

**Letter to Clients**  
**March 2023**

### **For Whom the Bell Tolls**

*"We must meet reverses boldly, and not suffer them to frighten us, my dear. We must learn to act the play out. We must live misfortune down, Trot!"*

Charles Dickens, David Copperfield

In the eighteenth century, Russian Empress Anna Ivanovna ordered a bronze bell of unprecedented size to be cast. Weighing in at 445,166 pounds and occupying 20.1 vertical and 22 diametric feet, the bell suffered a series of mishaps in its manufacture, resulting in (among other defects) a 23,000 pound slab shearing off its side. The so-called "Tsar Bell" upheld a national tradition established centuries earlier, perhaps finding its apotheosis in the sixteenth century production of the largest artillery piece by caliber in the world: an elaborately decorated bronze cannon. Tipping the scales at some 86,668 pounds, with a length of 17.5 feet and an external diameter of 47.2 inches, this weapon never saw war, at least in part because of its lack of mobility. Voltaire mocked the utility of both objects, describing the Kremlin's most prized possessions as a bell which had never been rung and a cannon that had never been fired.<sup>1</sup> All of which is to say that the appearance of fortitude is not a stand-in for the real deal. In fact, some of what the world believes signals strength is, as in the case of the bell and the cannon, actually a crude simulacrum thereof. In our view, real strength lies not in mass or muscle or an imposing presence but, rather, in the ability to bend and not break with the shifting winds of fate.

At Marshfield, we spend a fair amount of effort looking to distinguish between apparent might and true fortitude. To our mind, true fortitude requires both **robustness** and **resilience**. We use the term "robust" to describe systems or strategies that strengthen a company in its ability to address the known or anticipated vicissitudes of its business. As such, a robust approach to a business is proactive in anticipating those issues that are understood to affect the industry and that are broadly within the ability of management to predict. Think of robustness as all the things you do as a hurricane threatens: secure the shutters, clear the downspouts, take in the lawn furniture, and make sure you have ample water and canned food. Robust preparation helps avert the need to think on one's feet at the moment of impact, when events can unfurl rapidly and go-to strategies are unavailable. For a company, a crisis is not the time to think of establishing a line of credit, for example. Robustness is intended either to absorb or limit the consequences of adverse events and encompasses such things as: a willingness to pull back on the business at high points in the cycle in anticipation of a downturn;<sup>2</sup> sufficient redundancy to serve as a back-up if primary systems fail (e.g.,

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<sup>1</sup> There is some evidence that it was fired once. Voltaire's larger point abides.

<sup>2</sup> John Deere, which we owned before it moved well beyond our holding price, was an exemplar of this, as is **Arch Capital**, which has elevated to an art form pulling back on underwriting risk when pricing is insufficient.

finding multiple sources for key supplies); the lack of excessive leverage; incorporation of long-range succession planning; and intelligent and sustainable capital allocation<sup>3</sup>. Companies need robustness for the same reason we all need to stay fit: there will come a day when we have to run to catch a bus or avoid slipping on ice or be able to right ourselves before we fall in the shower. Proactive preparation for tough times is an important element of survival, both personal and corporate. While building a robust company can also (at least in theory) be done with the intent of being able to absorb the impact of all possible unanticipated crises, it is not actually feasible, if only because both imaginations and resources are finite.

And that's where resilience comes in. Unlike robustness, resilience as we think of it comprises those responses and strategies that come into play after something disruptive occurs. As such, it is fundamentally reactive in nature. It fills the gap left by the inevitable inability of management to account for all contingencies and to establish buffers proactively in advance of all unpredictable events. That hurricane? If it cuts off your power and your generator is crushed by a fallen tree, now might be a good time to bring some excellent wine and a pack of playing cards to your neighbors' house. Although we've been talking about resilience for some time, the concept seems to be having a moment right now. The big management consulting firms each have some version of "How to Build Resilient Resilience Into Your Business Model" and "How to Prepare For These Totally and Unbelievably Unprecedented Times". However useful such guides might be, we approach the subject of resilience a bit differently. Consistent with our focus on culture and based on the fact that resilience by our definition is a response to an unanticipated event or set of events (or to imperfectly prepared-for but anticipated risks), our understanding of what constitutes resilience has more to do with habits of "mind" than with strength of "body". A resilient response—one that allows a company either to stay on its feet or to get back up within a reasonable amount of time—requires that an organization be creative and resourceful in developing a response to the threat at hand, flexible and quick in repurposing its strengths, and able to take coordinated and determined action.

Of course, the distinction between robustness and resilience is somewhat artificial.<sup>4</sup> In practice, it's not quite so neatly delineated. For one thing, as noted above, preparedness can fall short of what is needed in the face of an actual crisis, thus calling for resilience as a supplement to an otherwise robust plan at the moment of impact. Or the belief that the company will produce a resilient response to an unanticipated event can itself be incorporated into a company's go-forward game plan, in effect creating robustness out of confidence in one's own resilience. At its core, though, and what we mean to emphasize, is that resilience is the embodiment of a set of coping mechanisms that, typically, rely less on belt and suspenders preparedness and more on seat-of-the-pants winging it. Think quick reflexes as opposed to muscular wherewithal.

Because personal resilience and corporate resilience are so closely related in terms of the frame of "mind" required, we think it's helpful to examine the traits we think make for a resilient person in parallel with those we think embody resilience for a business. As we seek out companies that are

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<sup>3</sup> Robustness also, of course, encompasses all that "intelligent and sustainable capital allocation" implies in terms of things like how to fund growth, the philosophy around acquisitions, how much to spend on research and development, and how and when to issue dividends and undertake buybacks.

<sup>4</sup> Indeed, we used to view the two as roughly equivalent, but have found that in reality, they represent two different forms of crisis management and we now find it valuable to assess them separately.

likely to be resilient, we find that our intuitive understanding of that trait in people can help us find them.

## Flexibility

In his book Antifragile, Nassim Taleb observes that “If humans fight the last war, nature fights the next one.”<sup>5</sup> For every scenario one can come up with, there are multiple ones that seem so far-fetched as to be unthinkable—and yet such “unthinkable” things come to pass on a regular basis. Rigidity in confronting the unthinkable is a recipe for failure. Perhaps the signal characteristic of people deemed resilient is flexibility.<sup>6</sup> Flexibility enables a shift in strategic or tactical direction, notwithstanding the glidepath that one is on. It requires the ability to actively recalibrate a shift in priorities in real time and the freedom to act upon that shift. In effect, flexibility requires both a change in thinking and the ability to repurpose resources without excessive friction. The opposite quality—inflexibility—is familiar to those of us who know people who are wedded to certain ways of doing things and thus are incapable of adjusting to new circumstances with new approaches.

Our favorite example of flexibility dates back to our first visit to the **Fastenal** “campus” in Winona, Minnesota. While it has since moved offices to (slightly) more spiffy corporate digs, it was originally housed in a gritty low-rise building with an adjacent warehouse. As we toured the facility, the foreman on duty showed us one of the conveyance systems used for order fulfillment that had been installed when the warehouse was first built. It had been misaligned along the short wall of the warehouse rather than along the longer one, and thus faced serious limitations in its productivity. When we asked the foreman why they didn’t reorient it (even though costly, we assumed the long-term benefit of greater functionality would compensate), he chuckled and said that they didn’t need to—they just worked harder at picking up the slack.<sup>7</sup> As a result, it became one of the most productive facilities in their network. They didn’t rip it out, they didn’t hem and haw; they simply flipped the attitudinal switch and made it work through a strong work ethic and a commitment to getting things done, values that are core to the company’s culture.

Contrast Fastenal’s flexibility with the lack thereof in the banking industry. Obviously, that sector is no stranger to crises, many of them hard to anticipate. We once asked the chief risk officer of a bank in which we used to own shares how he thought of risks coming down the pike. His response was that each year, all of his peers at other large financial institutions used to convene and try to predict the next big crisis. The catch: they were always wrong. Following the 2008-09 financial crisis, Congress enacted legislation directing the Federal Reserve to conduct annual stress tests of the ability of large banks to withstand different kinds of macroeconomic shocks and to establish capital adequacy standards for each institution to meet. Because big financial companies are reasonably

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<sup>5</sup> Taleb, Nassim Nicholas, Antifragile, 2012, p.46

<sup>6</sup> Studies of what makes for a resilient person abound. Some of these attributes, such as self-control, self-care, and social support seem more like qualities of robustness than of resilience: that is, self-control signals the willingness to pull back at high points in the cycle in anticipation of a downturn; self-care suggests appropriate capital allocation and reinvesting in the business; and social support can be analogized to succession planning and maintaining a deep bench.

<sup>7</sup> Cake fans will understand this reference.

inflexible at a moment of crisis,<sup>8</sup> establishing as much robustness as possible in advance of a systemically threatening event is critical for the safety and soundness of the banking system; as such, policy-makers have decided not to leave that up to individual institutions to put into place, nor are they willing to assume that in-the-moment quick thinking will suffice. Because banks have a substantial amount of what we call “lock-in”—that is, systems and loans and deposits that cannot easily be reshuffled, along with capital that needs to be retained per the stress testing models—it’s not simple for them to be adaptive in the moment. While a bank can move capital from one business to another in the ordinary course of business, at a time of maximum stress, it’s limited in what it can do. Indeed, we were once told by John Stumpf, the erstwhile CEO of Wells Fargo, that he despaired of Citibank ever turning itself around even though it knew it had to—it was simply too big and too complex (pot, please meet kettle). This is perhaps why the federal government assumes the burden of resilience via such tools as access to the Federal Reserve discount window (restricted to those with a banking charter and therefore substantial supervision and regulatory requirements) in order to keep banks on their feet during a crisis. While banks like **Goldman Sachs** can dial up and down its trading activity and recalibrate its risk levels pretty quickly, it remains constrained by the level of capital it needs to carry with respect to many of its lines of business. This is one reason why moving into more fee-based businesses is so attractive to Goldman; not only do such businesses help smooth out some of the volatility of its revenue streams, but they also require less capital and therefore confer greater flexibility in times of stress.

### Self-Awareness

Many experts agree that fundamental to human resilience is self-awareness. Without a realistic understanding of one’s goals, capabilities, and weaknesses as well as how they align, it’s really hard to see a clear path through any set of obstacles. Similarly, one of the abiding traits we think is essential to a thriving and sustainable business is a company’s deep understanding of its value proposition and the competitive advantages that allow it to provide continuing value to its customers. Companies that keep an eagle eye on those attributes are often the ones best able to pivot when they identify trouble.<sup>9</sup>

One of the reasons we like **Domino’s** is that, amidst slumping sales around ten years ago, the pizza company took the risk of owning up to the fact that customers were just not that into their pies: market testing found that consumers thought its pizza sauce tasted like ketchup and its crust like cardboard (the single most common complaint). The crowning blow may have been the allegation that microwave pizza was preferable. As the then-CEO stated, “you could either use negative comments to get you down or you could use them to excite you and energize your process to make a better pizza. We did the latter.”<sup>10</sup> Ironically, much of the problem lay in poor PR and viral word-of-

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<sup>8</sup> And, certainly, smaller banks are as well: Silicon Valley Bank, which had lobbied successfully for lighter regulation, was unable under duress to undo the damage imposed by, among other things, earlier decisions to bet big (and wrong) on interest rates and thus faced a run on its deposits that pushed it into the arms of FDIC receivership.

<sup>9</sup> See, e.g., “How to Bend, But Not Break—7 Traits of Resilient People”, National Alliance on Mental Illness: “Resilient people do not ask ‘why me?’, they accept their baseline and put in the effort to change it if they are bothered by it.”

<sup>10</sup> “Domino’s Pizza Turnaround” YouTube, December 21, 2009.

mouth antipathy; in blind tastings, their pizza actually fared pretty well, but the perception of lousy taste was so pervasive that consumers who knew they were eating Domino's liked it far less than those who didn't. The fact that Domino's ruled when it came to quick delivery and technological bells and whistles for placing and tracking orders was completely undercut by their subpar product. Understanding that their articulated value proposition was not congruent with reality left them with a problem not anticipated by their business plan. Small tweaks wouldn't cut it; they basically had to start over with a whole new recipe. In the end, not only were they able to re-engineer their pizza, but they did so as part of a mea culpa campaign that acknowledged their failure—and in so doing, left themselves nowhere to hide in the event their reimagined pie continued to rank in the sub-basement along with Chuck E. Cheese's. Domino's understood that not only could it leverage its self-awareness into a product quality pivot in order to deliver better value to its customer, but it could leverage that journey itself as a marketing maneuver to highlight the new product and project an appealing vulnerability. The result was same store sales growth of 10.4% in a single year between 2009 and 2010 and a value proposition that actually delivered.<sup>11</sup>

## Determination

You might think that determination isn't an attribute that readily translates from a personal trait to one that applies to a company, but you would be wrong. It is, in fact, a critical component of resilience, both personal and institutional. A "can do" corporate culture is one capable of mobilizing the resources and strategic motion to get things done quickly and under stress. Companies that are excessively bureaucratic, that limit an individual employee's ability to roll up his or her sleeves in order to get the job done properly and in time, tend to be those that lack the skills and capacity to pivot when it matters most. Those firms with flatter organizations that empower employees and that employ people capable of exercising their power with confidence and integrity tend to be those more likely to survive a crisis intact.

In February 2022, **Expeditors International** experienced a massive cyberattack that resulted in a multi-week systems shutdown. Notwithstanding the robustness of Expeditors' technology systems and its investment in cyber security and surveillance, it was targeted by internet criminals in what's known as a "zero-day attack".<sup>12</sup> The cyber community tends to be reactive in how it builds defenses against attacks; strikes tend to mimic one another, and defenses are built to respond to known strategies. But the criminal underworld conducts its own R & D, coming up with new ways to penetrate existing defenses, one of which strikes was aimed at Expeditors in the early days of Russia's attack on Ukraine [insert hmmm emoji here]. As Expeditors was the first to experience the particular kind of attack leveled against it, there was no standing response or playbook for how to respond to it—all the robustness in the world could not fully have prepared them for the assault.

In the immediate aftermath of the attack, the company took down all of its systems to assess not just the damage but to ascertain what was actually happening – that is, which of the company's two separate systems (robustness!) had been attacked. As Jeff Musser, the company's CEO, later

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<sup>11</sup> "10 Years Ago, 'Cardboard Pizza' Almost Killed Domino's. Then, Domino's Did Something Brilliant", Inc., January 24, 2021.

<sup>12</sup> While ransomware has become a bit of a yawn to techies, this represented a brand new way of launching such an attack via an existing software vulnerability no one had yet thought to exploit—hence the name.

explained to us when we spoke to him, the company was able pretty quickly to determine which part of its infrastructure had been targeted and, more importantly, leveraged its technological knowhow to completely rebuild it. Moreover, to its customers' (and our) relief, the company didn't have any data loss as a result of the attack. Musser proudly reported to us that the FBI agents with whom his people had worked in the wake of the attack noted that Expeditors was one of only three companies that had been attacked and didn't have any data loss.

Musser directly credited the "can do" culture at his firm for saving the day. He noted that Expeditors employees are highly engaged; indeed, the day they were notified about the attack, they immediately found ways to execute and operate. They created manual work-arounds where needed. They also leveraged valuable relationships with carriers and with governments to develop brand new processes that didn't rely on the systems that had been attacked to ensure that goods could be released through customs. Through it all, they kept customers informed about what was happening, and what the company was and was not able to do, even helping them find substitutes where necessary:

"[O]ur employees are highly engaged. The day we notified employees, they figured out how to operate. We pivoted to manual on certain things. Our relationships with carriers and governments were valuable. We were given a release process from U.S customs to continue releasing goods. That didn't exist previously.... We learned those relationships matter. The vast majority of customers appreciated the communication, and we were honest in the early phases. If we couldn't do things, we suggested competitors. Our focus was to keep goods flowing and not maintain customers. The vast majority of customers returned. There are some that, in the process, decided to go elsewhere. Some decided to split business and be dual-sourced. We see that as a long-term gain for us. There are a lot of customers that are single-sourced with competitors, and that is an opportunity."

This kind of event tests not just the reflexes of a company, but calls on employees to make use of what resources they have in place: what relationships they have, how much goodwill they have amassed with their customers, and how to use alternative methods and processes. While we will talk about resourcefulness and creativity below, it is abundantly clear that without determination and a can-do approach, the response to an unanticipated crisis will never get off the ground.

### **Creativity/Opportunism**

Opportunism, when applied to people, often carries a whiff of the distasteful and uncouth. Opportunists are seen as smooth-talking and sharp-elbowed, not grifters exactly, but certainly calculating. While the latter may be true, opportunism has saved many a neck by offering the prospect of salvation to someone in distress through the use of creative thinking.<sup>13</sup> What was David Copperfield (the Dickens character, not the conjuror, who is perhaps an opportunist of a different kind), but someone who was able to use the little that was available to him to broaden his

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<sup>13</sup> See, e.g., "Seven Characteristics of Highly Resilient People: Insights from Navy SEALs to the 'Greatest Generation'", International Journal of Emergency Mental Health, Vol. 14, No.2. The SEAL ethos states, in part, that, "We demand discipline. We expect innovation."

opportunity set? In the corporate context, we think of opportunism as a leap of faith that you can move swiftly and successfully in a new direction. Opportunistic and creative people use the tools at hand either to extricate themselves from a sticky situation or to apply their abilities and resources to take advantage of opportunities that may arise out of chaos. They're good at redirecting their skills and resources creatively in order to meet the demands of the moment. In a similar vein, companies that are adept at creative repurposing of their resources, both tangible and intangible, are better able to withstand crises and even, in some cases, to end up benefiting from them.<sup>14</sup>

Fastenal is, once again, an excellent case in point. In the immediate aftermath of the pandemic closures in the spring of 2020, Fastenal's business was hit hard: while its daily sales of fasteners and other products for the month of February were up 4.7%, by March they were up a mere 0.2%, with fasteners down 10% and safety products (think masks!) up 31%. But the company's exploitation of its presence in safety gear was just beginning.<sup>15</sup> Come April, fastener sales declined further, with daily sales down 22.5% and safety products up 119.7%, contributing to overall daily sales growth of 6.7%. In May, the decline in fastener sales started leveling off, with a "mere" 15.3% reduction. But safety was still flying off the shelves at a 136.3% increase, helping boost overall daily sales by 14.8%.

This trajectory tells only part of the story. An anecdote that the company told us serves to highlight the rest of it: in its self-conceived role as supply chain partner, Fastenal sees itself not just as a supplier of stuff (fasteners and the like), but also as an integral part of making its customer's business function as efficiently as possible. That mindset difference might seem subtle, but the real-world impact can be profound. When a large customer approached Fastenal at the start of COVID to procure N95 face masks for it from a Chinese vendor it had located, Fastenal turned creative: it researched the company and discovered that its masks were not compliant with US standards (they were, in fact, "garbage" per the CFO). Fastenal looked around and found another supplier with better product and arranged for the purchase. Deploying its considerable skills and scale, Fastenal was willing and able to take its idea of "supply chain partner" to the next level and to lead its customer to a solution that, while not technically within its job description, served both sets of interests. This took what began as a pretty robust structural advantage—they have about 220 professionals working for them on the ground in China—and, with a little creativity and the will to take advantage of a nice, juicy opportunity, turned it into an ancillary business that sustained them through the slowdown in their core operations.

## **Decisiveness**

Another hallmark of the resilient individual is decisiveness. Waiting for the moment of absolute certainty in the midst of a crisis allows precious time to pass in pursuit of that which typically never arrives: a crisp decision-point with all facts neatly on the table. The fear of making a mistake can be paralyzing, and those who display decisiveness at key moments of opportunity intuitively understand that. Such people are also typically fully aware that they need to take responsibility for the path they are choosing to take, whether in full possession of the facts or not. Chipotle (no longer a portfolio

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<sup>14</sup> It is this capability that Taleb calls "antifragility".

<sup>15</sup> As a routine matter, Fastenal, like its competitors, has always sold a smattering of safety products. The takeaway here, though, is that they were able to massively flex that modest accommodation business in order to address the demands of the moment.

company because of its exorbitant price, but one we would happily buy again if circumstances allow) provides a good example as to what decisiveness both does and does not look like in a moment of stress—and why it’s so important.

Starting in 2015, Chipotle sustained a series of food safety crises in multiple restaurants across a variety of geographies in the U.S., ultimately resulting in more than 1,100 people falling sick over a period of several years.<sup>16</sup> While, sadly, food-borne illness is endemic to the fast food industry, Chipotle’s problems were magnified by both the number of pathogens at issue and the fact that its claim to consumer stomachs was not just about taste but about “food with integrity”. Contamination can enter the supply chain at a number of points when it comes to restaurant food, but consensus has it (and has since been borne out through procedural changes that have been working well) that many of the problems were less about sourcing than about poor staff management.<sup>17</sup> While speeding up “throughput” to get food to customers faster is a laudable goal, it comes at a potential cost, especially if workers are discouraged from taking time off for illness or they take shortcuts in hygiene in order to maintain the speed of the make line. While Chipotle had many of the pieces of a robust food safety program in place, such as some of the best food safety consultants in the business and a set of practices designed to surveil suppliers, it fell down in its execution when it came to the requisite staffing levels required to maintain standards.

Chipotle’s first response back in 2015 was multi-pronged but a bit scattered. Its messaging to the public was similarly convoluted and more insipid than the moment demanded (for example, founder and co-CEO Steve Eells chose to avoid social media, instead going on the Today show—that Gen X, Y, and Z staple (lol)—and telling Matt Lauer that he was “sorry for the people who got sick”). While the company worked with public health officials to determine the cause(s), closing and reopening stores as waves of sickness hit and receded, and while it changed its protocols from nose to tail, it failed to make use of the communication tools at its disposal to wave a flag over its achievements, which included implementing such practices as surprise audits to check on suppliers, preparing much of the food off-site in commissaries, using sous vide technology, and incenting staff to stay home when ill. With the 2018 departure of Eells, who was replaced by Brian Niccol, formerly the lead at Taco Bell, things began to change in earnest. Shortly after Niccol’s ascension to the top spot and after everyone thought that the incidents were in the rearview mirror, another one arose, this time in Ohio. The culprit that sickened 647 customers was quickly determined: food had been left out at unsafe temperatures. Niccol responded promptly and decisively: he closed the offending store immediately and cleaned it top to toe; he implemented a new “Chipotle Field Leadership” team to retrain its employees; and, perhaps most meaningfully, he offered customers a limited-time guacamole deal and free DoorDash delivery, capping things off by launching a test of bacon, nachos, and late-night bites at certain restaurants. As a result, the incident made barely a ripple in the press.

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<sup>16</sup> E. coli, salmonella, norovirus, and clostridium were found between 2015 and 2018 in places as far-flung as Minnesota, Oregon, Massachusetts, and Virginia.

<sup>17</sup> See, e.g., Cindy Marves, foodpoisoningnews.com, “Food Poisoning at Chipotle—A History of Food Safety Issues”, March 12, 2022. Probably not a publication to which you’re a subscriber.

## Willingness to Walk Alone

Finally, we'd like to highlight the willingness to be different—something we believe that we, as lone wolves ourselves, should know something about. Independence of mind is, we think, an underappreciated attribute of both resilient individuals and corporations. Simply put, those people for whom peer approval is critical tend to be less resilient than those who are willing to go their own way. Independence from social pressure frees a person to make decisions that are right for them, but not necessarily for their Instagram feed. You just have to consider the group-think that led so many tech entrepreneurs to deposit their funds with Silicon Valley Bank to see that little due diligence was being done but lots of Slack chats were being conducted. The willingness to stand apart from the crowd not only fosters innovation and creativity, but it enables swifter and more decisive decision-making than the kind of phone-a-friend response required of those only comfortable doing what everyone else is.

For us, **NVR** has long been the poster child for doing many things right. But before NVR did so many things right, it did many things wrong—so wrong, in fact, that it was compelled to file for Chapter 11 bankruptcy protection in 1992. Having acquired Ryan Homes in 1987 in a debt-laden LBO, NVR was ill-equipped to combat the recession and consequent housing pullback of the early '90s. While its home and land inventory ballooned from about \$400 million in 1988 to over \$600 million two years later, its revenues languished, declining from about \$1.15 billion to about \$0.6 billion over the same period. As the recession deepened, NVR's asset values also took a severe hit. In 1990, NVR's net income was flashing bright red at a negative \$260 million.<sup>18</sup> While it took the company some time to emerge from bankruptcy and to reorganize its operations, its near-death experience brought it religion—specifically, the faith that a land-light strategy was the path to salvation. Accordingly, it largely swore off owning land and engaging in land development activities. Instead, it repositioned itself as a builder of houses, full stop. When it came to the acquisition of land on which to build those houses, it operated through ownership of options to buy already developed land, which in an economic pinch they could allow to lapse without suffering too much fallout.

NVR responded to its earlier failure by parting ways with the cool kids in the industry. It changed its strategy and structure, swearing off land ownership and development, the sexy part of the business, thereby effectively redefining what it meant to be a homebuilder. In the process, it fortified itself against future downturns in a savvy display of anticipatory preparation. As a result, NVR met the 2008-09 financial crisis with a robust balance sheet and was the only publicly traded homebuilder that never lost money on an annual basis (and in fact made it!) over the course of the housing downturn.<sup>19</sup> But while an asset light strategy can push back against balance sheet and cash flow problems, it doesn't do much for the revenue side of the equation. In fact, in a hot housing market, the strategy serves to dampen returns by limiting the juice it can extract from rising land prices.

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<sup>18</sup> See, e.g., [fundinguniverse.com](http://fundinguniverse.com), "NVR Inc. History". Interesting side note: the CFO of NVR's finance subsidiary fled the country after embezzling funds around this same time as well.

<sup>19</sup> See, e.g., Chris Matthews, "How Builder NVR Survived and Thrived After the Housing Bubble", *Fortune Magazine*, August 19, 2015.

Enter resilience: because NVR understands that there will be times when people are reluctant to buy the houses it builds, especially with the costs imposed when adding in attractive features like granite countertops and top-of-the-line stainless steel appliances, it opts to remain nimble on the pricing side of things. It's been averse to implementing a set of guidelines in advance to meet those moments; its only preparation for such a time is to trust its future self and leave to it the decision of what to build and what to charge and when. As Paul Saville, the current CEO told us, "we'll ask people what they can afford and then build them that house". Confidence in its ability to come up with the right formula, along with a willingness to do things differently from its confederates in the industry, provides it with the wherewithal to navigate both challenging and steady-state environments with aplomb.

## Conclusion

Finding companies with the kind of tensile strength that enables them to forge ahead during the good times and to weather inclement conditions during the bad is core to our remit of investing in businesses that can produce sustainably good returns. In the corporate world, companies have sought to telegraph strength through bulking up (think Kmart and Sears), diversifying (think the Citicorp and Travelers of old), and expanding geographically (think Walmart, whose overseas ventures have largely flopped). As with the Tsar Bell, bulk can in fact disguise vulnerability, an imposing appearance, fragility. It is our deeply held conviction that real, enduring strength is less about heft and more about balancing what you can and cannot anticipate, preparing for the former to the extent it is cost-effective, and having the right "mindset" to be able to handle the latter on the fly. Because it's not always possible to gauge such qualities as flexibility and self-awareness without the stories that reflect them (and we excavate for those!), we also look for the corporate attributes that enable them. When we find the right combination of insightful management, supportive cultural norms, and employee empowerment, a bell of recognition goes off. When, on the other hand, we find rigidity, hierarchy, and a mistaken belief in symbolic strength rather than actual nimbleness, that's the death knell. Hopefully, when that bell tolls,<sup>20</sup> it's not for us—just for those for whom resilience was not an important enough value.

## Marshfield Associates

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<sup>20</sup> Ernest Hemingway borrowed John Donne's formulation about the interconnectedness of mankind for the title of his wartime novel. But the original expression, "Any man's death diminishes me, because I am involved in mankind; and therefore never send to know for whom the bell tolls; it tolls for thee", remains a potent reminder of our shared inheritance.