

How cheap jewellery turned Lovisa into a \$100 million+ business

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Investment dressing is a dirty word at fast-fashion jewellery chain Lovisa, part of Brett Blundy's BB Retail Capital.

The average purchase is just \$20 and prices range from \$6.99 for a peach-coloured plastic ring to \$49.99 for a Derby-Day fascinator, "antique" earrings or "simulant" diamond necklaces.

"Typically our customers are buying our jewellery to wear for an occasion in the next seven to 10 days and they'll wear it once or twice and it will end up in their side table drawer, never to be seen again," said Lovisa founder and chief executive Shane Fallscheer. "Hence why we turn products over - it's buy now, wear now and move on."

Founded in 2010, when Mr Fallscheer spotted a gap in the market for fashion-forward jewellery at an affordable price, Lovisa's sales have grown by more than 40 per cent a year over three years to more than \$100 million and earnings have doubled in the last two years to more than \$16 million.

Melbourne-based Lovisa has embraced the fast-fashion model perfected by global retailers H&M, Zara and TopShop. An in-house design team scours runways and fashion shows for the latest trends, products are made to order by suppliers in China, India and Thailand and delivered to stores or distribution centres within six to 10 weeks.

Lovisa's compact 50-sqm stores carry 2,500 units, ranging from hair accessories, rings, bracelets, necklaces and fascinators to this year's big trend - the 70s-style choker.

About 100 new designs arrive every week, refreshing the range and fuelling a constant stream of foot traffic.

"Traditionally fashion jewellery has been sold in apparel retail as a limited offering (alongside) fashion and accessories," said 45-year-old Mr Fallscheer, who started working with Mr Blundy 25 years ago at Sanity Music. He has run BB Retail's Sanity and Diva chains after a brief stint with Rip Curl in the US.

"The thing that sets us aside from (others) is that we just do jewellery," he said. "Our goal from the outset was to focus on the customer who was looking at a limited offer at department stores ... they can walk 10 doors down to Lovisa and have a choice of 2500 pieces."

Lovisa's fully vertically integrated operating model underpins gross margins as high as 75 per cent - almost double those at Myer and well above margins of 63 per cent at accessories retailer Orotan. Direct sourcing enables Lovisa to keep costs low and the company does no mainstream advertising, relying instead on social media and direct marketing.

BB Retail is now considering selling Lovisa through a trade sale or initial public offer, taking advantage of a small window of opportunity before the IPO market starts to wind down ahead of Christmas.

BB Retail appointed Morgans and CIMB last month to run a dual-track process, but Mr Fallscheer says no decision has been made.

Based on forecast earnings between \$18 million and \$20 million Lovisa could be worth between \$175 million and \$240 million. Mr Blundy tried to sell Bras N Things through an IPO in 2011 but the float was pulled.

Mr Fallscheer says Lovisa's Australian market is largely mature but there is plenty of growth overseas in Asia, the Middle East, the US and UK.

"Our goal is to open at least one new company-owned territory a year," he said. After opening the first stores in

Australia and New Zealand in 2010, Lovisa expanded into South Africa in 2011, Asia in 2012 and the Middle East in 2013. It now has 220 stores in eight countries, including Kuwait and Saudi Arabia. The next market on Mr Fallscheer's radar is Hong Kong, where Lovisa is in talks with landlords to open about 15 stores. Another dozen will open in Singapore and Malaysia.

"The model we've built works in all international markets - all international markets are profitable and we've proven we can cross borders with our offer," Mr Fallscheer said.

This story was found at: <http://www.smh.com.au/business/how-cheap-jewellery-turned-lovisa-into-a-100-million-business-20141104-11gsb8.html>