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“Within the growth stock model, there’s a sub-position: There are actually businesses that you will find a few times in a lifetime where any manager could raise the return enormously just by raising prices – and yet they haven’t done it. So they have huge untapped pricing power that they’re not using. That is the ultimate no-brainer.” -Charlie Munger

A business that can increase prices at a rate that only offsets inflation is good, but not exceptional. While it is good to identify a business that has consistently raised its prices, it might actually be better to find a business that has not raised its prices in a long time for one reason or another, thus causing its product or service to become underpriced and undervalued to customers. This situation creates a sort of pent-up pricing power that can be released in the form of future real price increases for a certain period of time.

Real pricing power indicates an inefficiently priced product or service. This undervaluation is a source of great potential value as the business begins to price its product or service more efficiently, i.e. raise prices in real terms.

Just like we search for undervalued or mispriced stocks, we should also be on the lookout for undervalued or mispriced products or services which have “untapped” pricing power, as both situations eventually tend to correct themselves. Significant value can be unlocked for the owners in such situations.

Low-cost producers can sell their product or service at a lower margin than competitors and still operate profitably due to the large volume of customers. A good example of a low-cost producer is GEICO, the direct seller of automobile insurance to Americans. GEICO has the lowest operating costs in its industry primarily because it sells directly to its customers instead of hiring insurance agents. Buffett has often described GEICO’s cost advantage over its competitors as a strong moat – “Others may copy our model, but they will be unable to replicate our economics.” The more customers that buy from a low-cost producer, the more its cost advantage moat widens over time, creating a “flywheel” that accelerates as the business grows.

At [Wide-Moat Investing Summit 2018](#), I will be presenting an investment opportunity which is a global low-cost producer with significant untapped pricing power.

I look forward to sharing my thoughts and insights and engaging in collaborative learning with our community.