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## BUFFETT GEMS

### The Jewels in Berkshire Hathaway's Crown

Warren Buffett is one of the world's most prolific and successful investors. According to Forbes magazine's 2002 rankings, Warren Buffett is the second wealthiest man in the United States and the second wealthiest worldwide. From Wall Street to Main Street, financial investors follow his every move, assured in knowing that where Warren goes, success is sure to follow.

Robert P. Miles, professional speaker and the author of [The Warren Buffett CEO: Secrets From the Berkshire Hathaway Managers](#), and [101 Reasons to Own the World's Greatest Investment](#), shares his insights into Warren Buffett's investment strategy and his entry into the jewelry industry.

When legendary investor Warren Buffett (right), chairman of the publicly traded conglomerate Berkshire Hathaway, buys a company, he's a lot like a man buying jewelry for his wife. As a fiscally responsible husband, he wants to get a good deal, but he also wants quality. In addition, he wants something with a value he can understand, something that requires little maintenance, and something that will last for a long time. In fact, when Warren Buffett buys a company, it's forever, just like a diamond. Given that, it shouldn't be surprising that some of the companies he's purchased are jewelry concerns. Nor should it be surprising that those he's bought are among the most well run and successful jewelers in the United States.



His first venture into the jewelry business began near his home in Omaha, Nebraska, when he purchased Borsheim's Fine Jewelry in 1989. The store had been founded by Louis Borsheim in 1870, and run by the family until it was purchased by Louis and Rebecca Friedman in 1947. Their son Isadore ("Ike") joined the firm when he returned from World War II, and purchased it from his father in 1973. By 1988, it was being run by Ike, his son Alan, his daughters Janis and Susie, and his sons-in-law, Donald Yale and Marvin Cohn.

Buffett was a long-time customer of Borsheim's, and was well known to the staff and management. During Christmas that year, while he was in the store shopping for a ring, Donald Yale, called out "Don't sell Warren the ring, sell him the store!" As it turned out, Yale wasn't joking. The family was interested in selling, and early the next year Borsheim's became the first of Berkshire Hathaway's jewelry companies.



Jon Bridge with Warren Buffett

"If you don't know jewelry, know the jeweler" Warren Buffett

As a rule, Warren Buffett only buys companies whose managers promise to stay on after the acquisition, often keeping a 10 – 20 percent minority interest, and that was the case with Borsheim's. But Ike Friedman died in 1991, his son Alan left to open his own business, and his son-in-law Donald Yale became president. When Yale stepped down in 1994, Buffett appointed long time employee Susan Jacques (left) as CEO—one of the very few appointments he's ever had to make among his 100 diverse businesses.



Susan Jacques

Under Jacques' direction Borsheim's has become one of America's largest volume single location jewelry retailers. The store is 50,000 square feet with over 20,000 square feet of selling space, staffed by 375 employees. Interestingly only a little over half of its sales come from Nebraska, the rest come from literally every state in the union, as well as several foreign countries. A sizeable portion of the company's revenue—about 8%—comes from sales to Berkshire Hathaway's very own stockholders during the annual shareholder's weekend. Each year, on the first weekend in May, thousands descend on Omaha for the company's record setting annual meeting, and apparently Buffett's shareholders enjoy buying at a discount from a jewelry store they own.

Not only are Berkshire's stockholders pleased with owning Borsheim's, its chairman is too. He was so pleased with it in fact, that in 1995 Buffett purchased a second jewelry company, Helzberg Diamonds, based in North Kansas City, Kansas. Like Borsheim's, and like many of Berkshire's companies, Helzberg was a family-owned business. It had been founded in 1919 by Morris Helzberg, and remained in the family until Buffett bought it from his grandson, Barnett C. Helzberg, Jr.

Like Borsheim's, Buffett's second jewelry concern had successfully transitioned from a third generation of family managers to a fourth generation of professional management.

Unlike Borsheim's, however, Helzberg has 250 locations all across the United States, most of them in upscale shopping malls. As one of the largest jewelry chains in the country, it even competes in Borsheim's market, with four stores in the Omaha area. Jeffrey W. Comment, who was president and chief operating officer of the company when it was sold to Berkshire, now runs the company. At the time, Helzberg, who was chairman and chief executive officer, wanted to retire, and Comment stepped right into his shoes. In fact, he has a telling story about that step.

"After the sale went through," he says, "I said to Warren, 'Oh, by the way, we haven't talked about what I should call myself.' And Warren said 'You can call yourself anything you want, as long as it's appropriate for what you're doing'. So I gave myself the title of chairman and chief executive officer. And now when people ask me if we have a president, I say, no, the last one wasn't very good, so we haven't replaced him. For seven years that was my quote, but the company has become big enough that in 2002 we did appoint a president. Fortunately for the company, he will be much better."

Regardless of what his title may be, Comment has done an extraordinary job of running Helzberg Diamonds. Under his leadership, the chain has doubled its revenue and can now boast an average gross per store of \$2 million, the highest of any chain in the country and nearly twice the industry average.

The third gem in Berkshire Hathaway's crown is Ben Bridge Jeweler, based in Seattle, Washington, which is perhaps best known as one of America's largest Rolex watch dealers. The company was founded in 1912 by Samuel Silverman, a watchmaker in downtown Seattle, who sold the business to his son-in-law Ben Bridge in 1927. Bridge ran the operation for 25 years before turning it over to his sons Herb and Bob. By the time Buffett bought the company in 2000, the reins had been turned over to the third

generation of Bridges, Ben's grandsons Jon and Ed Bridge (photo), who were co-CEOs.



Edward Bridge

### Billionaire Jewelry

Upon the engagement of the world's richest man, Bill Gates bought his ring from his friend Warren Buffett's Borsheim's jewelry store but ignored the second richest man's unsolicited investment advice. Normally closed on Sundays, except during the Christmas season, Borsheim's was opened on Easter 1993 for Gates to select his engagement ring with his then girlfriend Melinda French.

Buffett joked that when he became engaged some 40 years earlier he spent a sizeable percentage of his net worth on a ring. Quoted in Fortune Magazine [Jan 95] Gates chuckled: "Warren had them open up the store on a Sunday especially for us. On the way there, he told me that when he first got engaged, he spent 6% of his net worth on the ring, and that as a sign of true loyalty, I should do the same for Melinda." Later Buffett said, "We didn't have quite as big a day that Sunday as I had hoped."

Again, as is usually the case, the company was purchased with the understanding that the Bridges would continue to manage it. But why would someone want to sell his or her company, only to continue as someone else's employee? In the case of the Bridges, as in the case of many other Berkshire acquisitions, it was the prospect of turning the company over to another generation that led to the decision along with the ability to continue to manage the business with the same management culture. "Our success has and always will be our people," Jon Bridge said at the time of the sale. "By entering into this alliance, we will continue the tradition of our grandfather and father in overseeing the management as well as the long-range planning of the company. This arrangement will provide for the smooth transition from this generation to the next - a concern that has been at the center of this action."

But regardless of why the Bridges sold the company, it's obvious why Warren Buffett bought it. Ben Bridge Jeweler currently operates 68 retail stores in eleven northwestern states: Washington, Oregon, Idaho, California, Colorado, Arizona, Nevada, New Mexico, Texas, Alaska, and Hawaii. Although Ed is now president and Jon vice chairman and general counsel, the previous generation is still represented-Herb and Bob Bridge still serve as the company's co-chairmen.

Interestingly, despite the fact that Borsheim's, Helzberg, and Ben Bridge are now all part of the same corporate family, they operate as three separate businesses not as a jewelry division. "We all know one another," says Susan Jacques about the three jewelry CEOs, "and we all serve together on the board of Jewelers of America". While other conglomerates seek synergy among similar divisions, Berkshire's approach is to leave each existing culture alone.

There are a number of important things they all have in common, all of which-like fine jewelry-made them attractive to Buffett and Berkshire.

Although the sale price of the companies has never been made public, based on his track record, it can be reasonably assumed that Buffett paid a fair but not exorbitant price for them. What needn't be assumed, because the evidence is unquestionable, is that regardless of how much he paid for them, he got the kind of quality he demands, in both the companies and their management. And because of the quality of that management, he will not have to get involved in the day-to-day operations, which is always one of his aims when purchasing a company.

All three also represent the kind of investments Buffett is comfortable with-simple old economy business whose value he feels qualified to judge. Perhaps most important, they are businesses that have stood the test of time. They are companies that, on average, have met the challenges of an ever-changing marketplace for 100 years and promise to continue doing so for another 100 years.

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