Complete Transcript: HALO Talks with John Klein
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Pete Moore

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[Pete Moore]

Take a look at what we've done.

[Speaker A]

With 150 executives in the Halo sector to get them smarter, get them paid for capital raises, and also more winning.

[Pete Moore]

Thanks.

[Speaker A]

Have a great season. Let's go.

[Pete Moore]

This is Pete Moore on Halo Talks NYC. I have the pleasure of having a 17 year friend, John Klein, pause Studios. We're going to talk about workout recovery, we're going to talk about growth, and we're going to talk about the power of the people in the franchise.

[Speaker A]

Or John.

[Pete Moore]

Welcome to your first halo talks.

John Klein

Pete, great to reconnect with you and I'm excited to talk with you and share our story.

[Pete Moore]

Awesome. So you just launched the FTD and are bringing on multi-unit operators, which is a great trajectory. Why don't you talk first about your experience in the health club space, your focus on real estate, how important that is, and that seems to never change in any good business. Location, location, location. And how all that kind of gives you the right to be a franchise or basically say, look, I got a playbook, I'm going to help you get the right location and then we're going to roll.

[John Klein]

Yeah, absolutely. So a little bit of background on myself. As you know, the story been in the health wellness space for almost two and a half decades. Started my career at TSI in the late 90s as the director of development and acquisitions there, and helped scale that company from 30 units to 130 units up and down the Eastern Seaboard, and then moved over to Equinox. Ultimately became the SVP of real estate there. Joined at ten units in 2001 and helped scale that company to 100 plus units before I left. Along the way, we acquired SoulCycle with, I believe, six units at the time and scaled that to 95 plus. So most of my career has been around growth, strategic planning, running real estate teams, running that process, design, development, construction, and smartly scaling businesses. How that translates to pause is we've selected five amazing corporate locations in Los Angeles. Three are open to moral, open in the next six to twelve months in markets where there are already equinoxes or barriers or Souls or OTFs. So already proven trade areas, just kind of pull it out, the Equinox or SoulCycle playbook for the corporate locations. But now that we've launched the franchise model, I have the playbook. My team has the playbook in all the major markets for a given franchisee let's say in Dallas, Texas, or

Austin. We've done the research. We know the demographics. We know the psychographics. We know where the comp set is, whether it's Equinox or Whole Foods or SoulCycle or Barry's or OTF. So we know the strong zone there, and we have the team and players to execute on that. We have local brokers in the ground that will ultimately connect our franchisees with we'll help them select the best trade area and the best real estate in that given trade area.

[Pete Moore]

When you look at real estate selection for whether it's La fitness historically or whether it's what you did in Equinox and at TSI prior the location, no one's ever said to me, I got the shitty location next to a whole food, so next to a Trader Joe's or right off the 405 with signage. So obviously, some of that you can get out of a Buxton report or you can get out of some of these software's. But take a minute and just kind of educate us on maybe some of the nuances of how your brain has either been able to optimize that or like you're looking at the data. But the data is not telling me what the next development is, or there's 10 new apartments going up here. There's new traffic flows. What are some of the things that maybe people don't think about that you think about?

[John Klein]

Sure. We always said back in my days at Equinox, there's the 50% is art and 50% is science. Sometimes it's 70 30 or 30 70. But there is the art and the science, and there's the empirical data, which are the demographics and the psychographics, but then there's the anecdotal data, traffic patterns, future development, pent up growth in a market with future units or offices being built, psychological barriers. I remember when we were in the early days, back in three I'm throwing away back we were very interested in opening up a site for Equinox in Santa Monica, and we had a site presented presented to us right off the Third Street Promenade. But some of the feedback was, only tourists go there. Well, we did a lot of analytics and ultimately did a phone survey with 100 local residents who live in that trade area, and the majority said, despite that being true, that the promenade is largely tourist, we would go to that location assuming parking was good, visibility was good, access ingress, and Egress was good. So we ultimately pulled the trigger on that location, opened it up, and that was a home run. So you got to do your due diligence. The empirical data, the demographic research, is kind of the divine ride to get you into a certain trade area, but then you really have to speak to the local residents, potentially do market surveys to really hone in and make sure you're making a smart real estate selection.

[Pete Moore]

Yeah. So when you take a look at when you started pause and we talked about it at inception, you were doing a lot of flow tanks and you're testing out some new technologies. So to the entrepreneur out here that wants to set up a company and launch in 90 days, you've been very methodical, taking years to kind of figure out, okay, what's the modalities, what's the unit economics, what's the pricing model? And now you're basically allowing other people to use your playbook, which might be called Pause, but it's really called John Klein to your 1st 50 franchisees, right? Like, there's a personal connection, so you want to make sure that they're successful, and that will in turn you to be successful. So talk about maybe some starts and stops or when you said to yourself, hey, look, I know I got a great model, I know I'm in the right area and there's a lot of growth, but I don't have the special sauce kind of figured out yet. And now fast forward and I'm ready.

[John Klein]

Yeah, that's a great question. So we launched in 2016. Actually, the name of the company, the brand at the time was Pause Float Studio. It was a float centric business. We had one or two infrared saunas. And then being the curious, smart business operators that we are, we always kept our ears and eyes to the ground for new modalities that might resonate with our clientele, our constituents. And we created the space with flexibility where we could pull in or pull out certain machines. So we had a lot of learnings from 2016 until opening up our second studio in 2021, April 2021, which is a whole separate story. And we learned and we studied and we spoke to our members, and we looked outside what others were doing and ultimately came up with an incredibly successful model that has six different service modalities, so six different revenue levers. Think about it that way you can pull on plus retail. So the new model going forward, the units that we're opening up today, both corporately here in Los Angeles and the franchise template, will have flotation therapy, infrared saunas, coal plunges in the same room. We're the only nationally expanding studio right now that has dedicated contrast therapy rooms, which is moving between hot and cold in the same session. Normatech, which people have, as you know, your favorite modality. We have nurses on staff to do vitamin IVs and intramuscular injections, and we're going to expand that to more elaborate services over time and cryotherapy. Plus retail. We have about 100 SKUs on our shelves. All products that align with our services, that align with our overall initiatives of solving for stress, sleep, anxiety, athletic recovery, detoxification, immunity optimization, which is more relevant than ever right now with COVID Our IV business is a tremendous business. A lot of people are getting our specific immunity IV to just make sure that their immune system is as strong as possible on a daily basis should they encounter any sort of farm substance coming their way. So, yeah, it took a while. We honed it, we blocked it in. Our business locally here in Los Angeles is thriving on a four wall kind of brick and mortar business. It's really doing exceptionally well, which is why we've been able to raise almost $5 million in the last 15 months and grow and scale here corporately. And we started launching franchise three weeks ago, and the number of territory track checks and the number of candidates already coming through our pipeline, kind of our lead pipeline that we were using with Repham, who is our growth agency, if you will, is off the charts. The demand is huge.

[Pete Moore]

That's great. When you take a look at someone who is assessing different types of franchises, maybe they're not wed to work out recovery, but they're just trying to find a franchise platform.

What would you say besides your background on the real estate side, the fact that you have several corporate units? What else would you say is, look, this is why you should select us as your partner?

[John Klein]

Yeah, great question. So in other words, what is our mode? What is our differentiator we get that question all the time from investors and people who are interested in learning more about our business. You have a management team in place? Myself and my partner, Jeff Ono, who was at Sports Club La for 15 years, and I got to know him after Equinox acquired that brand. And he came as our regional director of marketing. So he and I collectively have almost 40 years of management experience. We just hired a senior director of operations. She came from OTF, Canada, with ten years of experience.

[Pete Moore]

Where's that?

[John Klein]

Her name is Alicia Alexky so she's a director of operations right now. Tremendous experience in the franchise world. Also on the corporate side. So that's 50 years of management experience, specifically in health, wellness, brick and mortar studio. Our special sauce is blending these services, which is complicated to offer under one roof in a branded experiential fashion. There are other operators out there who have competitive services to us who are, you know, kind of in the lower brand category, if you will, and don't really focus on the customer experience, don't really focus on experiential service. So what do I mean by that? When you come to pause, obviously there's a protocol meet and greet to get somebody through into the studio and into their service. And that is a qualified, what we call kind of health optimization professional who knows the science behind the services, why you should do it. We do extensive training on the science behind our modalities. The facility is beautiful. We work with cutting edge architects for our design, which is not just making it pretty, but making it experiential from a lighting perspective, a sound perspective, a smell perspective. It starts with that when you first walk in, when you're showering in our showers, you're using lavo products, which is our premium haircare skincare product that is hard to find in any other brick and mortar facility. You're drying your body off with parachute towels. You're getting served tea. Every member or client who finishes service is offered complimentary rishi tea, which is high end organic tea. You're refreshing with a eucalyptus towel, a lax. So all these touch points add up to value, extreme value. And our price point is very fair because we have six different levers, we could pull on so we don't have to be the most expensive offering in town. We can be very competitive but you feel like you're walking out of or walking into a Mandarin type of spa experience. So I would say management team and the experiential offering that we have are really our two big brand differentiators.

[Pete Moore]

Yeah, that's great. When you take a look at the health club operators who have potentially seen group exercise go into their own trip centers, and maybe they could have done that, or they could have been the Orange Theory franchisee in their area, let's say. Or some groups that are high end maybe could have said, hey, I could also have gotten a blank. Or I could have gotten a plan and I could basically own the market here on different modalities that are maybe now starting to get their own and should have their own entrance and should have their own experience. Because you can't just put this inside of a New York sports clubs or inside of HBOP 20. So do you think maybe based on health club operators or multiunit operators seeing okay, there's trends that kind of come and go and it kind of looks similar, but they're different. That maybe some of the health club operators or some of the multi-unit orange theory groups or multi-unit massage envy or what those say. Hey, look, why don't I go and get this? Because I'm basically going to do co-op marketing as the same member and I already know what that member wants. Now I just got to give them a place to actually come to. Do you see that as a trend?

[John Klein]

Yeah. I mean the candidates that are coming through, the early candidates that are coming into our process now are exactly what you said, multi-unit owners. They are on a franchise business already. Many of them are in the health wellness space, not necessarily fitness. Some of them are they have the management infrastructure to design, develop, launch, operate, finance a business like Pause. And we're not competitive with whether it's massage envy or hand in stone or OTF or blank. The list goes on and on. There's zero competitive nature there. We're 100% complimentary and I know after having multiple conversations with some of the biggest OTF operators out there and expo operators out there today, they see this as the next big movement and they want it in their portfolio. They see it as 100% synergistic and their members are asking for it.

[Pete Moore]

One of the things I just want to state, and then you can comment on it, because I think people need to think about franchising fees differently than they may have in the past. A royalty that you're paying, if it's six, seven or 8% of revenue, some might say, oh, that's a lot of money. I'm doing a million dollars. I'm paying 70, 80 grand. You're basically renting a corporate overhead of the personnel that you just mentioned, from Equinox, from Sports Club La, from the one of the largest Orange Theory operators, you're basically allowing yourself to access that type of talent. So you really have a corporate overhead that you're leasing for 6%. Because I want people to think about that differently. It's not, well, this is what the cost of operation is like. No, this is actually a rental term on a ten year corporate overhead that's going to continue to grow, and they're waking up every day not thinking about their five corporate locations, but 52, 50, whatever it is. And that's really where the differentiation and an additional moat kind of comes into play. When there's an ad fun, there's development, there's innovation, there's research and studies. So as you think about the corporate overheads that you were a part of in the past and what you're building now, maybe just kind of add on to that commentary of answering that question, what do I get?

[John Klein]

Yeah, you're getting the core team, which is ever and rapidly expanding. It needs to expand very quickly to support our franchisees. And as you know, the first phase to get open is real estate design, development, and then there's the opening and sales and marketing, and then the ongoing operation. So we recognize those different categories of the business, and we have a very thoughtful, detailed master plan, if you will, excel spreadsheet and a hiring schedule to satisfy that demand as we start to sell our first units here in the next 60 to 90 days. And then we get into the real estate phase, and then each one of the successive phases, like I said, we just closed a $3 million round. A third of that specifically went to the franchise entity. So we're well capitalized, relatively speaking. There are some out there that are much bigger and stronger and a little bit further ahead of us, but average of averages for a new business that's franchising to have that kind of cash on hand to support the team. And the beauty about having three, soon to be five very, very successful cash flow, positive corporate units is that cash flow is going to pay for infrastructure costs to scale our franchise business. Let me be clear, we are going to have a handful of corporate owned units like most companies do, which is where you do your R Amp D, and you do your testing, which we're in the middle of doing a lot of different new modalities and touch points and product. We're about to get into the product space as well, which we can touch on, but we have the cash, we have the team, we have cash flow, a lot of it from our existing units coming in on a monthly basis to fuel and fund the franchise business. And we are going to be a franchise or that is the space we're playing in going forward.

[Pete Moore]

That's great. We'll have everything up in the show notes and contact you and your franchising team. In closing here. You've got any good business quotes or personal quotes or dipping into your entrepreneurial war chest?

[John Klein]

I have two. One you've probably heard before that I borrowed from one of the best SoulCycle instructors, Angela Manuel Davis. And I know you've taken your share of SoulCycle class and I have over the years. On the other side of challenge is change. And that is one that really, really resonates me and other one that kind of goes hand in hand, which I used to use with a former colleague, still a very good friend of mine in Equinoxes. Nothing good comes easy. When a deal was too much of a layup or a landlord was kind of just rolling out the red carpet, we were always red flags went up. And when you worked on a deal that had stopped and starts and you went backwards three steps and then forward one step and took forever, ultimately get done, those were the clubs that outperformed. So on the other side of challenges change and that can apply to your personal life as well as your business life. And nothing good comes easy. And I think you'll agree with that one.

[Pete Moore]

Definitely. Well, great perseverance and hitting the market when you did, learning the business beforehand, there's no analogy to actually doing the work. You just get into the business now; I think you're going to learn what you've learned over the last five years and turn it into a successful franchise. So I'll see you in person and everybody check out pause and we are at location five. So we'll do a check in in 18 months and we will make it a make the 500 podcasts. We'll see how many stores are up to, then follow it to it.

[John Klein]

Thanks, Pete.