



Challenger Brand Study 2018: The Magic of the Moat



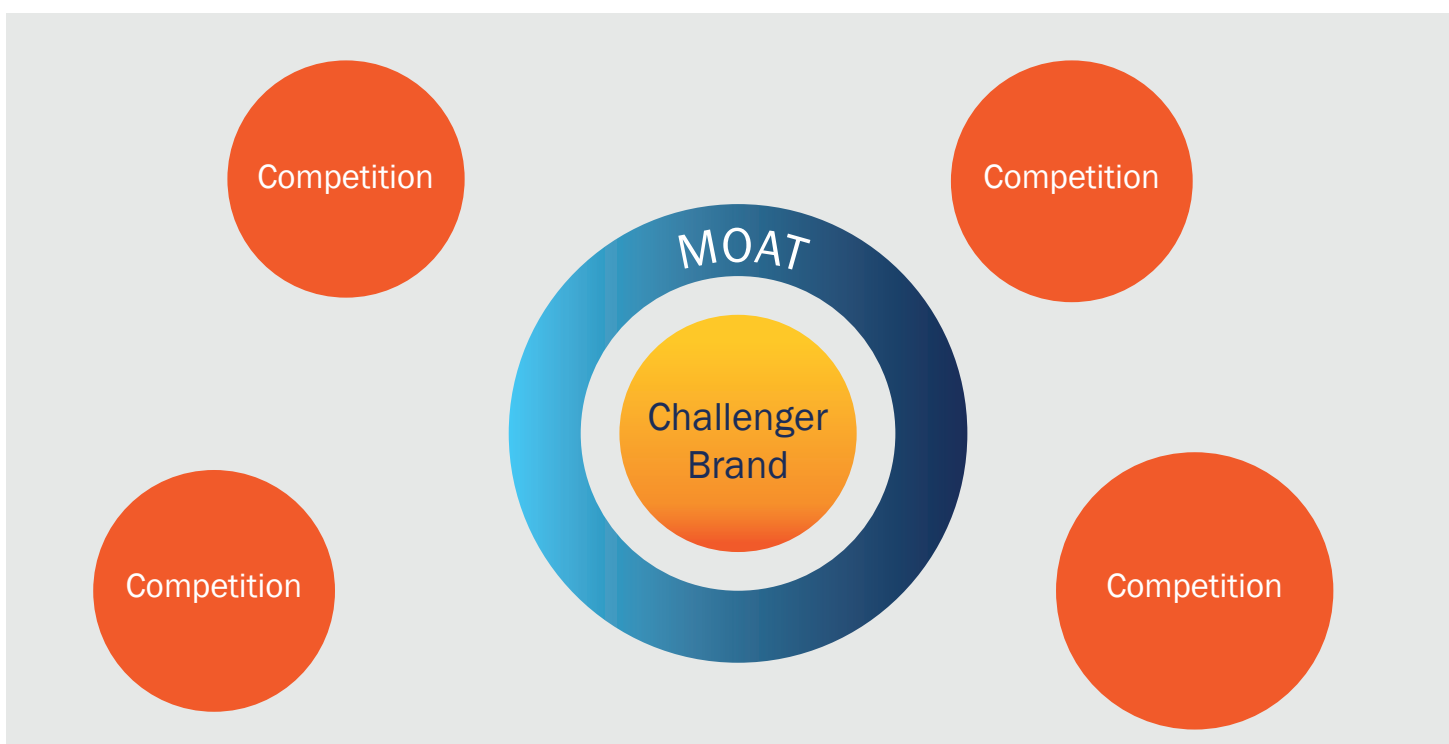


The competitive landscape for challenger brands has rapidly intensified.

Not so long ago, the challenger brand story most closely resembled that of David and Goliath. New brands entered mature, sleepy categories and used their guile and resourcefulness to disrupt the leaders. Their agility, transparency and consumer intuition allowed them to unlock the lion's share of growth across categories. Back then, challenger brands had only to concern themselves with standing out against the large category incumbents.

Today's landscape looks different. Lower barriers to entry, greater access to production, distribution and growth

capital, and more efficient ways to reach and build relationships with consumers have led to greater proliferation of brands and products in attractive spaces. The result is that challenger brands must now stand out not only against large category leaders, but also against a growing number of other challengers who have recognized the potential to disrupt. As this dynamic plays out across nearly every 'hot' category today – think cold brew coffee, kombucha and natural pet food, to name a few – challengers have recognized the need to further insulate themselves from competition.



What this means for challenger brands:

Enter the concept of the “moat” – an intentional competitive edge that raises barriers to competition, ideally developed early on in a company's or brand's life cycle. Successful challenger brands now need to start building their competitive “moats” early. When the Seurat Group identifies promising challenger brands, we tend to prioritize those that have deliberately dug their moats early in the development of their business model. An example of this is Q Mixers,

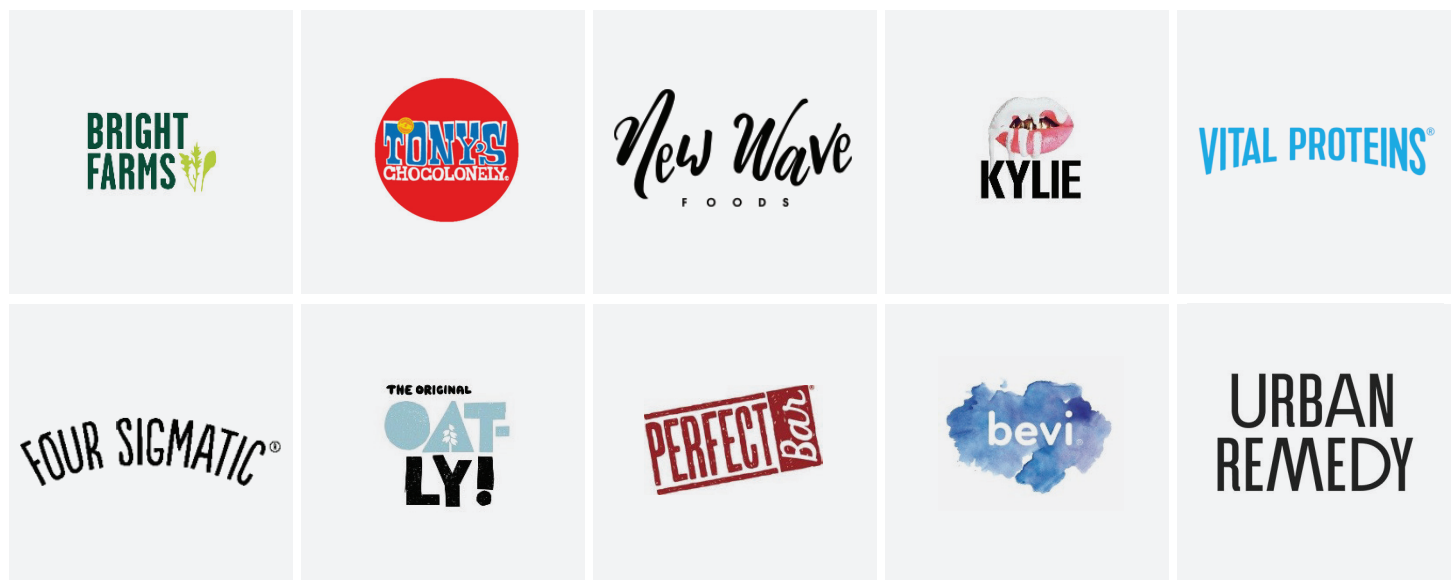
a premium natural mixer brand based in Brooklyn, NY. By aligning with the nation's largest distributor in the majority of US states, they effectively established a “protected” route to market, enabling them to introduce the brand to Millennial consumers on and off premise, challenging flat-footed incumbents like Canada Dry and Schweppes and insulating against premium upstarts in the local/artisanal mixers space.


What this means for this year's Challenger Brand Study:

This year we highlight 10 challenger brands that are not only disrupting existing categories but also using a “moat” to establish a clear edge for growth. These moats are a little different from the ways established brands have traditionally created competitive advantage. (Spoiler: it's not about defending shelf space, production and distribution scale, or

paying for share of voice anymore). These days challenger brands are employing a host of moat-building techniques, from exclusive channels to social reach and proprietary technology.

TOP 10 CHALLENGER BRANDS 2018



Brand	Background and Moat
	<div> <div>Bright Farms</div> <div>Produce</div> <div> <div>MOAT</div> <div>Supply chain as consumer benefit</div> </div> </div> <p>Bright Farms is changing our food system by producing healthier and more sustainable local produce. The company finances, builds and operates hydroponic greenhouses near retail distribution partners, allowing the stores to reliably carry locally-grown, high-quality packaged vegetables.</p> <p>The greenhouses are financed by long-term retailer agreements, effectively barring competitors from entry once Bright Farms gains distribution. Having already established successful partnerships with major retailers like Kroger, Ahold, Albertsons and Walmart, and posted 890% growth over the past 3 years, the brand is poised for continued expansion in the coming years.</p>



Tony's Chokolonely

Chocolate

MOAT

Raise the bar on production standards

Tony's Chokolonely, a Dutch-based chocolate company that entered the U.S. in 2017, is challenging the industry to produce chocolate made totally without any unjust labor practices. By trading directly with farmers, paying above fair-trade rates and helping farmers grow profitable, long-term businesses, Tony's is showing big players and consumers alike that it's possible to produce affordable chocolate that meets a higher standard.

By changing the conversation around chocolate production and setting the new bar for quality, Tony's has carved out a niche as a brand uniquely positioned to deliver delicious chocolate that consumers can feel good about eating. The brand has maintained a 50% annual growth rate since 2005.



New Wave Foods

Plant-Based Seafood

MOAT

Proprietary product story

New Wave Foods co-founders Dominique Barres and Michelle Wolf knew there had to be a better way to give consumers the seafood they want while protecting the ocean's finite resources. In 2015 they developed their first product: algae-based "shrimp." The proprietary product story allowed them to enter leading-edge foodservice locations like Google's campus.

New Wave Foods is an example of how a challenger brand can use new technologies, processes and ingredients to build a breakthrough product story that creates a moat even at start-up stage. Their early commitment to identifying, sourcing and processing the specific algae to recreate shrimp's color, taste and texture will give them a significant head start as other brands start to bring plant-based trends to seafood.



Kylie Cosmetics

Cosmetics

MOAT

Commercialized social reach

Kylie Jenner is shaking up the beauty industry with the launch of her Kylie Cosmetics line. After earning \$420MM in sales after only 18 months, Kylie Cosmetics is projected to hit \$1B in total sales by 2022, just 7 years after launch. (By comparison, it took Lancôme 80 years to do the same.)

While celebrity has always been a way to create an edge, today's celebrities are using their social media reach to market directly to fans, further leveraging their fame to build the brands that bear their names. Jenner uses her social media pages (she has over 115 million Instagram followers!) to connect consumers with her brand. The instant consumer pull from Millennials and Gen Z creates a moat that is difficult for others to emulate.

Vital Proteins

Supplements

MOAT

Values-based endorsements



Vital Proteins has become a leading brand in the collagen space by using digital marketing and partnerships with “endorsers” from values-based groups. For example, the brand’s clean ingredient list won it “Whole30-approval.” (Whole30 is an increasingly popular eating plan focused on whole, unprocessed foods.) The brand has roughly tripled in sales the past three years, using these values-based endorsements to build a moat in the highly competitive supplement space.

From the Seal of Good Housekeeping to celebrity chef recommendations, brand endorsements have been around forever. What has changed is the source of these endorsements and their ability to act as challenger brand moats that help consumers navigate a sea of confusing food choices.

Four Sigmatic

Mushroom-based Drinks

MOAT

First mover with a unique ingredient



Although “adaptogens” have become an industry buzzword over the past few years, they remain a mystery to most consumers. Adaptogens, or medicinal mushrooms, provide functional benefits like sleep aid and stress management – and Four Sigmatic is bringing them to the mainstream market. To do so, the brand makes it easy to understand and access mushrooms’ benefits. Their packaging pairs unfamiliar mushroom types (“reishi”) with familiar benefits (“chill”), and the products are powders that are simply mixed into water.

While others may jump on the bandwagon (Starbucks just announced an adaptogen latte), Four Sigmatic has made the ingredient synonymous with its brand by making an unfamiliar ingredient widely accessible. The brand continues to launch new products and geographies.

Oatly

Dairy Milk Alternative

MOAT

Influencer channels



Oatly, an oat-based milk free from dairy, soy, GMOs, gluten, or nuts, entered the U.S. market by eschewing mainstream retail and going directly to coffee shops. In doing so, they won over influential baristas and leading-edge coffee enthusiasts. This influencer channel continues to be a moat for Oatly to reach new consumers and generate demand and momentum to fuel its entry into mainstream retail and into new geographies.



Perfect Bar

Protein Bar

MOAT

Stand-out in-store location

Years ago, Perfect Bar disrupted the bars market by targeting placement in refrigerated spaces, before a category for fresh bars even existed. This unique location not only harnesses the freshness halo of the refrigerated case, but also insulates the brand from the rest of the crowded ambient bar category.

In-store location is still the #1 medium for building brands in most categories. Perfect Bar demonstrates the moat-building power of a distinct location that communicates, educates and reaches new shoppers.



Bevi

Healthy Beverage Dispensers

MOAT

Complete solution model

Bevi is unique on this list in that it's not a packaged good. In fact, Bevi has forsaken packaging altogether. This Boston-based company places digital healthy beverage dispensers in offices around the U.S., providing employees with healthy, tasty beverages that generate less waste than traditional canned or bottled options. The machines also track consumption, allowing Bevi to proactively restock machines and build a database of consumption insights. The brand says it has reduced office beverage costs by 50%, and Bevi itself posted 1000% revenue growth in 2016.

Bevi's "moat" comes from the way in which it developed a complete solution model with distributors to help with the sale, delivery and maintenance of machines to offices.



Urban Remedy

Fresh RTE Meals & Snacks

MOAT

Always-on insight strategy

Urban Remedy is bringing consumers ready-to-eat fresh meals and snacks whenever, wherever. Their omni-channel model, which spans home delivery, owned retail storefronts and branded kiosks inside of other forward-looking retailers, allows them to win a greater share of in-home and out of home occasions. The proof? Urban Remedy has experienced 100% growth over the past two years.

The company tracks data from owned points of sale, using the insights to tailor its assortment in real time (a kiosk's assortment on a given day is determined by analysis of yesterday's sales). Furthermore, Urban Remedy uses kiosks and branded stores to incubate and identify the 2-3 SKUs that are worthy of being rolled out to larger accounts like Costco. This "always-on insight strategy" provides a better chance of success when launching new products in main-stream retail channels – and creates a moat to stave off other brands considering entering the fresh packaged space.

10 moats that create an edge within the challenger brand model:

- | | |
|---|--|
| 1. Supply chain as consumer benefit | 6. First mover with a unique ingredient |
| 2. Raise the bar on production standards | 7. Influencer channels |
| 3. Proprietary product story | 8. Stand-out in-store location |
| 4. Commercialized social reach | 9. Complete solution model |
| 5. Values-based endorsements | 10. Always on insight strategy |

As always, we want to hear from you! If you'd like more information on any of our challenger brand studies, or want to share a brand of your own, please reach out at info@seuratgroup.com.

Check out our previous challenger brand studies [here](#), [here](#), and [here](#).

Bright Farms

¹<https://www.brightfarms.com/app/themes/brightfarms/assets/pdf/Series%20D%20Press%20Release%20-%206.28.18%20FINAL.pdf>

²<https://www.inc.com/profile/brightfarms>

³<https://www.inc.com/magazine/201709/coeli-carr/2017-inc5000-brightfarms.html>

Tony's Chocolonely

¹<https://www.forbes.com/sites/oracle/2018/06/05/tonys-chocolonely-delivers-on-fair-trade-high-growth-virtues/#739343d91223>

²<https://www.confectionerynews.com/Article/2017/08/31/Tony-s-Chocolonely-targets-US-mainstream-retail-after-going-national>

³<https://tonyschocolonely.com/us/en/our-story/annual-fair-report/map>

New Wave Foods

¹<https://www.forbes.com/sites/michaelpellmanrowland/2017/03/20/female-leaders-food/#54045dd12184>

²<https://www.newwavefoods.com/about-us>

³<https://www.livekindly.co/vegan-shrimp-set-to-be-the-new-wave-in-ethical-seafood/>

Kylie Cosmetics

¹<https://www.cnn.com/2017/09/14/how-kylie-jenner-turned-kylie-cosmetics-into-a-420-million-empire.html>

²<https://www.forbes.com/sites/forbesdigitalcovers/2018/07/11/how-20-year-old-kylie-jenner-built-a-900-million-fortune-in-less-than-3-years/>

³<https://www.elle.com/beauty/makeup-skin-care/news/a47259/kylie-jenner-kylie-cosmetics-earnings-billion-dollar-projectory-wwd/>

Vital Proteins

¹<https://www.prnewswire.com/news-releases/vital-proteins-se-cures-19-million-investment-from-cavu-venture-partners-to-push-collagen-nutrition-into-the-mainstream-300547801.html>

²<https://whole30.com/2016/09/vital-proteins-faq/>

Four Sigmatic

¹<https://www.fastcompany.com/40511575/the-shroom-boom-will-trendy-medicinal-mushrooms-go-mainstream-in-2018>

²<https://uhp.com.au/blog/how-four-sigmatic-is-popularising-functional-mushroom-drinks/>

Perfect Bar

¹<https://perfectbar.com/2018/05/08/perfect-bar-increases-wholesale-business/>

²<https://perfectbar.com/2017/11/21/entrepreneur-day-perfect-bar/>

Bevi

¹<https://www.xconomy.com/boston/2017/07/13/bevi-slurps-16-5m-to-bring-smart-water-cooler-to-more-offices/>

²<https://www.bevi.co/blog/smart-beverage-platform-bevi-raises-16-5m-series-b-make-disposable-bottles-obsolete/>

Urban Remedy

¹<https://www.nosh.com/news/2018/urban-remedy-plans-escape-kiosk-california>

²<https://urbanremedy.com/locations/>

Oatly

¹<https://www.inc.com/betsy-mikel/this-439-cult-swedish-drink-is-poised-to-disrupt-a-16-billion-industry.html>