# Berkshire hathaway

Finance

**Berkshire Hathaway**

Overview Before Warren Edward Buffett, Berkshire Hathaway was a textile company. Buffet acquired stocks and before long he was the largest shareholder (1963). He became part of the board and appointed the chairman so he would have someone he trusted running the company. With the funds from Berkshire Hathaway coming in, Buffett used it to invest in National Indemnity. The company was bought but he left it the way it was: left previous Ringwalt in charge, kept current employees, shareholder benefits, and so on. Insurance companies are a perfect way to get a lot of capital upfront because you can then use thismoneyto purchase other companies or stocks, like what Buffet did. The buffet was involved with several companies and bought GEICO(Jayanti), General Re, and other manufacturing and service companies. Today Berkshire Hathaway is one of the largest holding companies in America. It owns different companies from retail to jewelry to electric companies. These companies run separately from Berkshire Hathaway.

It does not produce the goods or provide the services but serves as an umbrella that owns shares or the whole of the companies that are underneath it. Many of these companies were purchased by the company’s many insurance options. Big names include GEICO, Borsheim, PacifiCorp, and Vanity Fair. (Jayanti). Porter Five-Force Model Porter’s Five-Forces Model of Industry Competition pertains to the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitute products and services, and the intensity of rivalry among competitors in an industry. These five forces can determine the stature of a market. In the case of Berkshire Hathaway, there is a low threat of new entrants for the multi-businesses in one industry. It is significantly hard to own various different companies, have them operate to full potential, and still remain a leader on the industry board. Although competitors cannot directly compete with Berkshire Hathaway, they still take a nice chunk from its potential market. As a matter of fact, there are only two direct competitors in the industry that are above Berkshire Hathaway, it is Motors Liquidation Co and Ford Motor Co. As more self-made businesses(which is what Warren Buffett likes to acquire) open competition is created through price, increase in theadvertisement, and suppliers. This competition benefits buyers by giving them more options or bargaining power in where they choose to shop. For Instance like what happened to Berkshire's textile business, after a while competition increased prices dropped and textiles had simply become another commodity.

So as you can see from the example, this affects Berkshire directly because of their higher quality products but premium prices make it hard to compete with low-cost leaders. This takes valuable time and effort away from internal operations because in cases like these the opposition has to be constantly analyzed. Consequently, if neither competitor decreases their prices to a consumer's expectation this may result in the consumers going to the suppliers directly; once again giving the bargaining power to the buyer. As far as bargaining power to the suppliers, they wouldn't really have an edge in increasing their prices or power unless it is a scarce resource and demand is high. Substitutes, on the other hand, limit the potential returns of an industry by putting a ceiling on the prices industries can profitably charge.

Finally, the only reason why the rivalry is intense is that when you have large companies like Motors Liquidation, Ford and Berkshire rivalry heats up and everyone fights for the number one spot, and usually does whatever it takes to get it. The rivalry forces constant close monitoring of competitors, which entails unnecessary excessive expenditure. For example, they would have to ask and analyze questions such as, where are they opening their stores? Are they using the same criteria in choosing locations? How much are they charging for similar products? And can we compete with their price? In Summary, Berkshire needs to be aware that intensive rivalry will increase costs, such as constantly competing with prices, having to offer bargains which will lead to high exit barriers.