

# Retailing Today

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## Five Below may just prove life is better after 50

BY MIKE DUFF

PHILADELPHIA — Five Below is in the midst of big things. It has developed a new, larger prototype, it is about to open its 50th store and it is looking at a period of accelerated growth that could rapidly take it to 100 units along the East Coast of the United States.

Five Below is sticking with its core mission of serving 9- to 14-year-old kids by providing them with trend-right items all sold below the \$5 price point. Yet, it has found ways to expand the original concept, adding new departments and tooling operations to appeal to both its target audience and po-

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Five Below's strategy going forward includes rapid expansion along with adding new departments to its operations.

tentially new customers.

Tom Vellios, Five Below's president and ceo, said the retailer slowed down growth this year, deciding only to open about seven units as it worked out a larger prototype store. It will close the year with 52 or 53 units. Next year, the company plans to open 10 to 20 stores and 30 more each year after that.

The prospect of more rapid growth is significant, but Vellios conceded that the prospect of getting to 50 stores when the company launched in late 2002 was even more intimidating.

"In October 2002, it was hard to imagine what it would take to get to No. 50," he said. "We had a plan, but it's one thing to ... put it on paper, and it's another to execute it. The store has been positioned to provide a destination to the teen and preteen market with a product assortment that is trend-right but also extreme-value. We cater to a customer who is, by nature, a micro-shopper who shops often and prefers to spend little money each time."

While the same shopper has remained the focus since Five Below's inception, the evolution included adding new business to the core of toys/games, novelties, casual apparel, CDs/DVDs, home decor and personal items. In some cases, that has meant stretching a category. Personal care once was aimed primarily at a younger audience, but Five Below has added some well-known nationally branded products that appeal to older teens and adults as well. The idea is that some preteens will be drawn to the product lines that older kids are using and, at the same time, high school and college students might find it more attractive if they can readily pick up a few everyday items.

Media is a completely new area for Five Below, but one management sees as having significant promise. By focusing on the core customer's needs, Five Below has crafted the segment as a space-saving wall display where all products are on hooks, hit the under-\$5 price position and revolve around a

hot trend: iPod accessories.

Five Below's first-generation, 5,000-square-foot units will be able to accommodate some assortment expansion and the newer prototype will offer better sight lines, less-cramped aisles and even more space to merchandise additional product.

Five Below began developing the larger prototype when it opportunistically leased some larger spaces, up to 8,000 square feet, last year. When its customers reacted positively, management decided to step back and take some time to construct a proper format rather than just expand the existing blueprint. Stores 50 and 51, scheduled to open next month in Massaponax and Sterling, Va., will be in the 10,000-square-foot format.

More visibility also helps with a key merchandising element: licensed items. Five Below combines brand programs with opportunistic buys, remaining trend-right and swapping out items in some cases and whole assortments in others as their popularity waxes and wanes.

Vellios said Five Below approaches licenses as a long-term business, largely avoiding short-cycle movie licenses in favor of those that have an extended lifespan. Given the nature of the business, Five Below can't be caught with a lot of cooling licensed product, Vellios said, and it's happier to sell through a license at its peak than hang on to the bitter end. Having more visibility allows Five Below to better feature hot licenses and demonstrate to the customer that the stores remain current.

It also shows off an attractive signage package and makes the stores easier to navigate.

So what does the future hold for Five Below? Growth up and down the East Coast is a priority, Vellios said.

Howard Ross, a partner in LLR Partners, a private equity firm that represents over 80% of a \$10 million investment made in the private company last year, said Five Below has enough money to finance current growth plans. It can generate more private investment and debt in the immediate future, if needed, given the strength of its current financial position, for which Ross didn't provide details. ■