchwork answering an immediate need.

We believe in mutually beneficial relationships where long-term success will be realized by all parties involved. Understanding the needs and processes of one another is a major factor in controlling costs. You will not achieve that with a different supplier or vendor every week. Invest the time, and research your alternatives. Make the selection that is best for you and your business. Then, each party must work 110% to make it work flawlessly.

Buffett advises to assemble management teams that love their business. Build with

Honest people

Intelligence

Energy

Integrity (without this, you don't want the first two – it will cost you dearly).

Smart people with unlimited energy will discover new ways to improve their situation at others' expense. It happens fast and many times unnoticed.

Take the time to learn who is coming onto your team. Team interview. Space the process over time, seeing the prospect in different situations. Understand how they will fit with the team. Someone that NEEDS a jobs is probably someone we're not interested in. You must pan for gold to find it. The nuggets don't lie on top of the ground. Work at finding the right team and it will pay.

Clayton hires for attitude (temperament) and values. In a model where a candidate for the team has a great track record of success, but a reputation of being a sole contributor, and abrasive, Clayton passes on the opportunity for quick results and long term destruction of the team. Ultimately we would rather invest the time in a team player with the right attitude. Even someone that is not as knowledgeable about the business or the operation. Hiring is based on shared values and great attitude. We can teach the rest.

Buffett, in fact, states that he counts on people who built successful businesses through others - Teamers. The ability to build a team is critical.

When asked for advice on careers, Warren Buffett emphasized that when you are looking for an avocation, paint something you like. Take a job you're happy with, something to which you look forward. Regardless of the job, think and act as if you will be there the rest of your life. Job hoppers miss something in life.

At Clayton we hope that this will be the last company for which you work. We believe that the first challenge is making the team, and surviving outsiders that want to see you fail. We want you happy with what you do and where you are working. We have found that it dramatically improves the results in everything: personal and professional.

Turmoil in markets are caused by others standing to profit from change, Buffett continues. These are the alternate vendors, middlemen, others. Control your frictional costs (cost associated with change), and keep changes to a minimum, select the right partners and stick with them.

Three basic philosophies in investing were cited by Buffett and carried over to conversations relating to business and life. He said these lessons were learned as a student from the book Intelligent Investor, by Ben Graham, 1949. The following 3 basic elements recur.

First, stock is a part of a business. Know that business, value the business, and you will own a piece of it. But knowing the business is critical to making good decisions about your company.

Secondly, understand how to react during market fluctuations. The market will be driven by outside influences, sometimes not reflective of the company fundamentals. Recognize the fluctuation, be prepared to take advantage of these opportunities, and remember, in this game, the ball is yours and you don't have to play when you don't want to. Stay unattached, objective, unemotional.

And finally, take a margin of safety; don't cut it close. Timing is more often wrong than it is right, and a margin of safety will help reduce the related anxiety

At Clayton, the same philosophies hold true. First know your business, which includes knowing your product, customers and your competition. Invest in your knowledge of the industry and of the business. Be aware of changes in customer demand, demographics, economics and anticipate these changes. Understanding when changes occur and how they will happen positions you to leverage our strengths, increasing our market share.

Buffett said he looks for businesses with an **enduring competitive advantage**. “Find a business with a moat around it” (patent, location, position of mind, etc.), an advantage that will last, and can’t be copied, replaced, imitated, or circumvented. Then you have an investment.

The enduring competitive advantages at Clayton are manifold. We are fortunate to have access to almost limitless funds for lending to customers wanting to buy our product. Our team is selective about the people it brings into the team and as a result we have the best conglomeration of talent in the industry. Fast turn around, creative programs and an eye on the long term advantage, gives Clayton an enduring competitive advantage, against which few will successfully oppose. Build a moat around your profit center. Protect your business from bad people, bad payments, bad customers, bad vendors.

In the video, Vintage Buffett, Warren Buffett repeatedly emphasized the importance of running the business with **able and honest people**. The Clayton culture is synchronized with this very basic understanding. Bring others into the team who are ethical, honest and hard working. We will demonstrate intolerance for anyone jeopardizing our company, our reputation with unacceptable practices and behavior.

Price product and services fairly. With an enduring competitive advantage, that customer will pay a little more, but turn away if price is found to be unfair resulting from poor communication, service or quality. When a customer is willing to walk across the street to buy your product, price is not the only differentiation.

Clayton prices product to reflect value. A fair value, allowing for adequate follow up, service and communication. A price supporting adequate research and development, to provide affordable housing for future generations of Americans. We don’t overprice the unsuspecting, or the unknowledgeable; and we don’t buckle to the demands of demanding customers. We provide a great product and service and stand behind all we offer. For that consumer comfort there is a price – a fair price.

Buffett stated that his decision process is defined by first casting out what you don’t want, or like, allowing the selection of the right choice easier. It is like panning for gold, the silt and lighter material is the first to be sifted out of the pan. When it is all said and done, only the heavy materials remain, allowing easy identification of the nuggets.

So is the decision process at Clayton. It is a time management issue. Decide those items that are High Potential (Hi-Po) and those activities that have Low Potential (Lo-Po). Cast aside the lo-po activities and invest your time in the hi-po, or highest potential activities. By eliminating the lo-po, the hi-po stands out clearly.

Advice from Buffet about when to sell is: Sell something when you find something else that can do better, or when you lose confidence in the management or business.

When hiring a team he goes on to say, proper temperament is far more important than intellect when assembling a team.