BRANDTHNK RESEARCH BRIEF

Brand as Moat

Warren Buffett's 60-year case for brand as a capital asset. The language CFOs understand.

Research compiled from Berkshire Hathaway Annual Letters, Shareholder Meetings, and Financial Interviews (1983-2023)

SECTION 01

Why This Matters for Marketers

Warren Buffett has spent 60+ years evaluating businesses through a financial lens. His conclusion is unequivocal: brand is one of the most valuable assets a company can possess.

For marketers trying to get a seat at the table with CFOs, Buffett's language provides the perfect bridge between marketing intuition and financial reality.

THE CORE TRANSLATION

Brand isn't a "soft" marketing concept. It's a defensive fortification that protects margins and returns.

SECTION 02

The Moat Framework

Buffett's famous "moat" metaphor translates directly into financial terms: sustainable competitive advantage that protects returns on invested capital.

> *"In business, I look for economic castles protected by unbreachable 'moats.'"*
>
> 1995 Letter to Shareholders

Buffett Identifies Two Primary Moats

01

Low-Cost Producer

Operational advantage. Win on efficiency. Compete on cost structure.

02

Powerful Brand

Pricing power advantage. Win on perception. Compete on value delivered.

> *"A truly great business must have an enduring 'moat' that protects excellent returns on invested capital. The dynamics of capitalism guarantee that competitors will repeatedly assault any business 'castle' that is earning high returns. Therefore a formidable barrier such as a company's being the low-cost producer... or possessing a powerful worldwide brand... is essential for sustained success."*
>
> 2007 Letter to Shareholders

SECTION 03

Pricing Power: The Ultimate Test

> **"The single most important decision in evaluating a business is pricing power. If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business."**
>
> 2010 Interview with Financial Crisis Inquiry Commission

The Supermarket Test

Buffett illustrates brand power with a simple thought experiment. Walk through a supermarket and observe: Who has pricing power? Who has a franchise?

Brands With Moats

- Oreo cookies over generics (pay premium)
- Jello over alternatives
- Kool-Aid over Wyler's

Commodities Without Moats

- Milk (Borden's vs. Sealtest)
- Frozen peas
- Generic staples

BUFFETT'S CONCLUSION

"It's the difference between having a wonderful business and not a wonderful business."

SECTION 04

See's Candies: The Proof

Perhaps Buffett's most instructive example of brand value. A $25 million investment that changed how he thinks about business.

The 1972 Acquisition

$25M PURCHASE PRICE	**$8M** TANGIBLE ASSETS
$17M BRAND PREMIUM PAID	**25%** RETURN ON ASSETS

> *"It was not the fair market value of the inventories, receivables or fixed assets that produced the premium rates of return. Rather it was a combination of intangible assets, particularly a pervasive favorable reputation with consumers based upon countless pleasant experiences they have had with both product and personnel."*

1983 Letter to Shareholders

10-Year Performance (1972-1982)

+45%

VOLUME GROWTH

+21%

STORE GROWTH

+295%

SALES GROWTH

+452%

PROFIT GROWTH

KEY INSIGHT

Volume barely grew. The profit explosion came almost entirely from pricing power.

35-Year Compounding (1972-2007)

Pre-tax Earnings

$1.35 billion generated over 35 years

Capital Reinvested

Only $32 million required to maintain and grow

Capital Returned

Over $1.3 billion returned to Berkshire for other investments

> *"If we hadn't bought See's, we wouldn't have bought Coke. So thank See's for the $12 billion. We had the luck to buy the whole business and that taught us a whole lot."*
>
> Warren Buffett

SECTION 05

The Moat in Your Mind

> **"How did Coca-Cola build their moat? They deepened the thought in people's minds that Coca-Cola is where happiness is. The moat is what's in your mind."**
>
> Warren Buffett

Share of Mind vs. Share of Market

Buffett consistently prioritizes mental real estate over market metrics.

> *"We always think in terms of share of mind versus share of market because, if share of mind is there, market will follow. People, virtually, probably 75 percent of the people in the world have something in their mind about Coca-Cola. And overwhelmingly it's favorable."*
>
> Warren Buffett

THE VALENTINE'S DAY TEST

"If you give a box of See's chocolates to your girlfriend on a first date and she kisses you... we own you."

SECTION 06

Economic Goodwill

The financial language your CFO uses. Brand value that accountants can measure.

> *"Businesses logically are worth far more than net tangible assets when they can be expected to produce earnings on such assets considerably in excess of market rates of return. The capitalized value of this excess return is economic Goodwill."*
>
> 1983 Letter to Shareholders

Buffett's Evolution

> *"My own thinking has changed drastically from 35 years ago when I was taught to favor tangible assets and to shun businesses whose value depended largely upon economic Goodwill. This bias caused me to make many important business mistakes of omission."*
>
> 1983 Letter to Shareholders

> **"During inflation, Goodwill is the gift that keeps giving."**
>
> Warren Buffett

Why Brand Value Grows During Inflation

A disproportionate number of great business fortunes built during inflationary years arose from ownership of operations that combined intangibles of lasting value with relatively minor requirements for tangible assets.

SECTION 07

What CFOs Should Track

Translating Buffett's logic into measurable indicators.

Pricing Power	**Price increases vs. volume loss**
Return on Intangibles	**ROIC minus tangible asset returns**
Share Retention	**Market share during price increases**
Capital Efficiency	**Growth vs. reinvestment required**
Share of Mind	**Brand awareness, preference, NPS**
Economic Goodwill	**Market value vs. book value gap**

SECTION 08

The Business Case

Brand isn't a cost center. It's a capital asset that:

- **Protects** margins through pricing power
- **Reduces** competitive vulnerability
- **Compounds** in value over time
- **Generates** returns exceeding tangible asset investments
- **Appreciates** during inflationary periods

> "Buy commodities, sell brands has long been a formula for business success. It has produced enormous and sustained profits for Coca-Cola since 1886 and Wrigley since 1891."
>
> Warren Buffett

BOTTOM LINE

The business case for brand is the business case for sustainable competitive advantage and long-

term shareholder value creation.

BrandThnk

Brand strategy for financial services and fintech

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