

1967-1969

Berkshire Hathaway

Warren Buffett's partnership owned a majority stake in Berkshire Hathaway by 1967. Considering only its textile operations, this investment was a failure – the company consistently produced net losses; Buffett eventually had to liquidate the company, as he could not find a single buyer. However, Berkshire Hathaway could be seen as a strategic investment, as Buffett used the company's working capital to make one of his first investments in insurance companies.

Berkshire Hathaway was originally named Berkshire Cotton Manufacturing Company, and incorporated in Massachusetts in 1889. It merged with Valley Falls Company, Coventry Company, Greylock Mills and Fort Dummer Mills in 1929 to form Berkshire Fine Spinning. Berkshire Fine Spinning then commanded significant market share – it contributed to 25% of American fine cotton textile production. Berkshire Fine Spinning then merged with New Bedford textile maker Hathaway Manufacturing Company in 1955 to form Berkshire Hathaway.

When Buffett purchased Berkshire Hathaway, it had an accounting net worth of \$22 million. He later realized that its intrinsic business value was considerably less, because its textile assets were unable to earn returns that were in proportion to their accounting value. From 1976 to 1985, Berkshire's aggregate sales of \$530 million produced an aggregate loss of \$10 million.

At first, Buffett thought that the business could be turned around by good managers. However, this anticipated turn-around never came about, despite occasional improvements in the secular business cycle.

Yet, Buffett remained in the business for several reasons:

First, the textile business was an important employer in many local communities and Buffett did not want to layoff workers unless absolutely necessary.

Second, Berkshire had management that Buffett greatly admired. Ken Chace was an excellent leader in many ways. He clearly identified the problems Berkshire needed to overcome, communicated them to Buffett clearly and was very enthusiastic in trying different remedy approaches.