Berkshire Hathaway Business Model

Idea In Short

Berkshire Hathaway makes money by collecting insurance premiums upfront and investing that pool of cash, called float, before claims come due years later. The company then uses profits from its insurance and dozens of operating subsidiaries, spanning railroads, utilities, manufacturing and retail, to buy more businesses outright rather than pay dividends to shareholders. Its insurance float stood at roughly $176 billion at the end of 2025, giving Warren Buffett and now Chief Executive Greg Abel a permanent source of low-cost capital that ordinary companies do not have access to. Berkshire holds businesses indefinitely once acquired, a structure that lets subsidiary managers run operations with minimal oversight from Omaha. This article traces how a failing textile mill became one of the largest conglomerates in the world.

From textile mill to holding company

Berkshire Hathaway's roots trace to Valley Falls Company, a textile manufacturer Oliver Chace founded in 1839, which eventually merged with Berkshire Cotton Manufacturing and then Hathaway Manufacturing in 1955 to form Berkshire Hathaway as a single textile business. Warren Buffett began buying shares in 1962, viewing the stock as undervalued relative to the company's working capital and gained control in 1965 after a dispute with management over a tender offer.1 The textile operations kept struggling against foreign competition and Buffett shut the last mill in 1985, having already redirected the company's capital toward insurance and other acquisitions years earlier. That pivot, buying National Indemnity Company in 1967, marked the shift from a textile manufacturer into the diversified holding company Berkshire Hathaway became.

The float mechanism

Insurance companies collect premiums before they pay claims and the money sitting in between, called float, can be invested for years before it needs to go back out the door.

Buffett recognized early that if an insurer underwrites carefully enough to keep that float roughly cost-free or better, the investment returns on that money become close to free capital. Berkshire's insurance float reached approximately $176 billion by the end of 2025, up from $171 billion the year before and just $88 billion a decade earlier, a pool built through GEICO, Berkshire Hathaway Reinsurance Group and General Re.2 Full-year underwriting earnings totaled $7.26 billion in 2025, with a combined ratio of 87.1%, below the company's five-year average of 90.7%, showing the underwriting stayed profitable on its own even before counting the investment gains that float generates.

Building the conglomerate through acquisitions

GEICO became a wholly owned subsidiary in 1996, after Berkshire had held a partial stake since the early 1950s, giving the company one of the largest auto insurers in the United States outright rather than as a passive investment.3 The BNSF Railway acquisition, completed in February 2010 for a total value near $44 billion, stands as the largest purchase in Berkshire's history and gave the company one of the largest freight rail networks in North America. Berkshire Hathaway Energy grew from a single utility purchase into a multinational energy business spanning generation, storage and distribution across the United States and parts of Europe. Manufacturing, retail and service subsidiaries, more than 60 in total across categories like building products, furniture and grocery distribution, round out a portfolio Buffett assembled over six decades by buying businesses with durable competitive advantages and management he trusted to keep running.

> Berkshire is a company that people trust more with their money than they trust themselves, so they hand it to us and hope for the best

The Buffett-to-Abel transition

Greg Abel officially became chief executive on January 1, 2026, ending a process of internal grooming that began when he took over Berkshire Hathaway Energy and later rose to vice chairman overseeing all non-insurance operations.4 Buffett remains chairman of the board, a role that keeps him involved in major decisions without direct control over daily capital allocation. Abel now holds final say over Berkshire's acquisitions and investments, though he continues working alongside longtime insurance leader Ajit Jain and investment managers Ted Weschler and Todd Combs. The first-quarter 2026 shareholder meeting marked the first time in six decades that Buffett did not lead the proceedings, a visible marker of how much the transition changed the company's public face even as its underlying structure stayed the same.

A record cash pile waiting on price

Berkshire ended the first quarter of 2026 with $397 billion in cash and short-term Treasuries, up roughly $24 billion from year-end 2025, after a stretch in which the company sold more public equities than it bought.5 That stockpile reflects Buffett's longstanding discipline of waiting for acquisitions or investments priced attractively rather than deploying capital simply because it has accumulated. Critics have periodically argued the cash pile represents a missed opportunity cost, but Berkshire's managers have consistently preferred an idle cash position to overpaying for a business or stock. The scale of that reserve also functions as insurance against downturns, letting Berkshire act as a buyer of last resort during market stress when other companies are forced sellers.

Two share classes, one philosophy

Berkshire trades under two stock classes, Class A shares that have never split and Class B shares created in 1996 at one-thirtieth of a Class A share's value, later split again to one-fifteen-hundredth to make the stock more accessible to smaller investors. Class B shares carry a fraction of the voting rights of Class A shares, preserving concentrated control among long-term holders while still letting retail investors buy into the company. The company's market capitalization has grown to roughly $1.1 trillion, placing it among the most valuable companies in the world despite never paying a dividend. That decision, retaining all earnings to reinvest rather than distribute, has remained constant across the company's history and reflects the core belief that Berkshire's managers can compound shareholder capital better than shareholders could on their own.

Key Partners

Berkshire Hathaway's subsidiaries operate with significant autonomy, meaning suppliers and vendors relationships exist mostly at the subsidiary level rather than centralized through Omaha headquarters. Reinsurance partners and ceding insurers work with Berkshire's insurance groups to share large or unusual risks across the industry. Public companies in which Berkshire holds significant equity stakes, including Apple, Coca-Cola and American Express, function as investment partners whose performance directly affects Berkshire's reported earnings.

Key Activities

Underwriting insurance risk carefully enough to generate float at low or negative cost remains the foundation activity underlying the entire conglomerate structure. Capital allocation, deciding which businesses and public equities to buy with float and operating cash flow, is the activity most closely associated with Buffett personally and now Abel. Overseeing dozens of operating subsidiaries across energy, rail, manufacturing and retail requires monitoring performance without imposing centralized management, a deliberately hands-off approach Berkshire has followed for decades.

Key Resources

Insurance float, the roughly $176 billion pool of premium money available for investment before claims come due, is Berkshire's defining financial resource. The company's balance sheet strength, including its record cash position, lets it act quickly on large acquisitions that smaller or more leveraged competitors cannot pursue. Berkshire's reputation for trustworthy, hands-off ownership makes it a preferred buyer for family-owned businesses whose founders want a permanent home rather than a private equity flip.

Value Propositions

Insurance buyers get financial protection from GEICO, Berkshire Hathaway Reinsurance Group and Berkshire Hathaway Primary Group, backed by one of the strongest balance sheets in the industry. Product buyers and consumers get goods from Berkshire's manufacturing and retail subsidiaries, ranging from building products to furniture and food distribution. Investors get exposure to a diversified conglomerate with a decades-long record of compounding capital, without needing to evaluate dozens of individual businesses themselves. Business owners considering a sale get a buyer who typically keeps existing management in place and rarely resells acquired companies.

Customer Relationships

Berkshire Hathaway operates with minimal centralized customer relationship management, since each subsidiary, from GEICO to BNSF to its manufacturing units, maintains its own separate relationship with its customers. At the parent company level, the primary relationship that matters is with shareholders, cultivated through Buffett's widely read annual letters and the shareholder meeting in Omaha. That relationship emphasizes transparency about mistakes and long-term thinking over short-term earnings management, a tone Abel has signaled he intends to continue.

Channels

Berkshire's operating subsidiaries reach their customers through their own established channels, such as GEICO's direct-to-consumer insurance sales and BNSF's freight contracts with shippers. At the holding company level, communication with investors runs through annual shareholder letters, the annual meeting and required financial filings rather than consumer-facing marketing. Berkshire itself does not advertise or market to end customers, since it operates as a holding company rather than a consumer-facing brand.

Customer Segments

Insurance buyers, spanning auto insurance customers through GEICO to commercial and reinsurance clients, form one of the largest customer groups across the conglomerate. Consumers of manufactured and retail goods from Berkshire's operating subsidiaries make up another broad segment, though they typically do not know they are buying from a Berkshire company. Energy consumers served by Berkshire Hathaway Energy's utilities represent a regulated customer base distinct from the company's other businesses. Individual and institutional investors who hold Berkshire's Class A or Class B shares form the segment most directly connected to the parent company itself.

Cost Structure

Insurance claims and loss payouts represent the largest recurring cost across the conglomerate, managed carefully to keep the combined ratio below 100% so float remains profitable rather than a drag. Operating costs across dozens of subsidiaries, including labor, raw materials and maintenance for railroads and utilities, vary widely by industry but are managed independently at the subsidiary level. Acquisition spending, while irregular, represents a major use of capital whenever Berkshire identifies a business priced attractively enough to buy outright.

Revenue Streams

Insurance premiums collected across GEICO, reinsurance and primary insurance operations generate both underwriting profit and the float used for investment. Sales revenue from manufacturing, retail and service subsidiaries contributes a large and diversified share of total revenue across dozens of unrelated industries. Railroad transportation revenue from BNSF and energy revenue from Berkshire Hathaway Energy's generation and distribution operations add two more substantial, largely predictable income streams. Investment income and gains from Berkshire's equity portfolio, including long-held stakes in companies like Apple and Coca-Cola, round out the revenue picture in years when markets perform well.

- 1Berkshire Hathaway company history
- 2Berkshire Hathaway 2025 annual report
- 3GEICO ownership history
- 4Berkshire Hathaway succession announcement
- 5Berkshire Hathaway cash position reporting

Summary

Berkshire Hathaway's model rests on a simple mechanic: collect insurance premiums before claims are due, invest that float and use the proceeds to buy entire businesses that then generate more cash to buy more businesses. The company ended the first quarter of 2026 with a record $397 billion in cash and short-term Treasuries, a stockpile that gives Greg Abel, who took over as chief executive on January 1, 2026, room to act when other buyers hesitate. Buffett remains chairman, a transition designed to preserve institutional memory while shifting day-to-day capital allocation to his successor. The insurance combined ratio of 87.1% in 2025 shows the underwriting discipline that keeps float profitable rather than a drag on returns. Abel's test now is whether he can deploy Berkshire's cash pile as effectively as Buffett did across six decades, without the acquisition targets and stock market conditions that made those early decades possible.