



Tom Connor's Thinking Forward:

A Lesson from the Best

With about \$43 billion in cash on its books at the end of the 2nd quarter of 2005, the Berkshire Hathaway Corporation has the means to have just about any web site known to man. When a startup web development company sent a letter (<http://www.matr.net/article-6751.html>) to the CEO of Berkshire Hathaway offering their services to develop a new design to improve the aesthetic appeal of the site, they received a quick response from CEO Warren Buffett. In a handwritten note, Mr. Buffett explained his approach and that the company web site was suitable for the company's intentionally plain style.

More than once the Berkshire Hathaway web site (<http://www.berkshirehathaway.com/>) has been described as minimal. Essentially, the site is 2 columns of links to information that list annual reports, letters to stockholders, announcements and links to companies owned by Berkshire Hathaway in case site visitors want information or to make a purchase. (For the technically knowledgeable there are no graphics except 1 gif and 1 jpg file at the bottom of the page and they are links to the sites of two companies owned by Berkshire Hathaway. Colors are contained in the following instruction: `<BODY TEXT="#000080" LINK="#800080" VLINK="#ff0000" BGCOLOR="#ffffff">.`)

Building Value

Berkshire Hathaway is a holding company that buys other businesses. By focusing on getting the most value from each dollar he spends, Buffett has seen the price of class A shares of Berkshire Hathaway stock rise from the area of \$8.00 in the 1960s to \$80,500 at this writing (September 21, 2005. This is down from a 52 week high of \$92,000).

He has done this by staying on the lookout for undervalued companies and for companies where he recognizes something he (Berkshire Hathaway) can do to increase value. One of these companies is the automobile insurer GEICO. GEICO was founded in the 1930s with a business plan that kept costs low by marketing to lower risk groups of customers. It also used direct marketing instead of supporting (and paying commissions to) sales agents. It worked and GEICO did well.

Buffett, who had been involved with GEICO early in his career, liked the value he'd seen but saw the potential for more value and in 1996 bought the entire company through Berkshire Hathaway. But unlike the approach with Berkshire Hathaway, Buffett decided that increasing GEICO's value meant increased spending on advertising and marketing and he increased the advertising budget.

From the history section of the GEICO web site:

"Warren Buffett liked what he saw. In 1995, his Berkshire Hathaway investment firm made a generous bid for the remaining shares of GEICO's outstanding stock, and by 1996, GEICO was a subsidiary of one of the most profitable organizations in the country."¹

¹ - <http://www.geico.com/about/background/geicoHistory.htm>

"That led to national advertising on an enormous scale. GEICO's ads and direct mail pieces flooded the airwaves and filled mailboxes around the country and the company's growth shot upward. The GEICO Gecko made its first appearance during the 2000 television season and has quickly become an advertising icon."

Today, GEICO's direct advertising efforts include vehicles such as direct mail, TV, radio, and the Internet. Recently GEICO introduced a new series of television ads. Typical in his quest for value Buffett asked about the new television ads: "Do they work?"²

Potential Value

The role of the Internet (and other online communication technologies) as a way of reaching customers is growing. From the early days of ARPANET when most users were technical people to the Internet of today where user friendliness and non-technical users are common, the numbers are increasing. But, this evolution is not just larger numbers. It is also that the Internet's role as a source of information and commerce is rising as well.

In a December 2002 report "Counting on the Internet", the Pew Internet and American Life Project documents Americans increasing reliance on the Internet and also that our institutions are changing in response. "The dissemination of the Internet has transformed how many Americans find information and altered how they engage with many institutions, such as government, health care providers, the news media, and commercial enterprises. Terms such as electronic commerce, e-health, telemedicine, and e-government were novel ten years ago. Today, major newspapers and magazines routinely have special sections on these topics, with many having feature sections on these subject regularly."

Overall 84% of Americans expect to find reliable online information about the institutions mentioned above. This includes 63% who expect a business to have a web site with information about a product that they are considering for purchase. Even if online shopping is not provided an online presence is important. "If a store provides product information online, even if it doesn't sell products at its Web site, nearly half of all Americans (46%) said this would make them more likely to go to the physical store to buy the product."

Building Value II - Focus on customers

Value doesn't mean lowest cost. It means being smart about the way you spend, and when you're spending to attract customers, that means knowing something about those customers. Buffett's understanding of the people interested in Berkshire Hathaway led him to the "intentionally plain style" of that web site, and his confidence that the managers of the Berkshire Hathaway subsidiary companies understand their customers leads to the different styles and techniques seen among those web sites. (The term customer is here meant to include visitors to web sites, email users, or anyone accessing information with these technologies. While the term usually refers to a participant in a commercial transaction, it is not the use here.)

Marketing professionals have long stressed that attention to customers is a key to the success of many companies, and that companies that understand the behavior of their customers have a better chance to rise to the top. Spending budgets wisely and increasing value still depends on the same issues: attracting visitors, turning visitors into customers, and getting those customers to return.

² - <http://www.newstarget.com/004322.html>

But there are changes. As users interact with online technologies new habits and behaviors are evolving. Communication still takes at least two parties. It's a message sent, and a message received. Over time many communication techniques have developed, and they can be strikingly effective. But as use of online technologies becomes part of our culture users are developing new behaviors.

The challenge is becoming less a technical one of sending a message and more a challenge of understanding and adapting to these new behaviors. Online communication is different. For example, when online the social environment is different and there are no investments of time to physically visit a location. So, if users are not comfortable with the content of a message they just click and go on. Or if they find something else about the message that's not appealing, they click and go elsewhere.

The recognition of online behaviors is important for effective online communication. Ineffective messages are both costly and lost opportunities that may not happen again soon, or not without additional expense. As pointed out by the Pew report, online use is increasing from more users and their greater reliance on the Internet for information. Message senders who pay attention to the behavior of these online users and who recognize that behavior will gain. The gain will be more visitors who turn into customers and increased customer loyalty.

So while some things have changed, the basics have not. Sending messages that appeal to message receivers is still important. What is different is the behavior of people as they interact with online technologies and our need to understand and adapt our messages to that behavior so we use these technologies effectively and build value from use of the technology.

Realizing Value - No Time Like the Present

There is a lot at stake. As users develop behaviors and habits inertia develops. Once in place, it's increasingly difficult to alter that inertia. Consumer marketing experts have long identified the value of establishing a 'Brand' to build loyalty among customers.

Understanding and adapting to people is part of communicating. It's no different online. What is different is the emergence of behaviors unique to online users, and the need for message senders to be knowledgeable of those behaviors to send effective messages.

Moving On

OK, since you're on <http://www.hungrypeasant.com> we'll accept that you've already started to recognize something new and different about communicating with online technologies. This web site contains work of people who are committed to and believe in the opportunity that exists by using these technologies. Look at the other links. Use them, read them, and you'll be developing a better understanding of user behavior that will help you develop more effective communication, and build the kind of value that has a strong track record of success.

Warren Buffett, the CEO of Berkshire Hathaway is listed by Forbes Magazine as the 2nd richest person in the world with a \$44 billion net worth.

The Pew Internet & American Life Project produces reports that explore the impact of the Internet on families, communities, work and home, daily life, education, health care, and

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civic and political life. The Project aims to be an authoritative source on the evolution of the Internet through collection of data and analysis of real-world developments as they affect the virtual world.

The web sites of Berkshire Hathaway can be seen at <http://berkshirehathaway.com> and it's subsidiaries at <http://berkshirehathaway.com/subs/sublinks.html>.

We hope you enjoyed Tom Connor's **Thinking Forward** article. To be notified when Tom or our other author's enter an article, please go to <http://www.hungrypeasant.com/remindme.cfm>. You can contact Tom with questions or thoughts about what you've read at tomc@ridma.com.