

## Good Different and Bad Different

*This article by Scott Miller is excerpted from a letter of Greenhaven Road Capital. The article is inspired by the book [Different: Escaping the Competitive Herd](#), by Youngme Moon. The book was a featured selection at [The Zurich Project 2017](#).*

I will try not to spoil the book for you, but it does a great job of highlighting businesses that are intentionally different than their competitors and very successful. One business profiled is Ikea. When Ikea came along, they broke several rules of furniture retailing. Ikea doesn't promise the furniture will last forever. They position it as a durable good with a life of a few years, greatly lowering the anxiety of the purchaser. According to the book, the average American will have as many wives as dining room tables (1.5) and has historically approached the table purchase with great apprehension.

Ikea is different from traditional furniture retailers in multiple other ways, including the lack of hovering sales people. Ikea puts the burden on the consumer to transport the furniture home and assemble it. The company launched with only four styles of furniture, greatly reducing selection. Ikea was different in that it subtracted service, delivery, choice, and durability. Ikea added daycare, Swedish meatballs, and created a euro flavored "retailtainment" environment. According to the author, "Ikea has discovered the cool unapologetic contradiction. It is stingy, it is indulgent. It says yes; it says no. It strips things down; it sweetens them up." Clearly Ikea understood that most retailers don't have 50,000-square-foot stores without salespeople when they launched their stores. These differences are intentional choices.

In many other areas, Ikea chose to be the same, adopting many of the best practices of the day used by their competitors. For example, Ikea uses a point-of-sale system and accepts credit cards. In dozens of areas, Ikea chose not to be different from their competitors in ways that have contributed to their success.

This highlights that there is a good kind of different and a bad kind. For instance, a car that does not turn right or does not have windows would be different, but most people would agree that would be "bad" different. The challenge in designing a business is to figure out where and how to be different. Where to be the same? Understand why you are different and what you are achieving by being different.

As Greenhaven Road has celebrated its fifth birthday, it has been a period of reflection and planning. The goal is to keep and grow "good different" and get rid of bad different. My core belief is that the world does not need another asset-gathering, crowd-following, index-hugging fund, with fancy marketing and a false sense of risk management. The world doesn't need more investment committees. I want to spend my limited time on this earth building something good different. I believe that a smaller fund is better because it increases the opportunity set. I believe that an investment team of one is the perfect size. I believe that when investing fundamentals matter, balance sheets matter, cash flow matters, management matters, and management incentives matter. I also believe that investing requires patience, because even though fundamentals matter, there can be long periods where there are disconnects - thus the capital to invest should be aligned with the strategy.

The design of Greenhaven Road reflects dozens of choices. I aligned incentives by being the largest investor. For me personally it is by far my largest liquid investment, and that is how I believe it should be. The alignment of incentives is deepened with a hurdle rate and a high watermark. You have to

make money for me to make money. The choice to have a very broad mandate is intentional as well. I can invest in the smallest and the largest companies across geographies. We are not a U.S. small cap fund, which would be easier to describe. The flexibility on the investment front is important because I want a vehicle that can last decades, and I don't want my savings only in U.S. companies with market capitalizations below \$5 billion or some other artificial constraint. Our vast opportunity set combined with the small size allows us to go off the beaten path of the S&P 500 while remaining concentrated. To quote a great value investor, Howard Marks, "This just in, you cannot take the same actions as everyone else and expect to outperform." Being different in the investment management business clearly has value. There are a lot of positives and I am proud of everything accomplished in the last five years. We are off to a good start.

Yet, there are a few areas that haven't historically been "good different," and I want to address them in the coming year. I firmly believe that the best investment decisions are made by an individual and not a committee. The best performing venture capital fund ever was headed by a team of one (Chris Sacca). The Buffett partnerships had a team of — you guessed it — one. This is not to say that other models cannot work — but for me it is the right size, and there are enough data points of success that I believe my running a one-man boutique is "good different."

However, in this case, my version of good different comes with bad different. As a one-person boutique, in the unlikely event that I were to die, the closing of the fund would be a challenge. While that would not be my greatest concern as I would be dead, the fund has friends, family, and people's savings invested who deserve a better solution. As a one-person operation, it is difficult to require two signatures on money transfers and large checks. There cannot be a second set of eyes ensuring compliance with the partnership agreement. One person simply cannot be two sets of eyes. Checks and balances are impossible to achieve as a one-person boutique. Lastly, while the fund has an auditor and a third-party administrator, I am currently the back office, which can take time away from my main function: adding value through investing. I add no value in the administrative sphere, but in the current arrangement, the investment team (me) is also the back office liaison. So these "bad" differences have been nagging at me for a while, and I have considered a number of solutions. Some funds hire an outsourced CFO, some funds hire an administrative team, some funds muddle along indefinitely and hope nothing happens. Each of these solutions is suboptimal, but so is the status quo. Fortunately, I think waiting to put a solution in place has paid off in spades. I have found "good different" in my email in-box.