

Berkshire's looms cost \$5,000 each. They sold for \$26 as scrap

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Maxim: *Should you find yourself in a chronically-leaking boat, energy devoted to changing vessels is likely to be more productive than energy devoted to patching leaks.* — Warren Buffett, 1985 letter

Some businesses cannot be fixed by hard work or fresh capital. Recognising one, whether you own it as a company or as a share in your portfolio, is a skill worth more than any turnaround plan.

Effort cannot rescue a business whose economics are against it.

Warren Buffett learned that in the most expensive way possible: in his own company's original business. Berkshire Hathaway was a New England textile maker when he took control of it around 1965. For two decades he kept the mills running, with capable managers and loyal workers, while he built the rest of Berkshire around them. In July 1985 he gave up. "In July we decided to close our textile operation, and by yearend this unpleasant job was largely completed," he wrote in his [1985 letter](#) to shareholders.

The details of the ending are hard to forget. Machinery that had cost about \$13 million, and would have cost perhaps \$30 million to \$50 million to replace, fetched gross proceeds of \$163,122 at auction in early 1986. After the costs of the sale, the net was less than zero. Looms bought for \$5,000 each in 1981 found no buyers at \$50 and went for scrap at \$26, less than the cost of hauling them away.

Buffett did not blame the people. He called his managers, Ken Chace and Garry Morrison, "every bit the equal" of those at his more profitable businesses, and said the workers had tried just as hard to stay competitive. He blamed the boat. Textiles were a commodity business, competing in a world market with "substantial excess capacity" and against countries whose workers earned a fraction of the American minimum wage. When mills spent on cost-cutting machinery, everyone else did too, and the lower costs simply became lower prices across the industry. His conclusion: a good managerial record, measured by economic returns, depends far more on what business boat you get into than on how effectively you row.

Burlington rowed harder, and went nowhere

The same letter contains a quieter, more instructive story. Burlington Industries, then the largest American textile company, chose to patch. Between 1964 and 1985 it spent about \$3 billion on capital expenditure, more than \$200 for every share that had traded at \$60 at the end of 1964. In 1985, adjusted for a stock split, the share price was only a little above that 1964 level. Prices in the economy had more than tripled over the period, so each share bought about a third of what it once had. Burlington was well run and heavily invested. Its shareholders still lost two decades.

India has its own versions. On 18 January 1982, nearly 2.5 lakh workers in some 65 Mumbai textile mills went on strike, in what became the Great Bombay Textile Strike. It ended without concessions, and most of the mills of central Mumbai closed during and after it, leaving more than 1.5 lakh people

out of work, according to [Wikipedia's account](#) of the strike. The land under those mills proved far more valuable than the looms on it.

Some Indian companies kept rowing much longer. Hindustan Motors made the Ambassador, a car whose look barely changed from the 1950s, until it suspended production at its Uttarpara plant in 2014, citing very low productivity, a critical shortage of funds, lack of demand and accumulated liabilities, [CNN](#) reported. Others changed vessels. Century Textiles, one of the old names of Indian cotton, had entered property development under the Birla Estates brand in 2016, and in October 2024 renamed itself Aditya Birla Real Estate, [Business Today](#) reported. Whether that new boat floats better is still being decided; the point is that it chose a new one.

Your portfolio has boats too

Most investors will never close a mill. But they make Buffett's choice all the time, usually without noticing, when they decide whether to keep holding a share in a business that has struggled for years.

The patching instinct is strong. A stock that has fallen invites a story about recovery: new management, a restructuring, a fresh round of capital, a better cycle next year. Sometimes that story is right. The test is whether the problem lies with the rowing or with the boat. A company with a temporary setback in a healthy industry can recover. A company whose industry has too much capacity, little pricing power and customers who switch for a small discount usually cannot, however good its managers are.

A few signs suggest a chronically leaking boat. Returns on capital stay below what a fixed deposit would pay, year after year. Each new round of spending is followed by another, with no lasting rise in profit. Debt creeps up to fund the patching. And the annual report keeps promising that the turn is one more year away.

None of this calls for selling every laggard. It calls for asking, honestly, whether you would buy this business today with fresh money at today's price. If the answer is no, holding on is not loyalty. It is patching.

If you do one thing: For each stock you have held for more than three years, look up its return on capital employed for those years. If it has stayed below what a safe deposit would have paid, and nothing structural has changed, write down why you still own it. If you cannot, consider changing vessels.

Buffett's mills had good managers, willing workers and an owner with patience and money. None of it was enough, and the looms ended up as scrap. Twenty years of rowing taught him a lesson he spent the rest of his career applying: choose the boat first.

For an investor, that choice comes up every time you review a holding. Rowing harder feels virtuous. Sometimes the wiser effort is to step into a different boat.

Sources

- [Berkshire Hathaway: 1985 letter to shareholders](#)
- [Wikipedia: Great Bombay textile strike](#)
- [CNN Money: Production halt for India's iconic Ambassador \(26 May 2014\)](#)

- [Business Today: Century Textiles rebrands as Aditya Birla Real Estate \(15 October 2024\)](#)

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