

Venture Capital Likes Insurgent Brands

By Gabriel G. Lengua, CPA, Partner

Harry's, Halo Top, Justins, e.l.f. Cosmetics, KeVita – just to name a few. These are smaller brands that have carved out a nice niche for themselves. Just in case you haven't noticed, insurgent brands have been gaining market share at a fast pace and have proven to be successful investments.

Why Invest in Insurgent Brands?

There are many reasons to consider insurgent brands as an attractive investment opportunity. They are gaining market share from larger brands because of their differentiation and focus on efficiency, creativity, and health and wellness. Retailers like them because it allows the retailer to stand out from the competition, and millennials seem to gravitate toward them. These brands also tend to have strong profit margins. Furthermore, insurgent brands are more nimble than larger brands, effectively using digital profiles and pivoting quickly when needed.

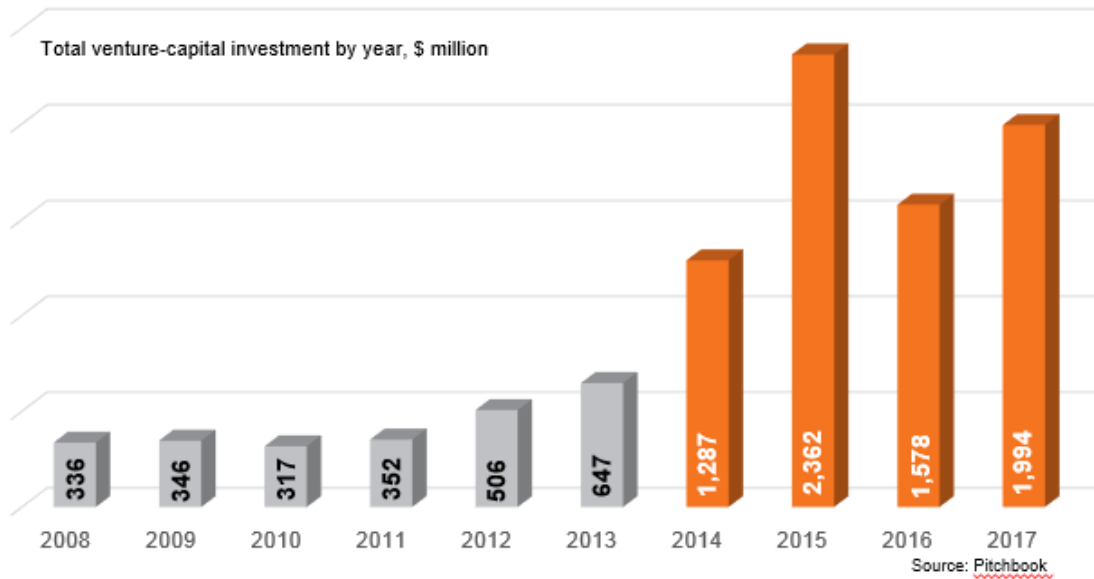
Then there is the economy. While there are some potential headwinds – higher interest rates being among them – we are seeing strong economic growth, a tight labor market and good wage growth. This has resulted in the highest consumer confidence we have seen in nearly 20 years and that, in turn, has resulted in a significant increase in consumer spending. For those that have the right business model, profits have been on the rise.

The Times They Are A-Changin'

From the changing face of the consumer (middle class growing, urbanization) to new patterns of personal consumption (increasing use of connected mobile devices) to technological advancements (AI and Big Data), the consumer goods landscape has gone through a number of changes in recent years.

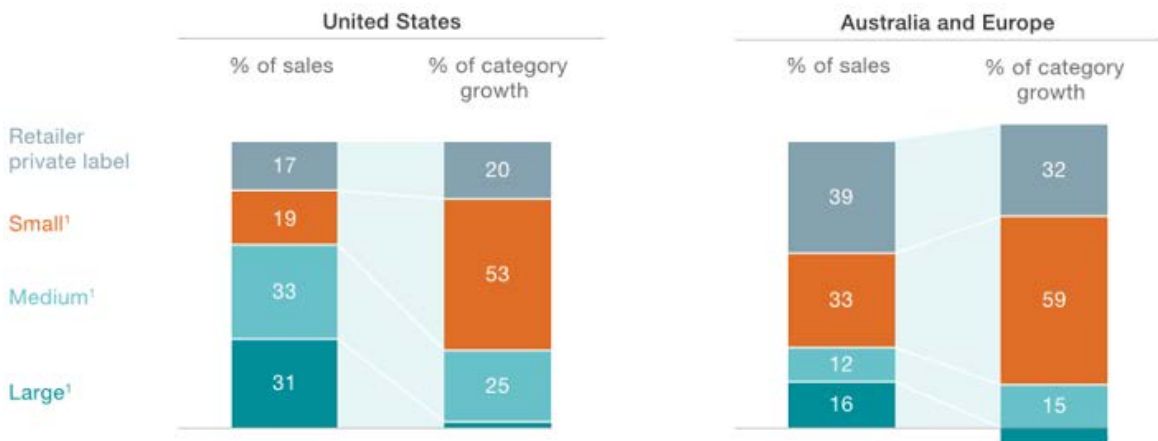
To be competitive, companies need to be focused on unique experience, convenience, and personalization. What we have seen in recent years is insurgent brands tend to do these things better than their larger rivals. This has helped to make insurgent brands a force to deal with and something investors should pay attention to.

Venture Capital Fueling Smaller Brands



Insurgent Brands Exploding

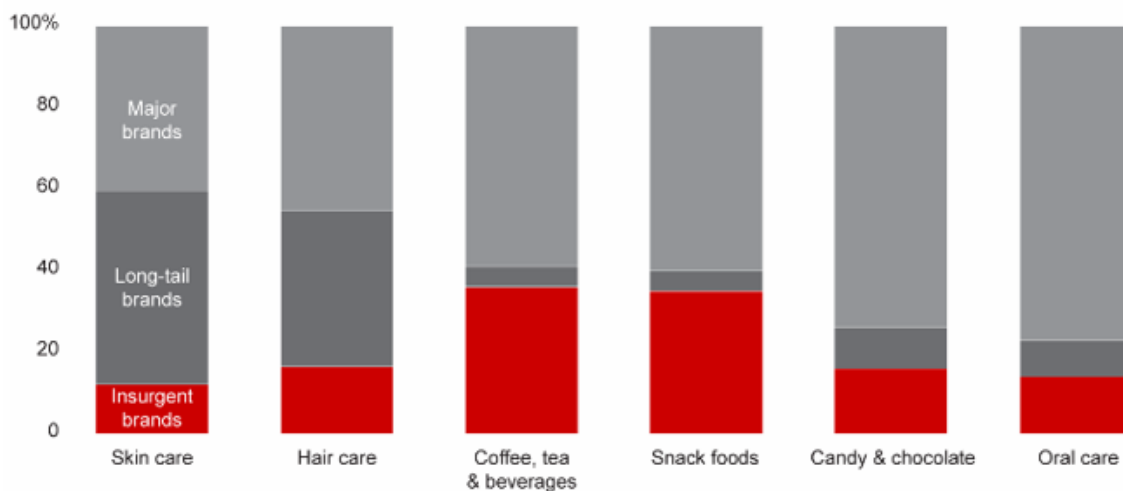
Fast-moving-consumer-goods industry share of sales and of growth, 2016-17



¹"Large" refers to top 16 companies, "medium" to next 400 companies, and "small" to remaining companies.

Source: The Nelson Company

Amazon Top Selling Products by Category



Notes: Insurgent brands defined as those that are less than 25 years old, with more than \$25 million in revenues and growing at 10 times the category growth rate; long-tail brands defined as either brands with less than \$25 million in sales or brands older than 25 years old but with sales less than \$100 million; major brands include all remaining brands

Source: Brian & Company

Contact Us

For more information about this article, please contact Gabe Lengua or a member of your PKF O'Connor Davies engagement team.

Gabe Lengua, CPA

Partner

glengua@pkfod.com | 646.449.6394

About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, nine offices in New York, New Jersey, Connecticut and Maryland, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 29th on *Accounting Today's* 2018 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms." PKF O'Connor Davies is also recognized as a "Leader in Audit and Accounting" and is ranked among the "Top Firms in the Mid-Atlantic," by *Accounting Today*.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in over 400 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.