

[Transcript] Founders / #287 The Founder of Rolls-Royce

So I just had a very unique experience thanks to the presenting sponsor of this episode, which is Tiny. Tiny is the easiest way to sell your business. They provide straightforward cash exits for founders. Andrew Wilkinson, the founder of Tiny, has been a relentless supporter of Founders Podcasts. Not only has he been sponsoring the podcast for months, but he also speaks publicly about the quality of Founders Podcasts and gives enthusiastic endorsements for other people to listen to it. I've been so impressed with the business that he's built and hearing him speak about his philosophy of company building, that when he invited me to speak at an event for a bunch of entrepreneurs, I willingly traveled over 3,500 miles just to go. And one of the things I love with dealing with Andrew and his team is that they have a passion for simplicity, just like Charlie Munger and Warren Buffett do. It is amazing how far you can get in life by taking something that's complex and just making it easier. And that's exactly what they're doing when they buy businesses. A lot of founders already know people that have sold business in the past. Usually it's a hassle, it's a headache. There's none of that when you sell your business to Tiny. When a founder goes to [tiny.com](https://www.tiny.com) and says, hey, I want to sell my business, they get a response within 48 hours, there's an offer made within seven days, and the founder gets exactly what they want, which is a straightforward cash exit. If you're a founder that wants to sell your business now or in the future, go to [tiny.com](https://www.tiny.com). And if you stick around to the end of this episode, the last six minutes of this episode is a masterclass on product differentiation from Warren Buffett. I compare the ideas that Warren writes in his shareholder letters to the way that Tiny is building their business. And one more thing before we jump into the unbelievable story of Henry Royce, which is the founder of World's Royce, I want to highly, highly recommend one of my favorite podcasts to you. I hope you're already following it. But if you're not following Invest Like The Best in your favorite podcast player, please do so now. The host of Invest Like The Best, Patrick, has become a friend and a partner. And he's been unbelievably influential in exposing way more people to founders' podcasts. And he was doing so way before we even knew each other. He just thought it was high quality and that more people should listen to it. I feel the exact same way about his podcast. In fact, if you go to David's Notes, if you have a copy of my notebook, you'll see that I've been taking notes on episodes of Invest Like The Best all the way back in 2019. So if you're new to Invest Like The Best, let me recommend two quick episodes to you. Number 293, Mitch Lasky, The Business of Gaming. This is a podcast I will listen to over and over again. There is a lot of insight for founders into innovations in the actual business model, so the products that we're creating. And then I was lucky enough to be a guest on Patrick's Show as well. That is episode 292, David Sandler, Passion and Pain. And now let's jump into the unbelievable life and career of Henry Royce. The historic first meeting of Rolls and Royce took place in 1904. The two men could hardly have come from different backgrounds. CS Rolls had been educated at Cambridge and moved comfortably in London society among his aristocratic and wealthy friends. Henry Royce had known poverty and hardship all of his life. The only university he graduated from was the one of hard knocks. The one characteristic they had in common was a certain quickness. This is how Rolls described the first time he met Royce. You may ask yourselves how it was that it came to be associated with Mr. Royce. For years, I had been engaged in the sale

of foreign cars. I wanted to be able to recommend and sell the best cars in the world. The cars I sold were the best that could be got at that time. But I always had a sort of feeling that I should be selling English cars instead of foreign ones. I noticed a growing desire of my clients to purchase English made cars. At the same time, I could not come across any English made car that I really liked. Eventually, I was fortunate enough to make the acquaintance of Mr. Royce. And in him, I found the man that I had been looking for for years. It was immediately clear to Rolls that Henry Royce was an unusual talent. Rolls at this time had a prejudice against two cylinder engine cars. And so he climbed into the passenger seat of Henry Royce's little two cylinder car prepared for all the vibration and roughness that were usually associated with that type. To his amazement, he found that the car had a smoothness and a quite phenomenal degree of silence. He came, he rode, and he was conquered. That is an extra from the book I'm going to talk to you about today, which is Rolls Royce, The Magic of a Name, the first 40 years of Britain's most prestigious company. And it was written by Peter Pugh. So this is my second time reading this book. The first time I read it was like three and a half years ago is originally episode 81 of Founders. I wanted to read it because I think a main theme of Henry Royce's life is that you can actually build world-class products in an amazing business without having to invent anything new. His main talent was an ability to observe, think about, and then improve on existing machines and products. And he says this himself. He's like, I didn't invent the automobile. I just took every component of the automobile, improved the quality, and the sum of those parts led to the quality that Rolls Royce is still known for 100 years after he started the company. And this idea has been in front of my mind. I just did this three-part series where I read all of Paul Graham's essays on episode 277, which is the third in that three-part series. There's this essay that Paul writes that's called Hackers and Painters. And Paul has this line that I absolutely love. And he says a great product has to be better than it has to be. And he says, relentlessness wins because in the aggregate unseen details become visible. I'm going to read this line. This line could he's in this case, he's talking about Paul's just talking about Leonardo da Vinci and Michael Jordan and others. This could be the great, this could be a great description of Henry Royce. All those unseen details combined to produce something that is just stunning, like a thousand barely audible voices all singing in tune. And so the way I think all this ties together is because there were painters before da Vinci, there were basketball players before Michael Jordan, and there were people making cars before Henry Royce. Yet what they all have in common is they were relentless and relentlessness wins because in aggregate unseen details become visible. And so with that, let me jump into Henry Royce's early life. This podcast is about Henry Royce because even though C.S. Rolls was the co-founder of Rolls Royce, he died just a few years after the company started. He actually died tragically in a plane crash. He was actually flying one of the early right flyers made by the right borrowers, and he was the first English person to be killed in a plane accident. And so most of the early history of Rolls Royce is built around the very domineering personality and engineering genius of Henry Royce. He says he was descended from generations of farmers and millers. His grandfather had been a pioneer in the installation of steam power in water mills. Unfortunately, that talent skipped a generation. Royce's grandfather was successful. His father was not. And as a result of his father's lack of success, Royce actually grew up in poverty. His father James trained to be a farmer before moving on to milling. James proved to be unreliable and seemed unable to apply himself consistently. I think you can

already see where we're going. This is a main theme in the history of entrepreneurship that's going to show up over and over again. By the time Henry Royce was born, his dad was in financial trouble. He died in a poor house at the age of only 41. I think around this time Royce is eight or nine. The reason I said that you could probably see where we're going is because there's this main theme that pops up over and over and over again. It comes from the biography of Francis Ford Coppola that I covered back on episode 242. You can always understand the son by the story of his father. The story of the father is embedded in the son. Think about you could not have a more opposite description of Henry Royce and the person he was. Then that description the author just gave us of his father James. James proved to be unreliable and seemed unable to apply himself consistently. Henry Royce is going to have the opposite problem. He works so much he almost works himself to death. Henry Royce therefore knew poverty in his early life. When he was four years old, he was already earning money, birds scaring in the fields. After his father died, he sold newspapers and delivered telegrams. His life may have been very, very different if it wasn't for the fact of this random act of kindness from his aunt. This act of kindness is actually going to change the trajectory of Royce's life. Fortunately, when he was 14, an aunt agreed to pay \$2,200 a year for him to be an apprentice at the Great Northern Railway Works. He learned a great deal about machining in the workshop. After three years, his aunt was unable to continue her support. This was a serious step back for Royce since failure to complete his premium apprenticeship denied him skilled status. So even though he has the knowledge, he doesn't have the credential, he winds up having to take a job that's for less pay than he would have if he would have had actually completed his apprenticeship. He says he found work as a toolmaker with an engineering firm. He was paid \$60 a week and he worked from 6am until 10pm. So even from a relatively young age, we're around 21, he's around 21, where we're in the story right now. He was interested in both machinery and electricity. So he's actually a mechanical engineer and an electrical engineer. This is his first job with an electric company. His interest in electricity led him to a job with the electric light and power company in London. He progressed so well that he was actually promoted to be a first electrician of an associated company of the power company. This one of being an important twist of fate because that company a few years later is actually going to go out of business and went into liquidation. And then Royce had saved some money and set up his own business which he named after himself. So it was the FH Roycing Company. And this is where we get the first introduction of what I mentioned earlier, the main point of the book. Royce had an ability to think about and improve existing machines, existing products. So his company starts out making like small electrical items like electric bell sets, switches, fuses, filaments, that sort of thing. But they eventually move on to building complete installations of dynamos. A dynamo is a machine that's used to convert mechanical energy into electrical energy. So it's also sometimes referred to as a generator. And so this is what Royce said about his skills at this time. And so he's looking at existing dynamos. He says, in spite of insufficient ordinary and technical education, I managed to conceive the importance of sparkless commutation and the superiority of don't worry about these terms. I'm skipping over a bunch of the terms of just technical terms and the superiority of the drumwound armature for continuous current dynamos. This goes on for quite a while. That's not the important part. What I think is the important part. This is the theme. This is why I wanted to reread the book. I need to drill this

idea into my head over and over and over again. Everything around you can be improved. These improvements can be the foundation of a wonderful business, exactly like Royce Royce and one of my personal heroes, James Dyson. And so this section ends with this fantastic sentence, this ability to observe, think about and then improve on existing machines was to be a consistent theme throughout Royce's life. And then Royce talks about the early days of his business, how it was very tenuous on the borderline of success and failure. And we see an early glimpse into this legendary work ethic and this intense drive to not wind up like his father. For many years, I worked hard to keep the company going through these very difficult days. I personally kept our few machine tools working on Saturday afternoons when the men did not wish to work. Many times,

our position was so precarious that it seemed hopeless to continue. Certainly he became obsessed with work often staying late into the night and even all through the night. On a number of occasions, those arriving next morning would find him at work at his work bench asleep with his head in his arms. And the main problem with this business is that it's inconsistent. The company can do well over the next few years actually does relatively well over the next decade or so. But there's constant booms and busts. And so during an economic recession, this is what causes Royce. He's looking around for other products that that he could make that he could use his talents and actually make. And so this is why he starts making cars. Helping Royce make the decision to build a prototype motor car was the post war slump. This is in 1903, which left his company along with many

others with spare capacity. Royce was mindful of the survival of his company and faced with declining orders, felt that the motor cars could be a new product in which he could use his talents as an electrical and mechanical engineer. And this is where it became clear to me that Henry Royce is another example of something that you and I talked about over and over again, it pops up in the history of entrepreneurship, that the timing is really important. Royce happens to be at the right place at the right time with the right set of skills. And so while Royce is actually experimenting and building his first prototype car, CS Rolls asked this other guy that they both know, this guy named Edmonds, if he knew of a source of new cars, this is how Rolls meets Royce. And so we see the foundation of the Rolls Royce company comes from frustration. Royce is looking at the existing cars and he deems them inadequate. This reminds me, this is why I say reminds me of James Dyson. If you haven't listened to, I did, I think the best, I've done a number of episodes on James Dyson, I think the best one is probably episode 200. So it says frustrated with the inadequacies of the decalville, I think is how you pronounce it, which was essentially the standard, like the high standard in automobiles at the time. And so Royce is examining the existing car and he said, he saw he could build on it. Royce decided to make a prototype car of his own. And then the author makes a good point here. Some have tried to give the impression that was almost by chance that Royce became involved in designing a motor car. Royce was not a man to rely on chance. He saw the motor car had a great future and that it would be an ideal product for his business. And this is a description of the main theme of the book. This part is excellent. There was nothing revolutionary about Royce's car. He had taken the best of current automobile design and improved on every aspect of it. I do not think that Royce did anything of a revolutionary nature in his work on motor cars. He did, however, do much important development and a considerable amount of redesigning of existing devices, existing products is the way you and I would think about this, so that his motor cars were far

and away better than anyone else's motor cars. He paid great attention to the smallest detail in the result of his personal consideration to every little thing resulted in the whole assembly being of a very high standard of perfection. It is rather to Royce's thoroughness and attention to even the smallest detail than to any revolutionary invention that his products have the superlative qualities that we all know so well. So as you can imagine, somebody with insanely high quality standards and expectations is unbelievably difficult to work with.

So he's definitely hard on the people around him, but he's also very demanding on himself. And there's gonna be a fantastic quote about that here. He was a hard taskmaster, but it was only fair to add that he drove no one harder than himself. One employee said later, I not only admired

him, I was one of the few people who were genuinely fond of him. Henry, this is this is an incredible quote, Henry Royce ruled the lives of the people around him, claim their body and soul, even when they were asleep. Now just stop here and imagine and try to put yourself in his shoes and look at his life to his eyes, right? Your father was chronically sick. He was lazy and didn't apply himself. He dies while you were young. He's like eight or nine years old. You grew up in poverty. You took a job, every job you get as young as four years old, you were saved by an act of charity. And now you have the opportunity to apply your rare set of skills to build a valuable company and create wealth. Of course, you are going to take it seriously. A lot of this reminds me of Coco Chanel. I read her biography. I've actually done two episodes on her. But the last time I read a biography on her was episode 199. And she grew up in poverty. She was an orphan. Her mom dies when she's young. Her dad skips out. And she talked about just I want control. And it was very rare. You know, she's starting bit first of all, like how it was so unbelievably rare for women, like women to be able to start their own company in the early 1900s. And she has great lines in those books where she talks about like, you know, for the first time, she has independence and control

and like fate is now in her hands instead of just felt like life was something that was happening to her. And she said they didn't understand how important this was to me. And then later in life, she still has that level of drive and dedication to her work where she says, she said, she said, one of my favorite quotes of her, she says, it is immoral to play at earnings one's living. She had a deep love of fashion. She loved building her fashion house, but she took it very seriously. And there's also a line that fantastic biography I'm going to read to you. She devotes her energies talking about Kokushin, obviously, she devotes her energies to barely noticeable refinements of details of her suits and dressers. Listen to this description of how Henry Royce worked, and you will see that same mindset. And it says this is a story on the quality work in detail from one of the first apprentices at Rolls Royce. My favorite story of Rolls Royce workmanship, design and quality to the Americans when they ask me about it, as they often do, is the use of taper bolts instead of rivets. I remember Royce carefully explaining to me how a hot rivet never filled a hole when it cooled. And a cold rivet was to was punishing the metal too much. So hot rivets won't do cold rivets won't do that's fine, we'll create something new. So we made taper bolts, and we fitted them perfectly in a hand reamed hole. It is such details that explain the difference between Rolls Royce and other cars. It was Royce himself who taught us all the principles which carried on in the whole organization. Think about that. Royce is the one that comes up with the principles and he spreads it through the entire organization. This reminds

me of one of my favorite descriptions ever. I've read I don't know what 10 books on Steve Jobs, and it says he made and remade Apple in his own image. Apple is Steve Jobs with 10,000 lives. Inevitably, whenever you hear a brand that is known for quality, a brand that in many cases outlives the original founder, right, whether it's a Ferrari, a Rolls Royce, an Apple, an Estee Lauder, a Chanel, you can always tie it back to one insanely dedicated and obsessed founder. They create the culture from the very beginning and in many times that culture is a reflection of their personality. It is who they are. He made and remade Apple in his own image. Apple is Steve Jobs with 10,000 lives. We are seeing that same principle applied at the very beginning of Rolls Royce 120 years ago. It was Royce himself who taught us all the principles and which were which were carried on through the entire organization. And I think this next part is an excellent way to think about a product. I wrote when I read this part, this sings to me, this first car like its successors were not revolutionary in any single part, but in the excellence of the whole quality as a strategy. This gives you an idea of the quality of Royce's work. Reliability was the strongest feature of his cars. One of them was returned in 1923 in perfect running order after 100,000 mile run miles run over the hilly roads of Scotland. It was a standard of reliability. None of Rolls Royce's competitors could come near to emulating. And as you can imagine, one one element of his personality was that he was a control freak. This part just made me chuckle because in the middle of building a car and giving everything to building that car, they're successful. So they have to expand. And he's like, well, I need to dedicate just as much time and energy into building the machine that makes the machine, which is the factory, right? Royce, though, he was deeply engaged in the development of a new six cylinder car still found time to design most of the factory buildings himself. And then Royce makes an incredibly important decision, they should do one thing and do a well, he did not want to dilute his skills, his skill set over making multiple cars, he's going to focus on one. The other vital early decision made by the new company was to concentrate on one model. And now that Royce had produced a model superior to all its rivals, Rolls Royce would devote its energies exclusively to this model. Instead of diluting his skills over three or four models, Royce could concentrate on bringing one model to perfection. And there are those who would say that this new six cylinder Rolls Royce, the Silver Ghost, is the most famous car ever made. Now this is crazy. So this, I think the Silver Ghost came out in 1908. I think the first one was made in 1908. This goes to show you that a good idea can last for an unbelievable long time. This is how this is one of the ways they marketed the Silver Ghost. You know, over 100 years ago, I remember seeing commercial car commercials when I was a kid, that took this idea and are still using it, it says to prove to prove its smoothness of the Silver Ghost, and lack of vibration, a glass full of water was placed on the car, while the engine was taking up to take it up to 1600 revolutions per minute, and not a single drop spilt. And then just want to pull out one part that I think is interesting, because I think it speaks to the fact that over regulation, and usually over regulation caused by special interests, can actually cripple or kill a new industry. In the early 1900s, the automobile was a very, it's a new industry. And so Thomas Edison actually makes a cameo in this book and says like, Britain's essentially over regulated their own industry and allowed the Americans to seize control over one of the most important industries the world has ever seen. So it says in Britain, the development of cars was held back by laws designed to protect a former way of life, and the interest of the whale way, the other railway companies. So they had this thing called the locomotives act. And it stated that listen to this,

this is so incredible. If you first of all, if you're driving a car, there has to be at least three people. So why would you have to have three like three people in a car, at least three people had to be employed to drive the vehicle. While the vehicle was in motion, one of the three passengers required to proceed the vehicle on foot by at least 20 yards. So you're calling up your friends like, Hey guys, let's go for a drive. By the way, which one of you is going to walk in front of the car the whole time? Like that's ridiculous. The speed limit was four mile an hour, four miles per hour on country roads, and two miles per hour in town in towns. There was a license fee of \$1,000 a year per county in which the vehicle was to be driven through. Faced with these restrictions, early motoring pioneers were forced to spend time trying to have such laws repealed, rather than on the development of the cars. As Thomas Edison observed, the motor car ought have been British. You first invented it in the 1830s, you have roads only second to those of France, meaning as the quality of the roads, you have hundreds of thousands of skilled mechanics in your midst, but you lost your trade by stupid legislation and prejudice. So then we get to the part in his life where he almost works himself to death. I think he's at 48 years old. At this point, CS Rolls had just perished in a plane accident, plane crash, like I said, that was in 1910. The next year, it says another climate he struck the following year when Royce himself was taken seriously ill. Long years of overwork and neglect on the needs of his body finally took their toll. Doctors were pessimistic about his chances of survival. They eventually are going to send him to a warmer climate. This has been Rolls Royce becomes a distributed company, like the headquarters are in London and then the factories in Derby in England. And then Royce and his design team up until he dies, I think about 20 years from where we're on the story, they're actually going to work in the south of France, which I'll get to in a minute. But right now he's really sick and he's still working from bed. Eventually his partner, there's this guy named Claude Johnson. Claude Johnson describes himself as the hyphen in Rolls Royce. He plays an unbelievable important role. He's like the business guy, the business manager to Royce's engineering genius. And so Claude eventually is going to save Royce's life by taking him and taking him on a long extended vacation. It's actually the only way you could get this guy to stop working is if you put him in a car and just drove him around Europe, which is exactly what Claude did. So says Royce is mine undistracted by the management of the factory. He kept his staff busy with a continual stream of ideas from his very fertile brain. Often his health kept him in bed all morning. And this was the period of his greatest mental activity. Without making a single note, he would design a new component in his head. After lunch, he would explain the component and the plan to his assistant. The assistant would write a blueprints and then they'd be sent to Derby where their factory is. And then the finished parts would then be sent back to Royce Royce would then turn them over this new part that came from his mind is now in his hand. Okay, this essentially was happening in the book. Royce would turn them over in his sensitive hands, criticize them and then redesign them. And then this next part is interesting for two reasons. And both those reasons remind me of Warren Buffett and Charlie Munger. One, I love this idea. Warren says a loss of focus is what worries Charlie and me the most, which is exactly what's going to happen with the competitor of Royce Royce and never happens with

Henry Royce. But also because Charlie and Warren talk about they didn't like betting on companies at like the beginning of an industry, because there may be like, I think they use the example of like the American car industry is like 2000 startups and yet only three survive. And so at the beginning of this industry, Rolls Royce had all these other competitors. And one of them was this very formidable company called Napier. And Napier's founder got rich and got distracted. And so this is going to benefit Rolls Royce too, because all the talented engineers from Napier go to Rolls Royce. And he says I saw that his meaning Napier's interest in his car company named after the founder. Okay, I saw that his Napier's interest in Napier's cars was beginning to wane. There was not the old enthusiasm. And there was a certain air of indifference as regards to the class of work that left the factory, his chief interest seemed to pass from the factory to his own bank account, which was never the case in the early days. This is why Jeff Bezos says missionaries make better products, right? Royce was a missionary Napier just wanted to make money. Eventually, a lot of the most talented engineers left Napier for Rolls Royce. So today Rolls Royce is well known only for the cars, but they build high quality airplane engines. That actually starts because World War One breaks out. There's a need for domestic airplane engines. I don't think there was even like, I think the industry was barely you could even barely call an industry at this time. So the reason I'm bringing this to your attention though is because Royce just takes on his own. He's like, okay, well, I'm just going to just try to design my first airplane engine, even though the board told him not to and he just it was irrelevant to him. It did not matter. He's like, I'm going to do what I want to do. At the same time as a Rolls Royce board was deciding not to make airplane engines for the government, Royce was already designing one. Not for the last time Royce was ignoring what the board had decided in his absence. And then we see the same level of quality and dedication, obsession applied to his cars. He's applying to airplane engines now. He already had an engine ready to test in late 1915. It was expected to give 200 horsepower, but gave 225 horsepower on its first run. However, Royce was not satisfied. He strove to increase power, reduce weight and fuel consumption and at the same time improve reliability. Royce was testing every part of the engine to destruction. And this is so crazy as he's building this, right? His work is so detailed. And like he's writing not only memos for himself, but memos for all the people working for him, that the company decides to make these notes into a book that they're eventually going to call the Rolls Royce Bible. So impressive were the writings from Royce that Claude Johnson had Royce's memos on the subject printed and bound in a book. In the preface of that book were these words. In the opinion of the board of directors, the memo and letters written by Mr. Royce in connection with the design testing and manufacture of these engines are so admirable as evidence of extreme care, foresight and analytical thought that the directors decided to have them printed and bound in order that copies may be available for study as an example to all grades of Rolls Royce engineers present and future. This book became famous as the Rolls Royce Bible. It was described by quote, the achievement of a thinking designer. So how good were these engines? What was the quality level so good that the enemy thought they were amazing? This is high praise for Royce's engine design from an unexpected source. The engine received praise from the enemy that it was aiming to vanquish. A young British airman was instructed to fly to an airfield in France and landed by mistake at a German base. When the Germans inspected the engine, they said quote,

one of the most interesting of hostile aero aeroplane engines on the highest plane and respective design is undoubtedly the Rolls Royce. And so something that was a theme throughout the history of Rolls Royce is they were obsessed with control Royce is obviously obsessed with control. So much so this is this is the first a company that was so focused on quality that they risked going to prison. Remember this is wartime. So it says when the Ministry of Munitions tried to force Rolls Royce to get a dozen or so other firms to make their engines, Claude Johnson took the boldstand saying that he would tear up every drawing and go to prison rather than risk as it is, he would tear up every drawing and go to prison rather than agree to risk inferior skills of other companies. Johnson said that the plan of using other manufacturers was futile and would yield nothing but mountains of scrap. He had his way and other companies were not licensed. And they continued with the succession with control after the war when the war end. So like that four year period of World War One, there was essentially like the automobile industry in Britain was essentially frozen, right? So they get out after the war. And there's like this boom and then the slump. And so there's a lot of other car companies that are merging. And so Johnson and Royce were talking like do we are recent like do you want to merge our company with a nut like with other car companies due to this like post war market uncertainty. And Royce and Johnson are like, nope, I'd rather retain control even if the even if what I was in control over I want complete control instead of like a larger size, right? So it says Johnson and Royce wanted to be their own men. Royce admitted it, I prefer to be absolute boss over my own department, even if it's extremely small, rather than to be associated with a much larger technical department over which I only had joint control. And so this podcast is heavily focused on Henry Royce. But I do want to point out something because Claude Johnson dies about a decade before Henry Royce does. And it's really, it's this highlights that sometimes you need the right partner, whether they're a co founder or not. So they can actually compliment and like your skill set and actually compensate for the skills that you lack. Claude Johnson was that right partner for Henry Royce. This is perhaps an appropriate moment to compare the qualities of the two men and see how well they compliment each other. Without Royce, the peerless engineer, there would have been no Rolls Royce cars that much is certain. But without Johnson's organizing ability, and flair for publicity, there would probably been no company to exploit the cars. Johnson thought not only of external relations like public relations, right, but also those inside the company. What does that mean? As you can imagine, Henry Royce is not a people person. Royce's lack of what today are called interpersonal skills with his managers and employees is well known. Although he engendered quite remarkable loyalty in spite of being a hard taskmaster, Johnson was more aware of human relationships. And then it makes this point that I referenced earlier that maybe Johnson's greatest contribution was the fact that he saved Royce from himself. Perhaps Johnson's greatest contribution to Rolls Royce was his understanding of Royce himself and his unselfish action in 1911 and taking him on an extended trip to Europe, which almost certainly saved Royce's life. Johnson also understood that both Royce and his employees would probably function better if they were kept apart. This is what I referenced earlier that the design element is going to be on its own island in the south of France and then the production and the HQ is going to stay in England. It was a happy coincidence that Royce's doctors prescribed sea air. If Royce had stayed

[Transcript] Founders / #287 The Founder of Rolls-Royce

in Derby where their factory is, his obsession with detail might well have hampered the commercial viability of the growing organization. And so this is how Rolls Royce was actually set up as a distributed company. This gives a firsthand view of how the company operated in the 1920s. The control of the company was vested in three widely dispersed groups. All designing was carried out in the south of France. That's where Royce is. All the directors except Royce were based in London and all the production stayed at the Derby works because Royce's word was law throughout the company. The apex of this administrative triangle was undoubtedly the team of designers working under Royce in the south of France. This kind of reminded me of when Steve Jobs came back to Apple, his tight relationship with Johnny Ive and the other designers. They were secluded. It was very hard to even access the department they worked in. That's what popped to mind when I read this. They worked in monastic seclusion in an office situated in the middle of a village about a quarter of a mile from Royce's house. This is wild and probably a good idea to ensure a minimum of distraction. The office was forbidden the luxury of a telephone. This was the team responsible for the design of every car and all their components from 1919 until Royce died in 1933. In matters concerning the actual model which eventually went into production, Royce's decision was final. He is going to die at the age of 70. He's another example of somebody who loved what they did so much that they did it till he died. The night before he died, he sat up in bed and drew a sketch on the back of an envelope which he gave to his nurse and housekeeper telling her to see that the boys in the factory got it safely. Henry Royce was quite simply a genius and thanks to a meeting with CS Rolls and his partnership with Claude Johnson, the benefits of his genius were spread and shared by the whole country and indeed by the world at large. We have noted his belief in hard work. AG Elliot who joined Rolls Royce and rose to be chief engineer and who served the company for 44 years said this. Everyone who worked with Royce knew that he was a perfectionist. They knew how he would test parts far beyond anything they were likely to have to withstand on the road. Some found his habit of changing and improving designs extremely frustrating, but he wanted his designers to be improving all the time. In Royce's view, such an approach saved time in the long run. This tradition of obsession with functional perfection long outlived him and indeed its paramount in Rolls Royce today. Never one of the world's greatest man managers, Royce was able to concentrate on what he knew best. His mind undistracted by the management of the factory, Royce kept his staff busy with a continual stream of ideas from his fertile brain. Royce is striving for perfection and everything he did was epitomized by a comment he made to a neighbor after he had stripped and rebuilt the neighbor's lawnmower. Royce said, whatever is rightly done, however humble is noble. And that is where I'll leave it. Highly recommend picking up the book. If you buy the book using the link that's in the show notes in your podcast player, you'll be supporting the podcast at the same time. You can also find all the links at FoundersPodcast.com. If you're looking for a further way to support the podcast and you want to listen to my AMA Ask Me Anything episodes where you can ask me questions directly and then I answer them on the episodes. That link to subscribe to that is down below as well and available at FoundersPodcast.com. I just published the second of the AMA episode a few days ago. That is 287 books down 1,000 to go and I'll talk to you again soon. Okay, so all the way back on

episode 227. I read this fantastic book called The Essays of Warren Buffett. So all the way back on episode 88, I read every single one of Warren's shareholder letters. But what this book that was put together by Lawrence Cunningham called The Essays of Warren Buffett did that was so smart is that he took the shareholder letters and instead of organizing them by year, which is standard, he organized them by topic. And so in the original podcast I did on this book, which again is episode 227, one hour and 28 minutes into the podcast of thereabouts, I go over this letter that I'm about to read to you now. It's under the heading titled Onselling One's Business. And the reason I'm bringing this up is because one of the sponsors of this episode is Tiny. And one way that Tiny has been described is that they're building the Berkshire of the internet. And you can go to tiny.com and read the testimonials and see all the founders that have sold their business to Tiny and how their main differentiation, just like Warren Buffett and Charlie Munger is, there's no BS. We're going to make this transaction as simple and easy as possible, where a lot of people that buy businesses make you jump through hoops and it's just a headache. And so if you think about what Warren is doing here in this letter is his business is buying businesses. And so his customer or founders or managers of businesses. And so he is essentially writing a letter to a guy. So he wrote this letter in 1991 to a guy who indicated he might want to sell his family business. And so I'm just going to pull out a few highlights here and really think about what Warren's doing is he is differentiating his services from other people that also buy businesses. He says if you should decide to sell, I think Berkshire Hathaway offers some advantages that most other buyers do not. Practically all of these buyers will fall into one or two categories. And so now Warren is going to describe his competition. If you go to tiny.com, you'll see they described their competition in some ways, their competition, which is typically VCs or private equity companies. So Warren says, number one, a company located elsewhere, but operating in your business or in a business somewhat akin to yours. Such a buyer, no matter what promises are made, will usually have managers who feel they know how to run your business operations and sooner or later will want to apply some hands on. And he puts the word help in quotation marks. Obviously, Warren does not think that the managers are going to install on that business are actually going to be helpful at all. The second other option, a financial maneuverer, invariably operating with large amounts of borrowed money, who plan to resell either to the public or to another corporation as soon as the time is favorable. Frequently, this buyer's major contribution will be to change accounting methods so that earnings can be presented in the most favorable light just prior to his bailing out. And then listen to this persuasion technique that he uses because he's writing to somebody that he knows it's a family business, which means they put a lot of their time and life energy into. So he says, if the sole motive of the present owner is to cash their chips and put their business behind them, and plenty of sellers do fall into this category, either type of the buyer that I just described to you is satisfactory. But if the seller's business represents the creative work of a lifetime and forms an integral part of their personality and sense of being buyers of either type have serious flaws. So he's just described his competitive landscape. He says, listen, there's option one, there's option two, but then there's a new option, something that's completely different and better. And he's describing the services that he provides to founders, right? So he says, Berkshire is another kind of buyer, a rather unusual one. We buy to keep. Tiny does too, by the way. All of the businesses we own are run autonomously to an extraordinary degree. When we buy a business, the sellers go on running it just as they did before the sale. We adapt to their methods

rather than vice versa. And in Tiny's case, it's up to the founder if they want to stay or if they want to go. Tiny's fine with either solution. And then Warren does something fantastic. He's like, listen, you know who the past businesses that we bought. In fact, I'm including in this letter a list of every single person we've ever bought a business from. Tiny does something very similar on their website, which you can go see. You know some of our past purchases. I'm enclosing a list of everyone from whom we have ever bought a business. And I invite you to check with them as to our performance versus our promises. And then Warren says, hey, I'm going to keep it simple with you. If you should decide to do a business, do business with Berkshire, we would pay in cash. Tiny says the exact same thing on their website. Your business would not be used as collateral for any loan by Berkshire. There would be no brokers involved. Warren also says you deal with me. And finally, you would know exactly with whom you are dealing. You would not have one executive negotiate the deal only to have someone else in charge a few years later, or have the president regretfully tell you that his board of directors required this change or that change. And because Warren has hacked away at the unessential, all that is left is simplicity. And his pitch is simple. Do you want a great home for your business? Then call me and I will do a cash transaction really fast. Same thing that Tiny does. I will not pester you. If you have any possible interest in selling, I would appreciate your call. I would be extraordinarily proud to have Berkshire, along with the key members of your family own blank. So he took out any identifying information of who he's writing to. Okay, I believe we would do very well financially. And I believe you would have just as much fun running your business over the next 20 years as you have during the past 20. Sincerely, Warren Buffett. I think reading the entire letter is worth your time. If you buy the book, it's on pages 230 through 233. And make sure you go back and listen to episode 227, the essays of Warren Buffett. If you have not done so already. And if you have a business that you're interested in selling now or in the future, make sure you go to tiny.com.