

In 2010, Shane Fallscheer and BB Retail Capital (BBRC), founded and chaired by Brett Blundy, joined forces to establish the Australian headquartered global fast-fashion jewellery and accessories retailer, Lovisa.

Starting with a single brick-and-mortar store in Chermside, Queensland, the company expanded to New Zealand within a few months of establishment and entered the South African market the following year. Over the next ten years, Lovisa expanded its store presence both domestically and internationally, to a total of 394 owned stores and 41 franchised by mid-2020. In 2019 the Ruthven Institute identified Lovisa as the highest performing listed company in Australia in terms of return on shareholder funds over the past three years. In 2020, they ranked third.

Before the COVID-19 outbreaks and lockdown measures across the globe forced temporary store closures, the company's products could be purchased at physical locations in Australia, New Zealand, Singapore, Malaysia, Vietnam, South Africa, Spain, France, the U.K., the U.S.A. and the Middle East. In 2020 Lovisa expanded its online store presence to all these markets, with the exception of the Middle East and Vietnam, where it operates through franchising.

The Founders

Shane Fallscheer and Brett Blundy are Lovisa's CEO and Chairman respectively. Mr. Fallscheer currently owns 2.1% of the total share capital, while BBRC is the company's largest shareholder with 40.2%. The founders' professional lives crossed paths years before Lovisa was born.

Mr. Blundy first acquired two record stores in 1980 which he grew into the Sanity Entertainment Group, Australia's largest music retail chain in the early 2000s with more than 350 stores. Mr Blundy soon housed these investments in BBRC, which has subsequently invested in a range of retail brands, including Adairs, Bras-N-Things, Honey Bridette, Politix and Universal Store. BBRC is also the largest shareholder of Aventus Retail Property Fund, started by Mr. Blundy with the purchase of a shopping centre in Melbourne and now leading the Australian large format retail centres landscape, owning and managing over 536,000m² in leasable area.

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BBRC's strategy for its consumer brands is to be relevant to the main market (the early and late majority on the product adoption curve) offering products that are new but not necessarily innovative, reducing the costs associated with product development and ultimately making them more affordable.

Mr. Fallscheer first joined Mr. Blundy's ventures in 1991, beginning as a music store manager and eventually reaching the C-suite. Mr. Fallscheer gained international experience assisting BBRC to turn around two British record store chains they had acquired from Richard Branson. He then went on to manage surf brand Rip Curl's US division, as well as lead their global retail operations.

BBRC entered the jewellery retailing business in 2005 with the acquisition of Diva, which had been founded in 2003 by Colette and Mark Hayman. Diva targeted 10-14 year-old girls. It expanded quickly to have more than 600 stores at its peak, including more than 400 outside Australia in New Zealand.

Lovisa is Born

Mr. Fallscheer managed the Diva rollout for BBRC from 2005, but stepped away from the CEO role in 2009, returning to Melbourne and selling his share in Diva back to BBRC. Soon after, Mr. Fallscheer returned to Mr. Blundy and BBRC with the idea of Lovisa, a company that would appeal to fashion conscious 25- to 45 year-old women. Lovisa grew fast, partially through re-branding a large number of Diva stores, but also through rapid organic growth. In the first year of operation they opened 51 stores in 52 weeks.

Lovisa in Australia

According to Lovisa's mission statement, the company's offerings are molded around three pillars: affordability, being *on-trend* and the retail experience. This positions Lovisa as a fast-fashion player in the jewellery retailing industry. 100% of its revenues are derived from this industry.

Lovisa's competition comes from specialty retailers that sell fashion jewellery (e.g., Colette), department stores (e.g., Myer, David Jones), fashion apparel retailers with a

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fashion jewellery section (e.g, H&M, Zara) and small affordable jewellery with little or no store presence (i.e., e-commerce).

With the watch and jewellery retailing industry in Australia, Lovisa's market share is between 2% and 3% and it is the largest fast-fashion company in this industry. The dominant players in the broader market are fine and luxury jewellery and accessories retailers, such as Pandora, Tiffany, Michael Hill and Prouds, whose products are designed to be more timeless.

Lean Operations – Change Fast, Move Fast

In order to be always on-trend and have control over the customer experience, Lovisa relies on a highly integrated structure from development and design to merchandising and retailing through single-brand stores, brick-and-mortar and online. Mr. Fallscheer has described Lovisa as "a product-generating machine" which aims to identify trends early and have them in store when customers are looking for them. The aim is also to sell as much product as possible at full price (i.e. to minimise discounting). This is particularly important as products perceived as *off trend* would require very significant discounts.

Twenty team members in the product department based in Lovisa's Melbourne headquarters travel around the world scouting trends and plan and coordinate the products' rollout. Every week, roughly 150 new styles are introduced in the stores. Lovisa's products are manufactured in China, India or Thailand. They then transit through either a leased warehouse in Melbourne, which services the Australian and New Zealand markets, or two third-party operated warehouses in Poland and China. The former services Europe, and the latter the rest of the world. With the increasing geographical expansion of Lovisa, the Chinese warehouse has been processing larger volumes year-on-year, and surpassed the quantity of products processed through the Melbourne warehouse in 2019. It takes around 48 hours for products to reach stores from their respective warehouse.

International success

Similarly to the pace at which Lovisa operates, the company has expanded internationally very rapidly, entering those markets that are culturally and geographically closer to Australia first (New Zealand and South Africa) and more distant markets later (Europe and the U.S.A). Nonetheless, Lovisa attributes the success of its international strategy to the fact that it can offer basically the same products worldwide because their international customer base is fairly homogenous

and because they design products following global fashion trends. The jewellery and accessories industry is also not subject to specific local regulations that might play as barriers to entry in certain markets. The nature of the products themselves makes environmental factors, such as seasonality differences between the Northern and Southern hemisphere, quite irrelevant.

Lovisa also uses a standardised approach internationally when securing store locations, limiting the search to 50 square meter spaces in shopping centers or malls with high foot traffic. Within 14 days from taking possession of the site, the stores are ready to open with an internationally homogenised fit-out. This has also made it possible for Mr. Fallscheer to manage the whole company on a global level just with the support of sales teams in each territory and regional managers. The firm has a very disciplined focus on returns per store, with minimum expectations on each store. They have resisted the temptation of high-rent banner stores in prominent locations, keeping their eye on their core audience in mid-tier suburban malls and high volume commuter locations.

Lovisa's commitment to its international expansion strategy is demonstrated by the November 2020 announcement of the acquisition of Beeline GmbH that should result in 114 new stores opening under the Lovisa brand in six new European countries. The move of entering new markets in the middle of the COVID-19 pandemic through physical retail stores must have been an unpassable opportunity for Lovisa, which claims to be staying reactive to opportunities and threats when entering, growing and/or exiting markets. In 2020, Lovisa has expanded its presence in the U.K. (4 new stores), France (13 new stores), the U.S.A. (29 new stores) and through their franchisees (5 new stores), while exiting completely the Spanish market (9 stores closed). The Beeline acquisition brings them 114 prospective new stores in Germany, France, Switzerland, The Netherlands, Belgium, Austria and Luxembourg. Table 1 (see Appendix) shows their growth path since 2015, but before the integration of Beeline.

An E-commerce evolution?

In parallel with the physical store expansion, it is Lovisa's strategy to boost its online and digital presence. Although competition from solely online retailers was identified as early as 2015, only in 2020 was the company able to offer an online purchasing option in all its market. This reflects a strategic decision to prioritise the pursuit of a growing bricks and mortar stores presence for the short to medium term.

Looking at Lovisa's performances during the COVID-19 pandemic, the highest revenue-generating stores were in Australia and New Zealand, where days of closure were fewer than in other markets, and the biggest growth was observed in Lovisa's e-commerce channels (382% growth compared to 2019).

More change afoot

In October 2021, Mr. Fallscheer announced he was stepping down from CEO role after 12 years at the helm. In seeking his replacement, the Board were keen on finding candidates with experience of at least two of Lovisa's three core continental markets – Europe, Asia and North America.

With Victor Herrero, they got all three. A Spaniard, Mr. Herrero comes with a wealth of global retailing experience. He worked for the Inditex Group - home of the Zara, Massimo Dutti and Pull & Bear brands - for 13 years, including as their Head of Asia Pacific, and General Manager (China). He then served as CEO of US clothing brand and retailer Guess, and most recently as CEO and Chair of iconic British footwear brand Clarks. Mr. Herrero comes to Lovisa with an expectation of ongoing and accelerated growth. He must steer the organisation on a path to further international success.

Further Reading

Hyland, A. (2016), The Millionaire Machine: The 10 + 1 principles that drive the success of Brett Blundy's companies have helped seven of his executives become very wealthy, *Australian Financial Review*, October 13.

IBISWorld (2020), *Company Profile: Lovisa Holdings Limited*

LaFrenz, C. (2020), Aussie jewellery chain's overseas rollout loses some of its sparkle, *Australian Financial Review*, February 20.

Lovisa Holdings (various years), *Annual Reports*

Mitchell, S. (2020), Lovisa eyes new stores even as sales shrink, *Australian Financial Review*, October 21.

Ruthven Institute (2021), *Profitability - 100 Best Listed Public Enterprises*

Appendix

Table 1: Lovisa's growing store footprint.

Owned Stores		FY15	FY16	FY17	FY18	FY19	FY20
Region	Country						
Aus/NZ	Australia	146	144	145	151	154	152
	New Zealand	14	18	18	20	22	23
Asia	Singapore	15	19	21	22	18	19
	Malaysia	15	14	19	21	25	27
Africa	South Africa	36	36	50	56	61	62
Europe/ Americas	UK	-	3	11	24	38	42
	Spain	-	-	1	5	9	0
	France	-	-	0	2	8	21
USA	USA	-	-	0	1	19	48
Total Owned		226	234	265	302	354	394
Franchise Stores							
Asia		-	-	4	6	8	7
Middle East		13	16	19	18	34	28
Total Franchise		13	16	23	24	42	35
Total Stores		239	250	288	326	396	429

CASE QUESTIONS

1. Lovisa has a clear focus on a particular demographic. How does this aid their strategic choices and competitive advantages?
2. Lovisa has a high level of integration up its supply chain. To what extent do you see this as beneficial and why? What risks do you see with keeping so much in-house?
3. While Lovisa has certainly built a considerable international footprint quickly, there remain many untapped markets. Where would you advise they go next? And why?
4. Lovisa's past successes have derived, at least in part, from the *look and feel* of the in-store experience that it offers to its customers and from the strategic resources and capabilities associated with physical retailing. To what extent is online retail too big of an opportunity and threat for Lovisa to ignore?
5. Does the firm have the requisite resources and capabilities to build a comparable competitive advantage in online retailing? What advice would you give the firm about fast tracking their success online?