

WWD FRIDAY

Five Below Taps Teen Trends for Less

PARAMUS, N.J. — When two major marketing trends collide — value stores and the youth market — the result is formidable.

That's the recipe at Five Below, a growing chain where the mix of lip glosses, lava lamps and flatulence machines is aimed at tweens and teens. To appeal to their pocketbooks, all merchandise is priced at \$5 or below. Last Friday, Five Below opened a 6,500-square-foot store in this retailing mecca at 3 p.m. — the time its most important shopper gets out of school.

In less than three years, Five Below has grown from its first shop in the suburban Philadelphia market to a 27-store operation with locations in Pennsylvania, New Jersey, Delaware, Maryland and Virginia.

That's just the beginning, according to co-founder Tom Vellios, who envisions 100 doors by the end of 2006. The company, based in Philadelphia, recently secured \$20 million worth of financing from private equity firm LLR Partners to achieve that growth. On the same day as the Paramus debut, Five Below opened another store in Woodbridge, N.J.

Vellios and partner David Schlessinger know a few things about retail. The duo created and built the Zany Brainy toy chain, which they sold off in 2001 to an investment group when it had reached 200 stores and \$400 million in revenue. Zany Brainy was created to provide interesting toys for their children, now teenagers, who have helped them see the need for a store catering to teen shoppers.

"Everything in this store is for tweens or teens," said Vellios during a tour of the Paramus site. "Kids need somewhere to go buy items after they are done with toys. There has been a compression of the toys business, because they grow out of toys faster. We envisioned a place where they could go to spend their allowance."

Vellios stressed that Five Below isn't a dollar store, but rather a trend-right specialty store for fickle youth consumers, both male and female. Although typical Five Below stores sell everything from candy and T-shirts to video games and room decor, Vellios has a soft spot for the beauty business. Many other categories are bought as closeouts or deals, but Vellios proudly stated that most beauty items are traditional day-in, day-out merchandise.

Since young girls love beauty products, the department is one of the busiest in the store. "I love this business," Vellios said as he pointed to a bath gift set consisting of a bath pillow, bath gel, lotion, crystals and pouf for \$5. And Five Below has brand names now, including Snapple lip gloss, Maybelline and Hello Kitty. Manufacturers like the fact that Five Below doesn't saddle them with returns — a bane to the traditional mass beauty business.

About 25 percent of the store is devoted to beauty items, including lip, nail, eye, kits, hair care, bath and body. The rest of the mix is rounded out by greeting cards, apparel and home decor, such as lava lamps, and gag items and appliances. A hot deal at the opening was a cooler that is also a radio, priced at \$5.

Vellios said his staff of 10 prowls the globe and trade shows for items that are "right" for teens. Instead of purely buying closeouts, he strives to take costs out of



Inside Five Below.

Critical Mass By Faye Brookman

shipping to Five Below's warehouse. "Balls come without air," he said as an example of how to reduce costs.

New Jersey is a ripe market for Five Below, which has plans for 40 to 50 units in the Garden State — a market full of free-spending youngsters. Vellios also has his sights set on Long Island. The chain likes strip shopping centers in heavily traveled areas, and most stores average about 4,000 square feet. Rather than invest heavily in advertising, Five Below has flourished via word of mouth. Barbara Sax, a consumer spotted on opening day here, said she planned to tell several friends about the new store. Five Below did partner up with New York FM radio station Z100 for the grand openings in Paramus and Woodbridge, with radio personalities appearing at both stores.

Stores sport a funky design, also created with teens in mind. The floor is concrete; graphics feature brightly colored dollar bills. There's a frequent-shopper punch card good for free items upon spending \$100. A Five Below Web site chats up special deals.

Admitting that mass merchants have a tough time appealing to tweens, Vellios said Five Below is different. "They aren't always shopping those stores. Here, they'll come and know they are always going to find something trendy — something they must have," he explained. That was true for shopper Kristyn Klinck, 11, who recently snapped up terry flip-flops — the chain's current bestseller, according to Vellios — along with yellow nail polish and a locker magnet with the message "I see stupid people." For today's tweens, those are "must-haves."