Harley Davidson rides into a crowd of Millennials!

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Harley Davidson, once a stock market darling and come-back king faces trouble ahead with hard-hitting consequences for its shareholders. A demographic seismic shift is occurring with those aged 19-35 (Millennials) and their younger cousins - Centennials aged up to 18. Together they account for 57% of the global population and importantly hold a similar share of the workforce.

Any company that assumes or ignores their values and consumption patterns will find themselves on the wrong side of disruption.

Technology and environment awareness are deeply integrated into Millennials' lives and habits. They're also skeptical of governments and big business. Few of them desire the mass market products and brands held by their parents. Millennials makeup is changing too: 43% of US millennials are non-white, whilst China and India each have 400m!

Harley like other big businesses focused heavily on Baby Boomers and Gen X-ers (after WW II until mid-1980's). Generally, it served them and their investors well riding this wave of generational affluence. Companies are attracted to their enduring qualities of resilience through economic cycles, recessions and crashes. Until now that is; as demographic change has quietly produced a profound impact on companies relying on this aging construct. This is at odds with the multi decade Megatrend of demographic change.

Harley motor cycles have been popular with the 'male, well-paid married Baby Boomers / Gen Ex-ers'. They relate riding a Harley to their younger years embodied by movies like "Easy Rider". In 1987, half of all Harley riders were actually under 35. By 2008, the average Harley rider was 48 and rising steadily at a rate of about 6 months each year since at 1999.

What Harley perhaps missed is that Millennials buy motorcycles for 'ease of transportation' and environmental footprint. Thus, Millennials are more attracted to lower-priced, lighter weight, fuel efficient and consequently lower margin bikes. Not how you might describe a Harley Davidson or its owner. Harley didn't see this Megatrend coming or appreciated its impact until too late. It was then slow to respond and likely resisted the writing on the wall for quite some time (common with large companies). Its market share is taking a hit and its sales are falling.

They have set ambitious goals of gaining 2 million new riders in 10 years; introducing a rider training academy, reducing the entry level price, introducing electric bikes and entering the small displacement market in Asia with the launch of a 250-500cc motorcycle. Will this work? Can they execute each initiative well? Can they make the brand resonate with younger generations? Consumer tastes are changing so fast. Recent trends in revenues and profits do not paint an optimistic picture. Sales have been declining since their peak in 2014 continuing in 2018 with further deterioration in 2019 forecasted.

Harley Davidson is also an example of a 'Value Trap'; it appears attractive based on historical measures of profitability and valuation (projected forward) and therefore would seemingly be a strong candidate in any quality-based portfolio. However, it is suffering from the fast pace of disruption as a result of the different consumer behaviours of Millennials due to the Demographic Megatrend that Insync's approach identified.

At Insync we look for companies that understand disruption and where they stand in it. We look for company financials and a market standing that enables them to ride the wave of disruption rather than be bowled over by it. We look for management that has a sense of humility and open-mindedness to change and to challenge. These are rare traits. We also avoid Value Traps that most professional investors fail to understand. Being Forward-Looking via our unique Megatrend approach is one way we do this. These attributes of our investment philosophy help us not only to pick tomorrows winners, but also helps to avoid holding onto the 'market darlings' of today that really are just 'lemons in waiting'.

Companies that cater successfully to the millennial/centennial generations focus on authenticity and wellbeing will be the enduring retail consumption companies of the future - for now.