

WARREN BUFFETT AND THE INCREDIBLE ROSE BLUMKIN

SELL CHEAP AND TELL THE TRUTH: THE NEBRASKA FURNITURE MART STORY

Warren Buffett makes no secret of his belief that a good business needs a good manager and, when he buys businesses, prefers to leave management in place, if they are good and know what they are doing.

There can be no better example of this strategy than the Nebraska Furniture Mart founded by the incredible Rose Blumkin.

Rose Blumkin was born in Minsk, Russia in 1893, one of eight children of an impoverished Rabbi, and worked from the age of six in her mother's small general store. Rose did not go to school but learned arithmetic from a family friend.

When Rose was old enough for outside employment, she got a job in a local haberdashery and was soon running the show. Soon after, she married, and with her husband migrated to America, her husband going ahead before her, and Rose making her way alone via the Trans Siberian Railway, apparently without a passport. The Blumkins made their way to Nebraska where Rose, to augment the family income, sold second hand furniture from her home.

Things must have gone well enough for Rose because in 1937, she borrowed \$500 and opened the Nebraska Furniture Mart in a basement shop in Omaha, under the motto that she was to make famous:

'Sell cheap and tell the truth'.

Rose Blumkin had problems in getting the big furniture wholesalers to stock her, but she outsmarted them by buying excess stock from other out of state retailers at reduced prices and selling them to her Omaha customers at low profit margins. This set the scene for the business practice that was to make her famous; buy in bulk, run a tight ship and pass on any cost savings to the customers. She generally worked on no higher than a 10 per cent mark up.

The Furniture Mart grew bigger and bigger, with Mrs B, as Buffett used to call her, working long hours every day and getting her family to do the same. Rose Blumkin's furniture shop became a Nebraska legend. The original 3000 square feet shop now occupies 75 acres.

Warren Buffett, as a local resident, knew about the store and the wonderful business that Mrs B had established and made several attempts to buy her out, but could not come up with a price that was acceptable.

Finally, according to Roger Lowenstein in *Buffett: The Making of an American Capitalist*, Buffett walked into the store one day, approached Rose Blumkin, and asked her if she wanted to sell and, if so, to name her price. Mrs B said she was a seller at 60 million dollars and Buffett accepted immediately. He insisted apparently, on Rose and her sons, by then helping her to run the business, retaining a minority shareholding and keeping on managing.

Buffett knew from previous enquiries that the business was grossing about 15 million dollars a year in profits, but seemed to have done little additional checking, settling the deal within a few

days, without audits or due diligence. He knew a good deal when he saw it, and, as he was later to say, he trusted her integrity.

After the deal was done, Rose Blumkin is alleged to have told Warren that they were now going to 'put our competitors through a meat grinder'. That would not have been news to the various businesses that had tried to compete with Mrs B over the years and who had already been minced.

In his 1984 Letter to Shareholders, Warren Buffett said this, reflecting his own investment principles:

'I have been asked by a number of people what secrets the Blumkins bring to their business. These are not very esoteric. All members of the family:

1. Apply themselves with an enthusiasm that would make Ben Franklin and Horatio Alger look like dropouts;

2. Define with extraordinary realism their area of special competence and act decisively on all matters within it;

3. Ignore even the most enticing propositions falling outside of that area of special competence; and

4. Unfailingly behave in a high grade manner with everyone they deal with. (Mrs B boils it down to "sell cheap and tell the truth".' (paraphrasing modified).

Mrs B kept at it but apparently became a bit irascible as she grew older. In 1959, then over 90 years old, she had a falling out with family members who were then running the store and left in high dudgeon. So what did she do? She opened up a competing store, specializing in carpets, not far from the Nebraska Furniture Mart, calling it 'Mrs B's Warehouse'. She did pretty well, apparently causing a dent in the Furniture Mart's carpet sales.

Several years later, she reconciled with family members, sold the carpet business to Berkshire Hathaway for \$5,000,000 and went back to work at the Furniture Mart, turning up, of course, seven days a week.

Rose Blumkin died in 1998, aged 104. A business legend.

FURTHER INFORMATION

If you are interested in the story of Rose Blumkin, as well as other Buffett managers, there is a book available from Amazon.com: [The Warren Buffett CEO: Secrets From the Berkshire Hathaway Managers](#)