Letter to Clients
September 2024

Smells Like Teen Spirit

"Oh, how she rocks
In Keds and tube socks"

Teenage Dirtbag, Wheatus

As we approach back-to-school season, we thought it might be timely to riff on that staple of teen fashion magazines everywhere and serve up a list of what's "in" and what's "out" according to our Marshfield style guide. While it is appropriately difficult to distill the experience of many years of investing into a tidy set of dos and don'ts—especially as any such list would be rife with exceptions—it is nonetheless possible to take several steps back and make some useful generalizations. The below list is by no means exhaustive, but it should give you a feel for what we value, what gives us pause, and what we wouldn't be seen dead investing in even if all the cool kids were rocking it in their portfolios.

Out: Companies That Require Long Lead-Times to Make What They Sell

In general, we admire companies that can turn on a dime when they make a mistake or when circumstances change for them, either for better or worse. We've written a fair amount about resilience, and one of its hallmarks is the ability to respond swiftly and decisively to change. Behavior around forecasting and meeting demand can be particularly clarifying. One of the most difficult things any company has to do is to predict demand for its goods and to right-size its offering to meet—but not materially exceed—such demand. Those companies that look for and receive quick feedback as to whether or not their product is meeting customer appetite as forecast and that can course correct swiftly if the answer is "no" are very much to our taste. Similarly, companies whose output costs little to produce don't need to care too much about overshooting their targets unless they destroy pricing with excess product. But our real hot take* is that companies that require loads of time to add costly capacity, especially those that cannot easily flex up or down to adjust their plans midstream are, as the zoomers like to say, cringe*.

Some of you might be familiar with the concept of the "Tragedy of the Commons".[1] When individuals have access to a finite, shared resource and there is no viable means of allocating or rationing it, they tend to revert to doing what they see as best for themselves, rather than what might suit the community at large. This can result in exhaustion of that resource, something that harms both the community and the individuals who participated in the depletion. Overfishing in

[1] While the concept seems to have originated in 1833 with British author William Forster Lloyd, the term itself was coined in 1968 by Garret Hardin in Science Magazine.

common waters and overgrazing of animals are classic examples. In fashion, demand for cashmere (fashion note: it always slays*) has become so great that traditional methods of cashmere goat husbandry cannot keep up with the demand without undermining the product and therefore the industry, ultimately challenging its long-term viability.[2]

We like to conceptualize demand for a product as similar to grazing land in that it is, at any point in time and at a specific price, a fixed quantum, available to be divided amongst suppliers[3]. Companies producing too much given the amount of demand (and the shape of the demand curve) are in effect destroying returns for everyone selling into it, themselves included (so long as the products are largely substitutable). This is a more acute risk in new markets and with new products where demand history is scarce or nonexistent and there is a race among participants to dominate the market. Since there's no good way for such a company to understand in advance and with precision how much supply will be brought online by other producers, how much demand there will be, and how much share it can capture, each individual company will decide on its own how much to produce. This happens all the time unless goods are made to order (which is why overstock exists), though the give-and-take of rapid market feedback and pricing dynamics that allow the market (and producers) to adjust serves to soften the blow of uncertainty in those industries that can course-correct along the way.[4]

However, where the company is a producer of goods or service that require a long lead-time to plan, fund, and/or construct (or is a customer, such as an airline, that buys such items in order to meet a demand from their own customers), that classic feedback mechanism can be inadequate to the task.[5] Even if the producer has a pretty good grip on the size of the market into which it is selling, it has imperfect visibility into what its competitors are doing in terms of bringing additional goods online and into what the demand environment is likely to look like two, three, or more years out. In industries where demand varies a lot, this problem can be quite meaningful. The challenge is further exacerbated in an industry in which a company sells something "non-storable", such as space on cargo ships, airplane seats, electrical plants that provide peaking power, or hotel rooms.

---

[2] And yet, this last example suggests at least one market-based solution to the problem: charge enough to limit demand but also provide an appropriate return to the cashmere producers. But human nature, as is its wont, interfered, offering a different but less stable solution. More supply came online—more goats were bred—requiring some production to be done in marginal habitats and on overgrazed rangelands. Lower quality fibers and therefore less luxurious sweaters resulted, selling for far less. While high-quality cashmere is still available for the quiet luxury crowd, those with the lust for luxury but not the pocketbook can also afford it today, albeit at lower quality. This has fueled a $3.2 billion industry benefiting farmers in Mongolia and China. Win-win? No, a brewing ecological tragedy for fragile ecosystems and an ultimately unsustainable industry. See, "This Holiday, Consider the True Cost of Cheap Cashmere", Ginger Allington, The New York Times, December 16, 2023.

[3] While demand is static at a given moment in time, it obviously adjusts as market forces do their thing. In particular, it expands or contracts as feedback effects shape and reshape it. If there is a high price elasticity of demand, for example, more supply will reduce prices and thus produce more demand.

[4] It would be negligent not to mention the "pork cycle" in this context, which is a phenomenon observed in the pork and cattle industries but applicable to pretty much any industry where a relatively lengthy cycle of production exists. When hog production is low relative to demand, the price of pork rises, encouraging other farmers to enter the pork business. This then expands supply and results in reduced prices, thereby causing farmers to exit the business. Around and around it goes, like any good cycle, with little to be done about it.

[5] While expensive but quick-to-produce goods also send up a red flag for us, the producers typically have a better window into end demand than those with long lead-times.

That “inventory” expires with each passing day that it’s not used, with each tick of the clock detracting from the ROIC of the company producing it.[6]

A related problem is the addition to internal production capacity by manufacturers where it takes a long time to build a new factory in order to address anticipated increases in demand. While all manufacturers face this problem to one degree or another, those making and selling more highly differentiated products are more likely to have better market insights related to demand for their specific product as opposed to just overall industry demand than those manufacturing and selling ordinary commodity products or simple “capacity” (like airlines and cargo ships do). Therefore, they can and are more likely to be more nuanced in supplementing their production capabilities, thereby avoiding the “lumpiness” of across-the-board additions to their operations. Supply in pure capacity-selling industries, on the other hand—especially where the capacity brought online is relatively easily swapped for a competitor’s offering—tends to be more synchronized in response to growing markets as producers try to colonize the “Commons”. Nonetheless, demand can still be misjudged; every day a new factory’s fixed costs fail to be fully leveraged, the company’s potential ROIC is reduced.

Let’s take a closer look at cargo ships: what an ocean freight company sells is cargo space for goods that need to be transported across the world’s various waterways. At the start of each ocean passage, the space on the vessel effectively expires, and with it the opportunity to generate additional revenue from that run. While more demand for space may arise by the next embarkation date, yesterday’s space is forever lost. It’s obviously in the interest of both individual companies and the industry as a whole to add to capacity as incrementally as possible lest individual carriers overwhelm it with new supply, thereby lowering prices through excess capacity.[7] But such coordination is neither in the immediate self-interest of companies nor legal under antitrust laws. And although, in theory, global demand for ships to transport goods continues to rise at least with global GDP, it is still difficult to pinpoint the likely level of demand several years out[8], just as it is impossible to predict geopolitical complications such as the Red Sea turmoil that have constrained capacity this year. Moreover, since additions to cargo space are lumpy, the change in supply can end up being significant when a huge new ship launches. Last year alone served up substantial new capacity: some 2.2 million TEUs of vessel capacity emerged from shipyards in 2023 and an additional million TEUs of new capacity is on order.[9] Of course, in theory, the luck of the draw could just as easily see an *increase* in demand in excess of what the ocean freight company forecast when it began the process of designing and producing

---

[6] This is what economists call the “peak load problem”. As noted above, it’s common in the airline industry as well as in the electric utility industry. The underlying question is how much internal infrastructure or external capacity do you build in order to address occasional demand peaks? The solution to the problem is peak load pricing, which swaps out the introduction of new capacity for maintaining existing capacity but charging more for it during times of peak demand. The problem? Individual actors will behave like the farmers grazing their sheep and try to capture as much of that peak demand for themselves as possible by bringing on new capacity. Raising prices unilaterally is a tough sell.

[7] Typically, lower prices do not spur greater demand for cargo space. Shippers don’t ship more product simply because shipping costs are lower. In other words, there is a low elasticity of demand for the commodity.

[8] From design to launch can take three or so years for a large cargo ship.

[9] A TEU (Twenty-Foot Equivalent Unit) is a measure of volume in units measured by twenty-foot long containers. “Container shipping still has an overcapacity problem, but it’s far from insurmountable,” Mark Szakony, February 15, 2024, Journal of Commerce (at least part of the “solution” appears to have been the Red Sea crisis).

a new ship; but the pressure not to cede share and not to be left behind as competitors expand tends to make that the less likely outcome (cue The Tragedy of the Commons). Either way, we try hard not to invest in businesses where having swag* requires a boatload of good luck.

In: Companies That Can Exploit the Long Lead-Time Production of Others

Clearly, while every company has to be able to model future demand, some have an easier time than others doing so. Indeed, for some companies, precision in forecasting demand doesn't even matter that much. This is either because their markets are extremely predictable, their cost of producing goods for sale is minimal, with overproduction a mere bump in the road,[10] or because they can easily throttle back on product or production at the first indication that they misjudged the level of demand. We stan* companies that don't have to hold their breath in case demand fails to meet their expectations. But we've also learned that one of the best ways to really glow up* a portfolio is to find companies specifically positioned to exploit the capacity miscalculations of others. **TJX** and **Ross Stores** come to mind. Both of these retailers of apparel and home goods sell the overstock produced or stocked by others. Whether the misjudgment is on the part of manufacturers like Polo Ralph Lauren or distributors like Macy's or Bloomingdales, TJX and Ross can sit by the sidelines and watch to see where demand has settled out—what consumers have a taste for and what they eschew—and only then purchase merchandise for the new/current season. This way, they can strike a good bargain for those leftovers that vibe with of-the-moment tastes—or at least do so at a more appealing price point. The timeline for producing first-run ready-to-wear apparel continues to be surprisingly long. What you see in full-price stores starting in late summer for the Fall/Winter season began its life on a drawing board in the designer's studio between 6 and 18 months earlier, with 9 months start-to-finish pretty typical. Full price retailors like Nordstrom typically commit to buy product for the Fall/Winter season between February and April of that year. But as we all know, what slays* can turn on a dime and even six months can spell an eternity, especially for youth-oriented items. But what happens to the purveyors of overstock if designers and merchants zero in on exactly what the fashionistas want? We've been following these companies for years and owned them for many of those; there has never been a dearth of overproduced goods. Indeed, vendors have figured out that they should always manufacture extra stock to sell directly to the likes of TJX and Ross, even though that's not technically overstock. Of course, for our two clothing retailers, that's pretty dope*.

Another industry in which almost every one of the participants takes a long time (and a lot of capital) to produce additional product is homebuilding. As we've discussed over the years, the only homebuilder we would currently buy (and that we've held in our portfolio for some time now) is **NVR**, which is willing to buy land off-the-rack instead of going through the lengthy and asset-intense process of developing it itself. Instead, it buys options on the parcels on which it wants to build houses, exercising those options (or not) as it sees demand developing.[11] While this limits the up-side it can realize through buying land that then soars in value over time, it also limits its downside in case the appetite for a certain region diminishes or the land declines in value for

[10] We once talked to Claire's Stores, the purveyor of trinkets for tweens, and their tried-and-true method for disposing of excess inventory after mark-downs failed to move the goods was…actual disposal.
[11] While NVR has to pay for its options, that cost is far less than, say, the cost to an airline for cancelling an order for an airplane.

other reasons. It also gives it immense flexibility in the event of a widespread housing downturn, as was the case in 2008-2009. NVR fared far better than its peers over the course of the downturn, losing money in one quarter only, buying back great quantities of its own shares at rock-bottom prices because it didn't need to liquidate land or sell its "spec" houses in order to generate cash. Over the years and across cycles, this strategy of taking advantage of others' land fetish and their propensity to buy up "the Commons" has led NVR to perform substantially better than its fellow publicly traded homebuilders, which is pretty sick*.

Getting back to ocean cargo: **Expeditors International** is a non-asset-based freight forwarder that, among other things, contracts with ocean and air carriers as well as ground transportation providers to move freight for its customers, typically vendors of things like apparel and electronic goods to be sold at retailers around the world.[12] Often these vendors/shippers are small and lacking the capability to negotiate complex transport on their own. By consolidating shipments from multiple customers and concentrating their buying power, Expeditors can negotiate more favorable buy rates from the carriers, while at the same time passing along lower sell rates to the shippers than the shippers would otherwise be able to negotiate on their own—all without taking any of the risk associated with owning the means of transport itself. This is a very good business, albeit somewhat seasonal in nature and subject to fluctuations due to the global economy and changing shipping rates. And while, in general, high rates are better for it, allowing it a greater spread, lower rates due to overcapacity still typically allow it enough markup to generate a profit, without having its capital immobilized in temporarily low-return business.[13] However, where Expeditors is straight fire* is during times of chaos, where changes in capacity (up or down) cause confusion in the marketplace. Chaos introduced by shifting rates (usually caused by a shortage of or excess capacity) is a boon for the company because, with its broad network of relationships and its ability to pick and choose the right fit* at the right time, it can exploit quirks in pricing resulting from the fluidity of the situation. In calm times, when capacity is steady and external events like port congestion are not issues, Expeditors typically makes fine money, so long as international trade is proceeding apace. But as rates change or circumstances throw curve balls of different kinds, its expertise is at a premium. Expeditors is savvy enough to maintain good relationships with carriers during flush times (it sometimes avoids rock bottom carriers when rates are low so it can patronize their somewhat pricier competitor with whom Expeditors is besties*), so it often has preferential access to capacity during difficult times. And because shippers need to get their goods from place to place intact and on time regardless of what's happening with rates, piracy on the high seas, or congestion at ports, they know that Expeditors can increase their chances, albeit at a price, of being able to follow through on their own commitments to their overseas customers. For us, that has more aura* than investing in a company like Maersk, which owns the ships, come hell or high water.

[12] Their full suite of services includes: "air and ocean freight consolidation and forwarding, customs brokerage, warehousing and distribution, purchase order management, vendor consolidation, time-definite transportation services, temperature-controlled transit, cargo insurance, specialized cargo monitoring and tracking, and other supply chain solutions."
[13] Sometimes, however, as in the most recent quarter, spot buy rates are higher than the rates at which Expeditors can sell the capacity, either because of long term contracts or because of current market dynamics.

Out: Industries Undergoing Big Changes Where You Have to Choose Sides While the Jury is Still Out

As you're no doubt aware, we've historically shied away from companies in rapidly changing industries, especially those being disrupted by forces beyond the control of the participants. This is one of the main reasons, in addition to valuations that give us the ick*, that we've been wary of investing directly in technology companies[14]. Existential changes can come from the marketplace—customers want something different and/or better than what's been on offer—or from regulators or legislators that don't like the current state of play. When we see an industry either in or about to enter chaos and where companies in the industry are forced to make a life-or-death decision about where they think things will eventually shake out, we become wary. Sometimes, however, we've not been wary enough.

In the aftermath of the 2008-2009 financial crisis, Congress, the Federal Reserve, and the other banking regulators addressed what they thought to be the most egregious abuses that contributed to the crisis. With the passage in 2010 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, a number of practices engaged in by commercial and investment banks were constrained or outright banned, resulting in a markedly changed operating environment for Wall Street and the housing sector. During that time, we built a position in Goldman Sachs, which we held despite changes that, among other things, both severely limited its ability to engage in proprietary trading, a practice that in the past had contributed substantially to its coffers, and also imposed minimum capital requirements and annual stress tests that further clipped its wings. In many ways, we were right to do so: Goldman's investment banking franchise was second to none; its trading businesses were thriving; and it continued to attract the best and the brightest in new talent. Goldman's response to the regulatory and legislative changes to its business, however, turned out to be suboptimal. While it abided by the rules under the new regime, it chose not to completely revamp its business design on the assumption that the rules were likely to loosen over time and that until it became clear that they were destined to become entrenched, it could experiment a bit with a less fulsome corporate makeover. By contrast, Morgan Stanley, which had for some time been a bit dowdier than the sharply attired Goldman set, bet on a future nicely suited to the new regulatory environment. Partly because of its head start in having purchased Dean Witter Discover some years before but partly because it was generally less obstreperous than Goldman, it shied away from capital-intensive businesses and focused on building out its wealth management platform, which required little to no capital. Ultimately, Goldman was proved wrong in slow-walking its transition and it had to scramble to assemble a strategy that made sense for it in the persistently capital-lite-biased regulatory environment. While this did not fully account for why we eventually sold the stock, it was representative of the kind of cultural arrogance that also led the firm to make other, equally fateful decisions. Goldman's belief that it could outwait and outwit the regulators was not just the wrong bet, it completely misjudged its power within the ecosystem. Confronted with myriad evidence that its industry was facing enduring change and that it would need to transform along with it, its decision to stand astride past and present was, in hindsight, big yikes*.

[14] Even accepting rich growth and margin assumptions, valuations are extremely difficult to conduct with any semblance of accuracy in an industry like tech that is rapidly changing, continues to have a plethora of new entrants, and is often unconstrained in its current expenditures because of shareholder willingness to allow seemingly boundless reinvestment for "growth", share, and penetration of new markets.

In: Companies Positioned to Straddle the Possible Outcomes of Change

The quest for non-gasoline powered vehicular engines has been speeding up recently. While it's abundantly clear that change is in the air—customers, legislators, and regulators are all demanding it—there is no clear-cut winner for anything other than passenger cars on the immediate horizon (specifically, electric batteries seem to have at least a temporary lock on the market). In the large on- and off-road vehicle space, things are different, the Tesla Cybertruck and its still theoretical bigger brethren notwithstanding. This is a market in which heavy-duty engines are required to move massive, multi-ton machines for which diesel has long been the fuel of choice. A variety of technologies are auditioning for the new low- or zero-emissions role; liquified natural gas, fuel cells, hydrogen, traction motors and inverters, non-lithium ion batteries, among others are all contenders. For a company like **Cummins**, which is the only large independent manufacturer of diesel engines for heavy-duty class 7 and 8 commercial trucks (it also produces engines for medium-duty and pickup trucks as well as vocational vehicles like refuse trucks and cement mixers), investing its future in the wrong technology could be existential (remember VCR versus Betamax, anyone?). Cummins' list of customers includes such household names as Navistar, Paccar, and Volvo in the trucking space, and Dodge's RAM trucks in the pickup space. And while its diesel business is unlikely to be displaced any day soon, the company has long understood—and been quite forthright about the fact—that a new technology will eventually make the diesel engine obsolete. Happily, though, Cummins has both the resources and the mindset to pursue each of the likely alternatives as though it could end up as the winning technology. Its zero-emissions segment, Accelera, is experimenting with a series of decarbonizing technologies such as hydrogen fuel cells, e-axles, traction motors and inverters, integrated power train solutions, and electrolyzers. Does this cost money for the company and its shareholders? Yes, it does. But is it better than hazarding a guess—intelligent and informed, but a guess nonetheless—and being wrong? Yes, indeed. And in the meantime, as diesel continues to own the market for heavy vehicles, both on- and off-road, Cummins not only remains the only game in town for external diesel engine manufacturing, but the looming transition away from diesel very likely means that more and more OEMs will discontinue their own in-house engine manufacturing operations and turn to Cummins. Having it all ways like this is pretty much our jam*.

An industry currently undergoing a massive shift in just about every way possible is the entertainment industry. The classic two-sided battle between content and distribution seems quaint given the multi-front wars being waged today: the ascendancy of streaming (though still barely if at all profitable for most media and entertainment companies) has enabled cord-cutting by viewers and all but knee-capped cable and linear broadcasting; the advent of AI and especially of generative AI has threatened the jobs of writers and actors alike; distribution companies are facing new competition from tech firms at the same time that linear network owners are imposing higher rates despite declines in viewership; media consolidation persists, often without a compelling rationale but as a way to pick a new set of Scrabble tiles; and consumers are more and more often turning to less traditional purveyors of entertainment such as YouTube and TikTok. At the same time, while feature films are reclaiming some of their mojo, their box office remains below pre-COVID levels. While hypotheses abound about how this eventually sorts out, those who believe it's possible to definitively determine the exact contours of the industry once the dust settles are, we think, delulu*.

The one thing we think we can all agree on about this industry, though, is that the core function of entertainment for the masses is going nowhere. However and by whomever content ends up being produced and however and by whomever it is to be distributed, people will continue to consume some form of media in order to be entertained. Despite the chaos, we do not believe that all incumbent players are candidates for the scrapheap; they might simply need recycling into something better suited to a new era. In that vein, we believe we have found a player that is capable of riding out the turmoil and emerging with much of its vision and capabilities both intact and in demand. First, it's important to note that **Disney** is not just an incubator and producer of creative content, animated and otherwise. It generates around half its revenues in its "Experiences" segment, which includes its theme park, cruise line, and resort hotel businesses. While these businesses interact with and borrow thematically from the entertainment side of the company, they are independent drivers of sales. We do not expect that part of the business to change in a fundamental way when the pieces of the broken industry are put back together, except insofar as new technologies like AR and holographic imagery can be put to increasingly better use in the parks' rides and exhibits as innovations in those areas progress.

On the media side of the business, the company has properties that include linear broadcast and cable networks (ESPN has been a particular, albeit somewhat tarnished, star), direct-to-consumer streaming services such as Disney+ and Hulu, and studio entertainment. Each of these groups house multiple divisions and properties that have, in our view, sufficient autonomy to respond to changes in the marketplace and to produce high quality content, but not so much independence that they can ignore the fact that they're all on this ride together and that what keeps things on track is the common aesthetic and culture of Disney. A 100-year old company built largely on the back of a suspender-wearing mouse, Disney not only has a strong identity, it has, historically at least, supported the making of high quality and correct-for-its-audience content over a very long period of time. While it has been acquisitive—sometimes at eye-watering cost—it has been careful to buy properties with the right fit, fundamentally in sync with the ethos of the company. Although it and many competitors, such as Paramount and Warner Bros. Discovery, are somewhat similarly configured, those competitors don't have nearly the quantity of gold-plated IP nor the engine to create it with reasonable consistency. Recently, Bob Chapek, the CEO who took over for the then-retiring Bob Iger, took steps to "rationalize" the company and centralize functions, taking aim at the creative fiefdoms that had arisen over time. The consequences were swift and dramatic, resulting in external culture wars, poor product, and a massively pissed off workforce. Iger returned, and while all is still not right in Disney's magic kingdom, at least he has been able to partially reset the company back to the days when it understood and treasured what it was. With a steamroller of a parks business[15] blocking for it financially, we believe it to be very likely that its streaming operation will endure when certain others fall to the wayside. And we believe that however the table is eventually set, Mickey will have a seat at it because that mouse has rizz*.

Out: Companies That Take Their Customers For Granted

Customers can be a real drag. They want more and more for less and less and even if you give them what they want, they still complain. Or at least that's the attitude of far too many public companies. In our view, though, nickel-and-diming the customer is a lazy way to cut costs and

[15] And yes, we know that the whims of the economy can make the pricing of the parks unaffordable to many, but there are multiple levers that can be pulled, such as different tiers of admissions, that can make it more affordable.

yassify* margins. And demonizing rather than centering the customer puts you on a track to nowhere. Even where there are few existing alternatives for customers to turn to, patronizing the ones who feed you is rarely sustainable. Boeing is an excellent example of this kind of blinkered thinking. The company's quest for margin and "efficiency" got so maniacal—it ended up killing people—that the regulators and courts are now nipping at its heels. A little quality control and an understanding of what the airlines were looking for (um…safety?) and then serving that up would seem so elementary as to be shocking that it wasn't provided. While it may be in a class (almost) by itself in killing people with its blasé attitude, it is not alone in its arrogance. For example, a number of wealth management firms, including Morgan Stanley and Wells Fargo (no stranger to mishandling its customers), are facing class action lawsuits and SEC investigations for their cash sweep programs that pay negligible interest. We get that NIM is this crowd's lifeblood, but juicing it on the back of the underlying source of their livelihood—customers and their assets—seems short-sighted at best.

The airlines, ironically perhaps, in that they are Boeing's primary customers and so should know better, seem to have perfected the art of mistreating the consumer. Shrinking leg room and seat size, charges for (execrable) meals, bags, and movies, and maintaining loyalty programs that provide little in the way of actual rewards are among the indignities passengers are expected to endure. This has been going on for years, of course,[16] but may have reached a new low in the case of Delta recently, the airline many of us once viewed as the gold standard for service among U.S. airlines. After taking a veritable eternity to return to the air following July's CrowdStrike outage, Delta has been slow-walking reimbursement requests from passengers affected by that debacle. A vague set of promises as to what damages would be reimbursable and a convoluted appeals process for denials brought to a boil the already simmering passenger anger.[17] And beware the power and influence of social media! Many a TikTok has been conceived from the belly of a late, overcrowded, or cancelled Boeing 737. Indeed, one recent social media screed by the actor Josh Gad[18], as low-key a guy as you could find, went viral. Gad unleashed a nuclear tirade against Lufthansa after the airline downgraded him to coach seats with no explanation, declined to load his luggage as it already "had too many bags", and made no attempt days later to get it to his ultimate destination. One might think that the virulence of social media when in the hands of dissatisfied customers might…make companies more attuned to their needs? Yet, even if passengers respond to such events by switching carriers to equally lousy ones, the entire industry suffers, as passengers no longer feel any loyalty and, on the margin, will take alternative transport. In general, any industry that needs to be told by Congress that it's inhumane to keep passengers waiting on the tarmac for more than three hours is an industry we suggest long-term investors swerve*.

Much as it pains us to acknowledge it—though acknowledge it we must—Chipotle, a company we've admired both as owners and, more recently, as watchful viewers from the sidelines, is currently flirting with this kind of anti-customer behavior. We understand that food and labor inflation are real things and that companies need to pull whatever levers are at their disposal in order to address those challenges. But teeing off the customer is rarely the route to renewed

---

[16] In the 1980s, Robert Crandall, CEO of American Airlines, reportedly saved the company $100,000 by removing an olive from salads. See, "British Airways Struggles To Launch Buy-On-Board Food and Drinks", Doug Gollan, Forbes, January 13, 2017.
[17] See, e.g., "Delta Air Lines passengers still struggling to get reimbursements: 'Don't expect loyalty'", USA Today, August 14, 2024.
[18] Perhaps best known as Olaf in Disney's Frozen franchise.

greatness. Anyone who has ever fed a hangry* middle- or high-schooler at Chipotle knows that it's the bussin'* place for the insatiable walking stomach that is a teenager. Lately, however, Chipotle has been credibly accused of skimping on portion sizes to fatten up its bottom line. One YouTuber was so outraged that he filmed (and then weighed) his orders at various locations around Ohio and Pennsylvania. After putting 15 bowls and 15 burritos to the scale test over 30 days, he found that burritos ordered online were lighter 70% of the time[19]. But customers shouldn't have to be present to ensure their meal makes the grade, especially when the company feeding them is pushing hard into online ordering. And even those who are present shouldn't have to bully servers into getting the portion size correct. Happily for burrito eaters everywhere, the company heard the complaints and says that it's actively working to locate the restaurants underfeeding its patrons. By its count, it's only about 10% of them, but for a company that built its reputation in part on burritos the size of one's head, it's a serious misstep.[20]

In: Customer-Centric Companies

And then there are the companies that would very much like to be excluded from this narrative*, thank you very much. A laser focus on what it is their customer values and how best to serve that up to them is the secret sauce of many a great company. While investing in customer service, training employees to treat them with respect, and going the extra mile can be costly and time-consuming, visibly skimping on those qualities can alienate customers like almost nothing else. Take, for example, **Progressive**, which offers a car insurance tool that allows buyers to "name their price" and then shows coverage options that fit that desired cost. That's a win for the driver, who feels taken seriously and is provided with an affordable policy, and a double win for Progressive, which is able to place new business at a profitable price while also making the customer feel valued and in control. The company also understands that claims are a pain point for drivers; having suffered an accident, all they want is to get the damage addressed quickly, professionally, and with a minimum of hassle. This may require a greater degree of back-of-house sophistication and front-of-house courtesy (and takes some guap*), but the faster claims are resolved, the less likely they are to turn into costly litigation. Again, a win for both company and customer.

The company whose customer-centricity we keep returning to is **Fastenal**. Perhaps it's the company's Minnesota roots, perhaps it's the Wisconsin-bred CEO[21], but the "help your neighbor" attitude manifested by the company is hard to miss and the power of it easy to underestimate. Fastenal's long history was built on small locations in rural areas that catered to local needs with respect to the fasteners and other bits and bobs needed to run local construction and industrial projects. Its store managers have always been empowered to act like owners. They stocked the store according to the perceived needs of the community they served, got to know the customers that frequented the stores, and became a valued fixture on the local commercial scene. As the company evolved toward handling larger, more nationally-based accounts, we had some concern

---

[19] See, "Chipotle Fans Take Burrito 'Skimp' Into Their Own Hands", Heather Haddon, Wall Street Journal, August 6, 2024.
[20] And not even a misstep we could exploit in the (correct, as it happens) belief that the company would get its act together; as the stock price barely blinked.
[21] Our resident Minnesotan was skeptical at first, but has come to accept that the Badger State has at least one good thing to offer.

that it might lose some of that local flavor and customer-friendly attitude. But in its new self-identified role as supply chain partner to its national and multi-national customers, it introduced industrial vending machines and installed on-site operations within their customer's manufacturing plants. Again, a win-win for both Fastenal and the customer. Moreover, it maintained the can-do partnership spirit by doubling down on being helpful, even in areas that were relatively tangential to its core business. A quick example: at the beginning of the COVID pandemic, a customer of Fastenal needed masks in quantity. It had identified a vendor in China that could provide them but the customer had no independent way of getting the masks from overseas. It contacted Fastenal, knowing that the latter had an extensive supply chain in Asia that it would likely be able to tap to procure them. Not only did Fastenal secure the needed masks for them, but it researched the vendor, found it wanting, and was able to source the masks from a superior manufacturer it found. More recently, we were pleased but not surprised when Dan Florness, the CEO, gave us the receipts*, recounting the story of Wade, a Fastenal employee working onsite at a Phillips 66 facility in Sweeny, Texas. Just before a hurricane was to hit in the early hours of a Monday, Wade went to work late on the Sunday night before to be there just in case he was needed in a time of stress. No one asked him to, he simply thought it was a good idea. Other Fastenal employees were also up and at 'em during that storm. After the storm had passed by the next business day and the power was out through most of Houston, Fastenal employees hopped in their pickups and made the rounds of their customers to see how they were faring and if there was anything they needed. That attitude is (perhaps literally) cash*.

Hitting Different

While there are numerous dimensions on which we evaluate a company, things like consideration for the customer, a relatively stable industry, and the ability to respond swiftly to demand (and changes in it) are only some of them. Although companies on the correct side of these issues are more likely to satisfy us, they still need to pass a series of additional tests, like do they make money? (ROFL*) Nevertheless, it might surprise you how many companies we run into that take their customer for granted, that are grinding it out in an industry with a precarious future, and that are hamstrung by the inability to meet demand swiftly and with some degree of accuracy. We like our companies to hit different*: to have a culture that guides them to do right by those who pay them; to have a core set of capabilities that the world wants and will likely keep wanting even as things change; and that have the ability to steer their own course to the greatest extent possible. No bandwagon* for us. Whatever the economic environment, however popular certain sectors of the stock market are, our philosophy and discipline are always in style. And if that means we're out of fashion by Wall Street standards, all we can say is OK, Boomer* (IYKYK*).

***Glossary[22]**

<u>Aura</u>	Measurement of how cool someone is.
<u>Bandwagon</u>	Someone who joins a trend or a movement just to fit in with the crowd.
<u>Bestie</u>	Best friend.
<u>Big yikes</u>	Something embarrassing or cringe-worthy.
<u>Bussin'</u>	Something really, really good, usually used for food.
<u>Cash</u>	Something awesome or cool.
<u>Cheugy</u>	Someone trying too hard to be trendy; something outdated or uncool.
<u>Cringe</u>	Something awkward, embarrassing, or downright disgusting.
<u>Delulu</u>	Individuals displaying odd or extreme behavior.
<u>Dope</u>	Something cool, awesome, or great.
<u>Fit</u>	An outfit.
<u>The ick</u>	A sudden feeling of dislike or aversion.
<u>Glow (or glo) up</u>	A positive change in someone's life, confidence, appearance, or lifestyle.
<u>Guap</u>	Lots of money.
<u>Hangry</u>	The kind of anger one feels while also hungry.
<u>Hits different</u>	Something special or different in a really good way.
<u>Hot take</u>	An opinion that goes against the general consensus.
<u>IYKYK</u>	If you know, you know, often used in texting with a wink emoji.
<u>Excluded from this narrative</u>	Ironic response to awkward, annoying, or stupid situations.
<u>Jam</u>	What one does well or enjoys.
<u>OK, Boomer</u>	Way to call out an outdated idea or practice.
<u>Receipts</u>	Evidence or proof of something.
<u>Rizz</u>	Charisma or charm.
<u>ROFL</u>	Rolling on the floor laughing.
<u>Sick</u>	Something that's cool.
<u>Slay</u>	To do something really well.
<u>Snatched</u>	Fashionable, looking good.
<u>Straight fire</u>	Something really impressive or cool.
<u>Stan</u>	Fervently support or idolize.
<u>Swag</u>	Cool, with it, or has swagger.
<u>Swerve</u>	The intentional avoidance of someone or something.
<u>Yassify</u>	Give someone a makeover or glow up.

Marshfield Associates

[22] A reminder with respect to any in/out list: things do change, and vigilance always makes you snatched*. Our expert review panel (Marshfield kids below the age of 18) tell us some of these terms are already out, such as dope and sick. Alas, sometimes when you think you're in, you're really just cheugy*.