Complete Transcript: HALO Talks with Borislava Baeva
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Pete Moore (00:04):

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(00:58):

This is Pete Moore on HALO Talks NYC, I have the pleasure of having Borislava Baeva coming in related to my strong circle. We're gonna talk about the evolution of aggregation of fitness classes, studios, and halo bricks and mortar businesses. That is going to be how things move forward, and we're gonna try and connect people with what their preferences are, and then customize preset bundles because I did my work, and she's gonna tell us how that's going to evolve. So take off on why you started this, what frustrations are solving and how things are going.

Borislava Baeva (01:34):

Yeah. so I think we came up with the idea. It was kind of a personal pain point. I, you know, I, I was doing yoga but, and I was super passionate about the type of yoga that I was doing, but then as I kind of gained confidence, I was started doing other fitness classes, like sci cycling, boxing, string training, and they discovered that I really, really like cycling and this one particular cycling studio. So it was a challenge for me because I already had a membership at the yoga studio, and it wasn't really justifiable to buy a second membership at the cycling studio, which can be pretty expensive. So I ended up just buying occasional classes or class packages, and I think as a result, I just wasn't exercising and doing the things that I love as much as possible. So ultimately the, I, the idea came and it's borrowed from the airline industry, and that's the form alliances among indirect competitors, but we're kind of spinning this in the fitness space, but basically bundling two indirect competitors into one membership to give people access to the two or three fitness studies that, that they lost.

Pete Moore (02:45):

So if I'm currently on a class pass or gym pass obviously I have access to a lot of different modalities. You know, people usually hone in on this is my workout routine once I find, I like, Borislava Baeva (03:00):

Absolutely.

Pete Moore (03:01):

But what would be the benefit to a consumer to say, okay, I'm picking these two, I'm going all in, and then can I change that on a monthly basis based on the, the studios or clubs in your network?

Borislava Baeva (03:15):

Yeah, so I think that the existing aggregators class passion pass they're good to discover what you like, but what we found out and what even they have shared is that one pe once people know what they like, they kind of tend to stick with the same few places that they love in a kind of close, usually to their home or work. So instead of going like, okay, here's 400 studios, and they're like, for example, Chicago, but most of them are relevant, we're like, okay, pick the favorite two or three and then get unlimited classes because by you limiting the variety or kind of personalizing the variety, we're able to actually give you unlimited classes, which is a big pain point with the members of other aggregators that the, you know, they kind have to subscribe to certain amount of credits and that doesn't, is not really, doesn't really help them exercise as much as possible. And kind of another data point for my biggest competitor that they've shared is that, you know, about 50% of their members buy directly from studios. So they're using that aggregate as a supplement versus as near, you know, mission.

Pete Moore (04:29):

Yeah, I mean, the original idea of aggregation was to sell excess inventory and fill up classes. The original business model was kind of a marketplace and you know, like we're Switzerland they've got a great country, you know anytime you think of Switzerland, you just think like neutral <laugh>. Yeah. You know, we're just, we're just out to help everyone. Yeah, talk about Swiss banks another time and secret deposits. But anyway, back on track, the aggregators, at some point they have to say, look, I have a certain amount of inventory I need. I have to buy that based on my business model at the lowest price. Therefore, suppliers are suppliers and vendors to me, and I've gotta manage the, the, the, the, the gap or the, you know, arbitrage or the, the margin mm-hmm. <Affirmative>, if you will, between the two. Perfect.

(05:18):

You know, as you take a look at who you're either competing with or who maybe is a potential acquirer if you kind of nail this and execute and say, Hey, that's another interesting way to address the market, how does the studio kind of win when in this, you know, new era of these groups are out here, they're venture capital back, there's a lot of money behind them, and they've got a big sales force going out and getting employers, health insurance companies. And at some point we gotta figure out, okay, how does everybody win? Is there gonna be enough demand? And if I'm a health club operator, the last thing I want you doing, listen, and I, and we're friends now so you can do it, but the last thing I want you doing is taking away my credit card or my ACH relationship with my member, and now I'm waiting for you to send me an ach h transfer on how many people showed up and what money I'm getting instead of me having my billing relationship with my member relationship. So how do you kind of think about, or how do you get around that or answer that question that says to a studio, look, you're gonna win and let me tell you how dot.dot over to you.

Borislava Baeva (06:28):

Yeah. So I think the difference between us does the other difference between us and other aggregators is how we manage and how we build a product that's actually, I think helping Studio Studios to kind of have a more direct relationship with the consumer, right? Because we, yes, we are an aggregator, but because our members speak two or three and you know, mostly two to studios, we we're think the kind of second best of full-time member because we've given you a part-time member. And yes, okay, we are collecting the payment, but guess what, we're also paying the credit card fee. So maybe it's not such a bad idea, but ultimately we've given you a part-time member that frequenting your you place getting the benefit of the workout, the part of your community, and potentially you can upsell them for all the other things you're selling where it's apparel or retreats, et cetera.

(07:25):

And then in terms of like aggregating obsolete inventory, there was a lot of obsolete inventory before the pandemic. I think my mind body mentioned that there's f 50% of class pads go on fill, which is a lot. Granted, there's always gonna be some obsolete inventory because there's off peak time classes but there's not that much obsolete inventory to aggregate anymore. 20 to 30% of studio have closed class schedules are not back to like full pre pandemic, I think, of the Lila studio. So there's not that much inventory. So I think the problem I wanna monetize my ex excess inventory secondary right now for studios, they're like looking to create a more meaningful and get more commitment out of members. But it's also very hard to do that when we estimate 90% of boutique fitness studio customers exercise in multiple gyms and gyms and studios. So they, you know, when we, we've seen great adoption from studio partners, I think once when we do a demo, like I think it's their conversion rate is like 80%, they absolutely, they get what they do and I think they embraced our model.

Pete Moore (08:31):

Got it. So from a standpoint of, of your, you know, you're kind of a b2, B2C model, so you know, not many people before this podcast, now everyone will know what my strong circle is and get in touch with you. But how do you get members to, to know about it? And is this something that at some point can you convince the studios to offer the bundle? Yeah. And say it's powered by my strong circle and not, and I'm not, I know that if you get on the bundle, you're gonna stay X number of months longer because I have given you a variety and they actually market it for you on their website.

Borislava Baeva (09:08):

So, so actually that's already happening. So we just launched the Chicago, you know, last year and we did that call open and it was the studios that helped us get our first members. So they are on board with that. And I think that's going to be part of our ongoing marketing strategies to, to utilize our studios to, to promote on our behalf. And the, the reason like ultimately we did that open better to test like, what does after we get members, what does that look on the studio site and does it still make sense for them? And the verdict is out even with our small open better, that it does make sense for them and they, they continuously are still promoting on our behalf. I think we still need to help them a little bit with some marketing. But, but yet that's definitely there.

Pete Moore (09:56):

Gotcha. So from a standpoint of, of building the company, talk about, you know, when you founded it, what you did before, you know why this is now your life's mission and you know, what the team you have in place in the technology platform and whatever else you'd like to share.

Borislava Baeva (10:13):

Yeah, absolutely. So I started my career in corporate finance and did 10 plus years in doing that my last corporate gig was at, actually at Live Fitness. I was a finance director at Live Fitness, so I got to know the fitness industry, but really well. And when I left Live Fitness, I was actually even before the pandemic, my first idea kind of just popped in my head and for a startup, it took like, I would say six to nine months, like really doing market research interviews to figure out exactly what the business model look looks, looks like before we started in building. And so we build the thing, we had a website that had multiple integrations and we launched the, the first time we launched was like two weeks before the pandemic started, which was not so great. Yeah. but ultimately, so we had to navigate a pandemic for two years and then we relaunched then we relaunched LA last year.

(11:11):

So we have an I we have a iOS app as well in addition to the website. Our web website has multiple integrations with Mind Body, Mariana Tech and Zinc it. And we've also, I think more importantly how we price this and the pricing mechanism that we've developed that's very unique to us. All our memberships are priced to lock card, how we pay our studio partners, which is part of our proprietary mechanism is also like a very unique to any marketplace, not only in fitness, but in other verticals as well, really somewhere was that right now is like, you know, we've gotten great adoption from studios. We have about 30 studio partners in the Chicago market. We're already getting inquiries from like other market to studios and other markets. So we're starting to like, think about actively like when, where is our next market. But ultimately we're still very focused on Chicago growing studio based and member based in the, the Chicago market. In terms of team, it's me 10 plus years in corporate finance. So like, you know, used to live in Excel before <laugh>, right before doing financial models and doing m and a transactions. So very much business office. And then I have another team member who also, she was a personal trainer, Equinox, and I was a personal trainer herself and Baker herself, and she does business development studio partnerships.

Pete Moore (12:37):

Got it. So from a standpoint of are you trying to build my strong circle as a, as a consumer brand? So when you go on doing SEO search or you've got partnerships with you know, corporations or you know, groups in, in certain you know, communities where it's like, Hey, go through me and I'll be able to provide this to you. You know, and how much money do you think you need to get that name out there? Cuz building any kind of consumer branded business, you gotta spend a lot of marketing dollars to do that. So talk about as being a finance person, probably being realistic about, you know, how long it takes to do that, how much, how much money it takes to do that. And obviously right now you're in, you know, market validation mode in Chicago and it sounds like that's going well, but mm-hmm. <Affirmative>, and I'm, I'm asking you this question also because there's entrepreneurs listening here and sometimes they discount how long it's gonna take to get to market and to get, you know, that brand awareness. So to talk about how you as a finance person, you know, thinks about that, thinks about patience, thinks about progress. Yeah,

Borislava Baeva (13:44):

Yeah, no, absolutely. I mean we've definitely learned that and that was actually the first advice that we got from one an entrepreneur that we reached out when we first started building this is, it's just gonna take long and then you expect, we obviously had that two years of the pandemic that kind of threw us in limbo, a limbo. But talking about fundraising, yeah, so we just opened a preet at Srap, pretty much srap the company up until now with my own funds. We raised just small friends and family and then we want some pitch competitions, which we're trying to do more of those as well. So right now we're raising a proceed to exactly like further validate the, the, the business model in Chicago. And then prepared to launch in a second market. You know, after that, again, like we've made some assumptions with what, what customer acquisition cost is, but considering that we are getting, you know, support from our studio partners, I think that's going to be a lot more like favorable than other consumer facing brands.

(14:47):

And I think that's the barrier of the product that we've built because we've built it thinking about what's important for studio use as well, which I think is gonna help us in the long term. But yeah, the long-term goal is to be in any e every major US and international market when there is a lot of saturation of different fitness studios. And then we also want to add other things, not only boutique fitness studios, but you know, because not only people exercise in mo in multiples of studios, they're doing like apps and other things. So we ultimately, we want to become your personalized hub for all things fitness and wellness.

Pete Moore (15:27):

Yeah. I would think that the evolution of the bundle could potentially be, I mean we've been preaching for years to, for health club operators to say, or might me saying to them, if you're an authority on workouts, you better be an authority on workout recovery. There's no reason why that shouldn't be inside your four walls. Having said that, you have to become an expert at that to actually pull it off. So if there was a bundle of, you know, a cycling studio, a recovery studio, a yoga studio, a med spa, a nail salon, and a European wax like that might be like the, the best in class bundling and you facilitate that and it's a much broader, like, this is everything I want to do and you make it more cost effective for me to do it.

Borislava Baeva (16:15):

Yeah. So this is the o the other selling point that we when we talk to studio partners that we tell them we're actually, I have a little bit different opinions on like, what should studio, where should studios expand between their four walls? Cuz the trend that we've been seeing is like, okay, if I'm a yoga studio, I think it's only natural that I a add Pilate Studios, but guess what? The Pilates studios across the street is adding now yoga classes. So you are, you think that's not now, now you're competing with each other versus like forming this alliance and you stick with what you know and what you're good and what made, made your brand be what it is versus like trying to pace everybody. So ultimately, I mean, as I said, you know, we borrowed this, this idea from the airline industry where indirect com, my competitors forum alliances, the same with fitness, be the yoga, the best yoga studio in town in town, and create this alliance with the PIL studio across you so you don't have to invest in the programming equipment, et cetera.

Pete Moore (17:21):

Sure. So I just wanna tell you a quick story. There was a group that had, let's just call it a let's say it was a personal training service. And they would go to people's homes and they were in 25 different markets. The main market they were in was in New York City. They called us to help them with a financing. I lived on 29th Street in Madison before I moved to California. And I said to them, how do I not know about you? I live in a high-rise building in Midtown East Manhattan and you're in Dayton, Ohio. You know Waco, Texas, you know, and you have these apps that you're connecting personal trainers with home consumers. What did have been better to like saturate New York, la San Francisco, Chicago before you started doing secondary or third markets and, and actually serve someone, like as an example, you're in Chicago, what is that, the third or fourth largest city in in the, in the, in the us.

(18:24):

So I would just say if you could crush Chicago for the next several years and then you go get big money to go and say, Hey look, I'm taking this exact playbook and now I'm going to a city that's got more population or like the next one below it, you know, I'm not gonna go and just kind of like take all my marketing dollars and somehow they're diluted. So I just wanna op one, I wanna just give you that story because advice is all about experience is what you get when you don't get what you want. And I felt like, how do I not know about this brand? Because you kinda left your home field advantage because you thought you had to grow because the VCs would like that story, but it wasn't the best use of your time or money.

Borislava Baeva (19:07):

Absolutely. I mean, and this is the, ultimately, yes, we're a unique marketplace, but we're still a marketplace and that is the playbook for like local marketplaces think Airbnbs and Uber is actually probably even better. Like, you really have to like learn and crush your first market and net replicate. And that was originally our thinking. But now because we're getting inquiries from other markets, we are, as I said, you know, and that was like when I, the studios that reach out to me, I was like, I can support you guys with the technology, but not with marketing dollars because we need to focus on Chicago. But I think that what we're finding, Chicago is definitely a good market to be with at Yen in terms of what we're building a lots of studios very large percentage of, actually Illinois has one of the largest percentage of people that belong to fitness utilize fitness gloves. So serious season now. And we are trying to ex we want to experiment in another market and it's a little bit less seasonal.

Pete Moore (20:07):

I mean, you, you bring up a really interesting point about what an entrepreneur has to deal with to say, Hey, look, I'm gonna go build a brand. I'm gonna create these relationships. I'm gonna facilitate 'em, but you've, your, your technology platform could potentially be licensed by groups in the market that have said, oh, I'd love to do co-op marketing with you. And then it kind of fizzles out because they, they don't know how to sell. They try and cross sell memberships. It's mostly done verbally or it's done through, you know, handoffs. Yeah. so I question whether you might have kind of stumbled onto, you know, a software play Yes. On facilitating bundling of studio memberships that nobody's really facilitated before. Yeah.

Borislava Baeva (20:54):

So actually our first idea was a B2B play. So it's definitely on our, our on our mind. What we discovered is that sometimes studios have, you know, preferences with who they do this and it might not always be rational. And it that's why we wanted to keep it like a marketplace approach to let the consumer decide what are their favorite to studios versus having the studios to decide it may be leading money on the table. Because they do that. Because we actually have like a secondary user case, which is like a commuter, a commuter that, especially now with like where you might not be going to the office every single day, you might pick two of the same modalities, one closer to point, one closer to work. And, you know if you're a studio, you won't really know about that user case and as I said, you'll be leaving money, money on the table. So definitely even during the pandemic we were working on a wide table for an international brand doing the same. So it's definitely something that's on our mind.

Pete Moore (21:54):

Yeah, that's great. So as you've gone through this process, and obviously you started a business at the absolute best time during a pandemic in a non-essential health and fitness business that we hopefully will change over time with Arson Liv, Liz Clark, and, and the cohort at in the industry associations to try and help us become more relevant and get our message through that exercise is actually essential. It's not non-essential. Having said that, any takeaways from your experience? Yeah, I was a banker and I went into a startup and I realized that, you know, my Excel sheet never actually turned out to what I thought it was gonna be, but it's really easy in, in excel to copy and paste over what was gonna happen this month, next month. So what are some of the things you've learned, you know, that that, that an entrepreneur who goes in to say, here's what you think's gonna happen, let me tell you what's actually gonna happen.

Borislava Baeva (22:48):

Yeah, I, I think similar to you the first thing I did, you know, because my background is in finance and Mel building financial models was I can build one. I found it, especially in the earliest stages. I obviously still look at it, but I don't find it as useful as for it, as it is for a later stage company. So I would say my advice for early entrepreneurs would be, yes, do the financial model, know your unit economics but go knock on doors, right? The business is not gonna happen at Excel, it's gonna happen, but you're doing the entrepreneurial thing, which is selling and building a, a business outside of Excel.

Pete Moore (23:30):

Yeah. You know, one of the things that, yeah, and we get business plans in all the time and we see companies that are looking to raise another round. And then when you take a look at their org chart, you know, they might be very tech heavy but they haven't hired, you know, the business development people or the salespeople. So it's almost like, you know, I'm gonna field the football team, but I'm not gonna have any wide receivers that can necessarily like, catch the ball or I'm not gonna pay up for, you know, a great quarterback because I, you know, my technology. I'm gonna get that message through. And the reality is that especially in this industry, people are buying a, a service from someone based on trust that you're gonna help them solve a frustration or you're gonna be a weapon for them to, to compete against others.

(24:19):

So as you grow, you know, how do you think about your next five hires? You know, where do those, where, where do those boxes and what type of people do you put in them? And, and since you were in banking before, you know, people get paid a lot of money in banking. They don't get paid a lot of money in startups, but they get paid a lot of money in software companies. So it's like you gotta cross the chasm in order to afford, you know, rock stars. At the same time adding another engineer is not gonna get you any revenue.

Borislava Baeva (24:46):

Yeah definitely. You we're thinking about that. Especially you know, now that we're fundraiser, we're fundraising, we're definitely have very detailed plans of who wants to hire and ultimately we've already built a tech the tech being a marketplace. Yes, you are a very unique one. And we have to build a custom platform for that. And we have to have the integrations the MAAD integration, et cetera, to get the studios to buy in. Cuz that was a big pain point for them with add third party aggregators. So we needed to have that even in a mvp. So the product is not necessarily super techno technologically heavy. So in terms of you know, technical talent, it could be even a part-time CTO where we definitely need help. And that's even evaluating my gaps is marketing, like someone that would help us build a brand but also has the tenacity to do experiments with different marketing channels. So definitely that those are kind of next hires that we are looking to do and part-time studio partnerships with, with tri, as I said, could be part-time people.

Pete Moore (25:59):

That's great. Well, it's great that you're welcome to the Halo sector officially. I'm glad we met in person. I kinda like meeting people in person. Mm-Hmm. <affirmative>. So I'm glad that's back in action again and I encourage everyone to go to trade shows, go to events, go to, you know, dinner meetings and everything else because that's the way you build real relationships in the bricks and mortar and real world and people are not going to be hanging on their apartments unless they have to. I think we, we called that early and, you know, keep us posted on how you're doing. If you need introductions and you know, we'd love to see you saturate Chicago and then you'll be able to tell the story and then, you know, the, the methodical growth that maybe starts in an Excel and actually happens in the real world. Yes. Yes. We can't wait for that. Ha-ha. Sounds good. Alright, we'll see you in person again and the podcast will be up soon and you know, keep pushing forward. I know sometimes progress feels like it's yeah, it's slow, but we're making, that's the toward it. Thanks. Awesome.