

Focus Investing Series Bonus Article

Mrs. Rose Blumkin: A Study of Capitalist Success

Written by:

Richard M. Rockwood

Mrs. Rose Blumkin A Study of Capitalist Success

While attending the 2000 Berkshire Hathaway shareholder's meeting Mr. Buffett and Mr. Munger advised that having good models is extremely important. I decided to study Mrs. Rose Blumkin and see how she was so successful at the Nebraska Furniture Market (NFM). In the first section of the article will be an overview of her life. The second section will discuss what can be learned from her example.

Mrs. Blumkin (or Mrs. "B" as she was known) was born in Minsk in 1893. Her father was a rabbi while her mother supported the family by operating a small grocery store during the day. Mrs. B once stated that it was seeing her mother work so hard that provided her the inspiration to better their condition.

The next major event in her life was when she married a shoe salesman named Isadore Blumkin in 1913. In 1914, Isadore left Russia to avoid the military conscription occurring as a result of World War I. She followed him to the United States three years later. She supposedly made it across the Russian border by bribing a border guard. She told the guard she would bring him back a bottle of vodka if he would let her across the border. Mrs. B met her husband in Iowa (she later sent for her father, mother and seven other family members) after arriving into the United States by boat.

She arrived in the United States with approximately \$66 in her pocket and was unable to speak a word of English (her daughter later taught her the language). Her family did fairly well until the Depression hit, when to prevent them from starving to death, she went around to local stores to check their prices on suits. She then printed 10,000 circulars offering to dress any man from head to toe for five dollars. The day after she circulated the fliers she made \$800. This is a typical example of the immense spirit Mrs. B had.

In 1937 Mrs. B decided to do something along bigger lines, she opened the Nebraska Furniture Market in the basement of a local pawn shop in Omaha, Nebraska. She had one basic rule that she always followed, "Sell cheap and tell the truth". She borrowed \$500 from her brother to purchase \$12,000 worth of furniture in Chicago. She bought the furniture at 5% above wholesale, and resold it with a 10% markup, thus applying her basic rule of always selling cheap. She named her store after the store in Chicago where she purchased the furniture, the American Furniture Mart. Her showroom measured 30 feet by 100 feet. In stark contrast to the approximately 75 acres the store covers now! The first month the business was in operation she was unable to sell all the furniture so in typical form she sold most of the furniture in her own home to pay the bills.

She persevered in her business endeavors, even when local storeowners took her to court for violating the Fair Trade Laws. She not only won the case, she attained invaluable publicity at the same time. At the conclusion of yet another court case where she proved she just sold furniture cheaper than the other businesses in town, she sold a carpet to the judge residing over the case!

In May 1984, Mrs. B was granted an Honorary Doctorate in Commercial Science by New York University, the first woman to ever receive a prize the school reserves for world-

class captains of industry. Omaha's Creighton University had also honored her by presenting her an honorary doctor of law degree a few weeks earlier.

She worked tirelessly, and at the age of 91 she made this comment to a newspaper, "I come home to eat and sleep, and that's about it. I can't wait until it gets daylight so I can get back to the business". When she developed problems with her legs she purchased a motorized cart (nicknamed the "The Rose B."), in which she sped around the store. She joked that she drove it "like a Russian Cossack."

Warren Buffett purchased 90% of the Nebraska Furniture Mart for \$55 million in 1983 with a handshake with Mrs. B. He must have been watching the business for a long time since he made a comment to Adam Smith in Supermoney (published in 1972) that he would buy that business someday. He would later say of this transaction. "I would rather have her word than that of all the Big 8 auditors - it's like dealing with the Bank of England". When Mrs. B sold NFM to Berkshire Hathaway, she made marks on the contracts instead of signing it, because she could neither read nor write.

Mr. Buffett had this to say about the business in his 1984 [Letter to Shareholders](#):

"I have been asked by a number of people just what secrets the Blumkins bring to their business. These are not very esoteric. All members of the family: (1) apply themselves with an enthusiasm and energy 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 failing outside of that area of special competence; and, (4) unflinchingly behave in a high-grade manner with everyone they deal with. (Mrs. B boils it down to "sell cheap and tell the truth".)"

In May 1989 Mrs. B quit the furniture Mart after disagreeing with other members of the Blumkin family about the remodeling and operation of the carpet department. So at age 96 she started another company selling carpet and furniture. She made peace with her family and Mr. Buffett in 1992 when she sold the new business back to NFM. This time, at the age of 99, Berkshire Hathaway insisted she signed a non-compete agreement with them.

Mrs. B was also a generous philanthropist; she donated \$1 million to help the Jewish Federation of Omaha build a new 119-bed nursing home and later donated an additional \$500,000 to the same cause. When she was asked why she was so generous to this cause she explained that she had received a meal from the Hebrew Immigrant Society upon her arrival into the United States. She then said to herself that she would do something nice sometime for the Jewish people who had once been so kind to her.

She also saved The Rose, a classic downtown theater, from demolition.

Mrs. B passed away on August 09, 1998 at the age of 104. Over 1,000 people attended her funeral. Upon hearing of death, Mr. Buffett said, "We are partners. And in most ways, she's the senior partner. She's forgotten more than I'll ever know."

What an incredible life Mrs. B lived. What lessons can be learned from her life?

It is striking how focused she was, she started the business with a definite merchandising plan in mind and followed it with exacting precision. She instinctively

understood the advantage of building a moat around her business and she kept stocking the moat by keeping prices low through a combination of low margins and tight expense controls.

Her perseverance when challenged was astonishing. She came to the United States not speaking the language, being illiterate, having little capital to deploy, she even had the local merchants against her, and yet she worked at her labor of love successfully for the rest of her life (even after her legs had given out!).

Loving your line of work seems to be a key part of business success, Mrs. B clearly loved her work and the results show it. A great example of this was when Mrs. B sold off her own families' furniture to pay bills during a soft period after the Korean War began. She also had to receive a loan during this period to stay in operation; after she paid that loan off she never took on debt again!

Honesty is a virtue and customers know (and spread the word) when a merchant has been honest and has treated them fairly. I'm sure the publicity surrounding her trial for selling merchandise so cheaply must have helped enormously in the fight for customer recognition, can you imagine the newspaper headlines!

The business motto, of "sell cheap and tell the truth" is a great example of how to differentiate yourself from other businesses; however, the love of your work must be present for it to be an enduring success.

Mrs. B also presented a good example on the issue of philanthropy. She gave a portion of her hard-earned income to several good causes in the Omaha area.

Her life and business experiences are great models to emulate.