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## How Hot Topic's Culture-Heavy Strategy Helped It Sizzle During the Downturn

By Kate Rockwood

John Kirkpatrick is a lucky guy. "My teenage daughter and 10-year-old son think I have the coolest job," he says. As chief music officer of the retailer Hot Topic, Kirkpatrick has the onerous responsibility of bringing in emerging bands to rock out on the in-house stage at the company's City of Industry, California, headquarters. On his desk, CDs pile into precarious towers -- he gets more than 100 a month -- amid dueling Transformers action figures. Graffiti and hundreds of music posters fill the walls. All of this, he can say with a straight face, is work: "We're basically cultivating a kingdom of fandom."

Lately, swarms of teens and tweens have entered the kingdom thanks to smart bets made on music and film by Hot Topic, which sells everything from apparel and accessories to CDs and posters. Its culture-heavy emphasis -- what other retailer has a chief music officer? -- helped push revenue to \$761 million last year, up 5% from 2007. Same-store sales grew for seven straight months amid a recession marked by consumer restraint, and all without advertising. But a recent dip in sales -- down 5.8% in June -- has raised questions: Is there really something special and replicable in Hot Topic's model, or was the company's growth spurt destined to last only as long as an adolescent's?

The chain's target demographic is notoriously fickle and hyperalert for any whiff of the inauthentic. "Hot Topic is funky and random," says Chris Waugh, 17, a weekly shopper in Queens, New York. "But it doesn't feel forced." On this day, he loped through Aéropostale and American Eagle Outfitters, but spent money only at Hot Topic. Today's find: a \$13 rainbow-hued scarf.

Retailers strain to reach gen-Yers like Waugh because of their number (at 84 million people, they're the largest age group in America) and spending power (\$200 billion annually). Chains such as Abercrombie & Fitch use aspirational ads with six-pack abs and tousled bed hair, which haven't worked during the downturn; A&F's second-quarter sales slumped 24% compared to last year's. But Hot Topic doesn't sell its customers an image of who they want to become; it plays into who they think they already are, if only they had the accessories to show it. (Think black nail polish, after Adam Lambert's near-win on *American Idol*, or plaid pants, inspired by Gwen Stefani.)

A couple of years ago, Hot Topic, which started in the late 1980s, looked like an also-ran in the crowded teen-retail marketplace. Its sales were stagnant. Mall foot traffic was down. But even as iTunes and file sharing were decimating music-store sales, the chain decided to wager on music. "Suddenly, you have kids with 10,000 tunes on their iPods, covering every genre," says CEO Betsy McLaughlin. "We wondered, How

does a customer decide what's great in new music? Who's their guide for the music-discovery journey? We realized there wasn't one."

Hot Topic aimed to become just that. Its stores had long-carried CDs, but McLaughlin retooled the selection, shifting from megareleases to bands on the cusp. Kirkpatrick, formerly in charge of all things musical at Paramount Pictures, joined in April 2007 to help redefine the chain's image. Within the year, sales of CDs and music-related T-shirts had swung from double-digit negative to positive. More important, Hot Topic found that the music was boosting nonmusic sales.

Today, the stores feel more like campus student centers than shops: loud music, dark walls, bulletin boards crammed with concert flyers and staff music picks. In July 2008, Hot Topic began hosting free acoustic shows, called Local Static, featuring bands chosen by its music-obsessed salespeople, 80% of whom are younger than 25. "Our store managers are in touch with local talent and local tastes," McLaughlin explains. "At the first Local Static show, we had 25 people show up. At the 10th, fans packed the store." This year, Hot Topic plans to host 4,500 shows.

The company has also pushed past bricks and mortar. In October 2008, it launched Shockhound.com. The site packages MP3 sales with music news and reviews as well as social networking for musicians (Local Static bands join Shockhound) and fans. Even with the live element, it's a gutsy -- some might say quixotic -- move to take on Apple's iTunes and MySpace. **The site is not yet profitable, but retail analyst Dana Telsey of Telsey Advisory Group believes the two-pronged approach makes Hot Topic "more essential in the music space and more unique in the retail space. It's building community in a very smart way. By creating a reason to go to the stores, they're driving sales."**

That was also the thinking behind Hot Topic's most successful nonmusic gambit so far. The company scored a tremendous hit by making a savvy licensing bet on *Twilight*. The four-book-and-film franchise about teen vampire love comes with a built-in audience hungry for merchandise -- exclusively available at Hot Topic. For last November's release of the first *Twilight* film, the movie's stars did a national tour of Hot Topic stores, which supplied hot chocolate and pizza to thousands of fans, many of whom queued up the night before. "*Twilight* let the company speak to new, younger customers and to groom them to see Hot Topic as a destination," says retail analyst Jeff Van Sinderen of B. Riley & Co. "When the customer came in, she bought *Twilight* stuff, but she bought -- and she'll keep on buying -- other stuff as well."

The back-to-school shopping rush will test that hypothesis. (The next *Twilight* movie isn't out until November.) It will also show whether this past summer's setback is, as McLaughlin claims, more about miscalculating demand for colored denim than a larger problem with the company's fan-focused strategy. "We provide the connective thread for the things that people get excited about," Kirkpatrick says. "For you to wear a band shirt, you've got to be oozing passion about it. And why not tap into that passion?" Especially when that passion can fuel a hot streak.