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TUIA Module #2: Concept of Economic Moats

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“Economic Moats”

An economic moat, made popular by Warren Buffet, refers to a business’ ability to maintain a competitive advantage over its competitors in order to protect its long-term profits and market share from competing firms.

**3 Wide Economic Moats with Sustainable Low-Risk Business Models**

1. Coca-Cola (KO): Strong Brand

* Strong brands in almost every non-alcoholic beverage category
* Extensive distribution network too closely for a new entrant to duplicate
* Future growth driven off international countries where company is investing heavily on distribution and bottling.

1. McDonalds (MCD): Strong Brand; Loyal Customers

* Provides strong brand
* Unrivaled scaled advantages
* Cohesive Franchisee system
* Ample international growth opportunities
* Loyal customers even during challenging economic times with minimal capital needs.

1. Wal-Mart Stores Inc (WMT): Pricing Power; Low-Cost Provider; Loyal Customers

* Economies of scale creating a circular moat
* Higher volumes allows larger pricing power over supplies, allowing lower prices to customers, which in turn creates higher volume.
* Success in taking market share from both traditional and non-traditional competitors, allowing to grow at a faster pace than overall sector.