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THRIFTY TWEENS

Five Below's hip five-and-dime concept is a hit with young consumers

By Maura K. Ammenheuser

Remember the five-and-dime store? Strictly speaking, it has vanished, replaced by such mega-mass-merchandisers as Wal-Mart and Target.

And yet two retail entrepreneurs are bringing back what they describe as a five-and-dime outfit with a twist. The chain is called Five Below, and the Philadelphia-based concept is aimed at 9-to-15-year-olds.

Sure, many retailers cater to this demographic — clothiers, music shops, accessories boutiques and more. And plenty carry a broad assortment of goods, Kohl's and the department stores among them. But few take the anything-under-the-sun approach and tweak it for kids. The concept is named for its prices — everything is between \$1 and \$5.

"We want to be a general store, a modern-day five-and-dime, with a hip ambience," said co-founder and CEO Thomas Vellios. So Five Below is stocked with a colorful explosion of hip stuff — lava lamps, iPod accessories, yoga mats, gag gifts and more.

Vellios and co-founder David Schlessinger say Five Below fills a void. "What did it for us was watching how quickly kids, including our own, are outgrowing toy stores," Vellios said. Once they do, the pair wondered, what amusement is available for them besides video games? Five Below is one answer.

Vellios calls it "the allowance store." One landlord, Paul Aschkenasy, president of Blank Aschkenasy Properties, West Conshohocken, Pa., describes Five Below as the place to take the kids when they have done something deserving reward but mom and dad do not want to spend much.

Five Below has grown from its first store, which opened in October 2002 at Gateway Shopping Center, Devon, Pa., to 47 at last year's count. (Twenty-four of them opened last year alone.) Michael Levin, executive vice president of operations and leasing, would not specify how many stores Five Below will open this year, but he did say the company wants to stay aggressively expansive.

Most stores measure roughly 5,000 square feet, but the company is already testing a larger format of about 8,000 square feet. It has opened two of these, one in

Christiana (Del.) Town Center and the other in Plymouth Square, Plymouth Meeting, Pa., both of which are open-air centers. Ideally, Levin says, future stores will be of the bigger size, but Five Below would rather open a smaller store in a desirable location than pass up prime real estate for the sake of a larger footprint.

Five Below favors large open-air centers — what Levin calls "regional strips" and power centers: sites with wide drawing power but not the upscale mix of so-called lifestyle centers. The concept is not meant to co-exist with, say, Ann Taylor, Levin says.

Vellios says the company plans to expand first on the East Coast, filling in markets where it already operates. It will also seek sites in the New York and Boston metro areas.

Last year Five Below got a \$20 million cash infusion from LLR Partners, a Philadelphia-based private equity firm, to fuel growth. Howard Ross, LLR's founding partner, says his firm made the investment because of Five Below's strong management. He even calls Schlessinger "a retail genius."

To be sure, Schlessinger has a track record. He launched book discounter Encore Books while he was still a University of Pennsylvania student in the 1970s. He later sold it to Rite Aid Corp.

In 1991 Schlessinger founded Zany Brainy, a chain of educational toy and game stores. Zany went public in 1999 but not long afterward filed for Chapter 11. Its assets were sold and eventually became part of FAO Schwarz, which then liquidated Zany Brainy as part of its own bankruptcy in 2004. Vellios was Zany Brainy's CEO, and Levin was senior vice president of operations and real estate.

Besides that corporate pedigree, Five Below is an innovative concept with no direct competitor, says Ross. "There's a huge opportunity for growth," Ross said.

Five Below's success relies upon the well-touted consumer habits of preteens, or "twens," as some call the group of children between 8 and 12 years of age. Estimates of this group's size and buying power vary depending on the source, but experts agree both are considerable. According to LLR, there are 23 million children in this age

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group in the U.S., and they spend about \$10 billion of their own money annually.

Kizer & Bender, a St. Charles, Ill.-based retail consulting firm, uses the name “millennials” for people born after 1982, and tweens belong to that group. “They love to shop,” said partner Georganne Bender. On average, millennials visit about 200 stores per year, she says, spend \$20 billion of their own money and influence an additional \$600 billion in spending per year through family and friends.

Nobody will specify how lucrative this market is for Five Below, though Ross makes some big predictions. He says the chain’s revenue, which doubled from 2004 to 2005, will grow by 50 percent this year and about 40 percent a year from then on.

Landlords would not disclose sales either, but they wax enthusiastic about Five Below. “It’s a terrific store,” said Aschkenasy. His company leased 4,500 square feet to Five Below at Marple Crossroads Shopping Center, a 450,000-square-foot power center in Springfield, Pa. “All I can tell you is I had good expectations for them, and they significantly exceeded my expectations. ... The store is packed at all times.”

The store, which opened in 2004 in a 7,500-square-foot addition to the center, is in a highly visible spot, Aschkenasy says. The center was not pulling in many 12-to-16-year-olds, but Five Below has attracted them, he says. “They draw a tremendous number of people to the center.”

Several landlords say they leased to Five Below, a fairly recent entrant into the crowded American retail landscape, in part because of its leadership — and never mind the ultimate demise of Zany Brainy. That did not faze these developers.

“The principals in the group were formerly involved in Zany Brainy,” said Kevin Lapp, principal of Hawthorne Centre Associates, Lancaster, Pa., which operates Hawthorne Centre, a 224,000-square-foot, Wal-Mart-anchored center that includes a Five Below. Because of that, he says, the chain understands the preteen shopper.

There was “immediate credibility once I knew David Schlessinger and Michael

At a glance...

Five Below, Philadelphia

No. of stores: 47

Preferred locations: Open-air centers

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Levin were involved,” said Chris Weilminster, senior vice president of leasing at Federal Realty Investment Trust, Rockville, Md. Five Below operates stores at four Federal properties: Ellisburg Circle, in Cherry Hill, N.J., Mercer Mall, Lawrenceville, N.J., Mount Vernon Plaza, Alexandria, Va., and Willow Grove (Pa.) Shopping Center. “We’ve known Michael Levin and David Schlessinger for quite some time and our relationship was really formulated and strengthened through Zany Brainy,” Weilminster said. One of Zany Brainy’s top stores was in Congressional Plaza, a Federal center in Rockville.

Another leasing advantage is that Five Below is unlike anyone else out there. “I don’t think anyone else has this concept,” Lapp said. “It’s a trendy place for kids to shop.” Beyond that, Five Below is fun, observers say, and while its wares are cheap, it is no dollar store.

The distinction is “the look of the store, but it’s also the merchandise mix,” said Aschkenasy. “A dollar store effectively feels like it’s overstocked.” Five Below’s inventory is deliberately chosen and well focused, he says. “It’s not filled with [just] whatever they can get.”

Five Below has a look all its own, definitely aimed at today’s visually overstimulated kids, observers say. It’s not understated — the stores are bursting with color and crowded displays. “There’s stuff everywhere,” Aschkenasy said. “It has cool, kind of beaten-up floors.”

“We’ve been surprised at how easily people get it,” said Vellios. “People of all ages get it.” ■