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R E T A I L I N G T O D A Y

Still sizzling

TWILIGHT IS HELPING KEEP TEEN CHAIN HOT TOPIC BUSY IN DECIDEDLY UNBUSY TIMES

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ITH APOLOGIES TO THE ROLLING

Stones, it's *not* only rock 'n' roll. It's rock plus vampires. This combination made mall-based T-shirt-and-accessories merchant Hot Topic sizzle during the 2008 holiday shopping season. That is remarkable, because consumers had otherwise slammed on the brakes — an ICSC index of 36 U.S. chain-stores showed a 2.2 percent, year-on-year drop in sales for November-December.

Youth-oriented retailers were not immune: Abercrombie & Fitch saw total sales for December

fall 18 percent year on year, while its comparable-store sales plunged 24 percent; American Eagle Outfitters posted a year-on-year total sales decrease for the month of 10 percent, while comps fell 17 percent; and The Wet Seal's December sales slumped 10.2 percent as comps sagged 12.5 percent.

Hot Topic's numbers, however, would be considered solid even in a healthy economy: Its December total sales rose 7.1 percent year on year, to \$113.7 million, while December comps rose 5.2 percent. The chain operates 681 shops in the 50 states and Puerto Rico.

Hot Topic Inc., the City of Industry, Calif.-based parent, also operates the 159-store Torrid chain of women's plus-size apparel. Torrid is a longtime trendsetter in that fashion category, according to Kate Campbell, academic director of fashion retail management at The Art Institute of Tampa, in Florida. Campbell was formerly a plus-size buyer for department stores. "All I ever heard about was Torrid," she said. "If Torrid had a certain look, I had to have it." Torrid's total sales for December rose 7 percent, to \$18.2 million, though comps slipped 1.7 percent.

Clearly, then, Hot Topic is driving the company's success. Total sales for January were \$44.8 million, up 8.4 percent from January 2008. Companywide, comparable-store sales jumped 6 percent, versus a 3.6 percent drop a year earlier. Hot Topic's comps soared 8.8 percent, meanwhile, and Torrid's dropped 6.2 percent.

For fiscal 2008 (ended Jan. 31, 2009), company-wide sales hit \$761 million, up 4.5 percent over fiscal 2007. Companywide comps, meanwhile, rose 1 percent year on year (with Hot Topic's comps up 1.8 percent and Torrid's down 2.4 percent), versus a combined 4.4 percent year-on-year decline for 2007. Hot Topic Inc. launched another venture last fall, a Web site called ShockHound, which sells music downloads and rock-related merchandise. (The company has not released any ShockHound revenue figures.)

Management declined requests from this publication for an interview, but other sources credit its recent head of steam to *Twilight*, the vampire movie released in November. The company pushed the related licensed merchandise, knowing that the movie and the book series upon which it was based are immensely popular with youth. The stores' core audience is 12- to

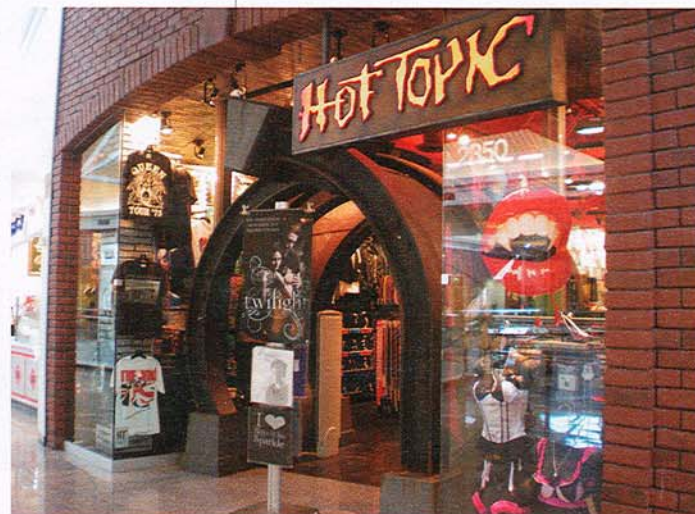
22-year-olds. "While Hot Topic has had other successful licenses in the past, 'Twilight' has surpassed all other licenses in terms of its share of the sales mix (we estimate high single- to low double-digits)," wrote Sharon Zackfia, an equity research analyst at Chicago-based William Blair & Co., in a report.

"It's huge," said Doug Healey, a senior vice president of leasing at Macerich, of the *Twilight* impact on Hot Topic's holiday season. Macerich operates Queens Center, in Elmhurst, N.Y., among 50 malls that house a Hot Topic.

"Customers want a store that 'gets' them, someplace they can call their own [and] that makes a statement about who they are," said Campbell. "Hot Topic is right on trend with popular culture."

But Hot Topic's success goes beyond the vampire movie. Quarterly comps gained steadily last year, even before the movie's release, thanks to a growing number of in-store concerts — 200 of them, up from about 45 in 2007, Zackfia wrote in the report. She learned from Hot Topic executives that the company expects to sponsor about 1,000 this year. Zackfia predicts that this strategy will help bump sales from about \$480 per square foot currently to management's goal of \$550. (Torrid stores post about \$350 per square foot.)

Melanie Fazio, marketing director at Mall at Greece



HOT TOPIC IS DRAWING MORE TRAFFIC THESE DAYS THAN MANY OF ITS RIVALS.

Ridge, in Rochester, N.Y., says Hot Topic books local bands to play in the store's front window. The Hot Topic Web site boasts that its buyers scour the landscape for music and fashion trends in music videos, alternative radio, concerts, nightclub acts and music Web sites. "It's hip, it appeals to the younger kids," said Al Ferrara,

director of retail services at BDO Seidman, a New York City-based consultant firm. "It's an exciting place to walk into."

Hot Topic has blunted its sharpest edges, however. Fazio says the stores are using brighter colors in the displays, retaining a rock image, though not entirely goth now. Brian Giffin, general

manager of Westlake Mall, in Amarillo, Texas, agrees. "They've made the store a little more mainstream," Giffin said. The chain's image was grittier when it opened a store there seven years ago.

Hot Topic's sales at Westlake for December jumped 18.4 percent over the previous December, and 9.2 percent for the

full year against the year before, reports Giffin, though he declines to divulge dollar figures. "They've really gone back to basics — their basics," Healey said. Hot Topic enjoyed "off-the-charts" sales shortly after its 1989 launch, he says. Eventually, sales cooled, and then the merchandise shifted toward the goth fad among teens. "Now it seems they're going back to music, TV and movies," Healey said.

But Hot Topic still speaks the language of teens. It texts customers with promotional announcements, for instance, and the Mall at Greece Ridge store has a MySpace page, harnessing the popularity of online social networking to publicize events. Hot Topic sponsors "listening parties" — chainwide broadcasts of trendy and new albums — says Craig Hubbell, executive vice president of media services at PlayNetwork, the

"Making the kind of music its customers understand ... available directly through them is brilliant."

Redmond, Wash.-based company that provides the tech support for this activity. PlayNetwork obtains the music Hot Topic store employees suggest, vets it for potentially offensive lyrics or titles and then creates playlists the clerks can air in the stores, says Hubbell.

ShockHound posts interviews with musicians and lets fans upload photos in which they wear the stuff they have bought off the site. But no observer blinked at the notion of a T-shirt shop getting into the online music business. "Why not? Starbucks has been pushing music for years, and fairly successfully," said Campbell. "Remember, it's the whole package, not just the product. Making the kind of music its customers understand ... available directly through them is brilliant."

Not that anyone is saying that ShockHound will be a big moneymaker anytime soon; Ferrara sees it as a loss-leader.

Malls are full of specialty retailers catering to the young, but Hot Topic's music vibe sets it apart from the plethora of apparel chains lacking such a niche. As Fazio puts it, "They're making it a culture instead of just a store." SCT