

Impact Entrepreneur Interview

Richard Razgaitis, CEO of FloWater

Host: [David Schnurman](#), Author of [The Fast Forward Mindset](#)

Guest: [Richard Razgaitis](#), CEO of [FloWater](#).

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1. How big is the water filtration market?

Well, to start with the addressable opportunity, I mean it because it's water, it's significant, right? And it's ubiquitous. Everyone needs water. We have a serious issue in the United States alone as it relates to consumers' preference or trust of tap water. And then we have this mega trend away from plastics, which is literally the new environmental cigarette.

The same way that smoking used to be cool in the sixties and seventies, and became very uncool over a period of decades where smoking rates plummeted from like 45% down to 17%.

The same thing that happened with social pressure, awareness, and regulations. Is almost an exact parallel with what's happening now with single use plastic.

2. Is it hard to make water filters?

Well there's a magic to what we produced and that really goes back to your first question in terms of the size of the market.

If you were to put it into units and dollars, we're talking about millions of deployable locations around the world and trillions of dollars in terms of water just as it relates to residential and the commercial utilization of drinking water. That doesn't go into other subcomponents, which could be water as a source ingredient for use in beverages or a commercial applications where you might use it to brew your coffee.

I think part of the question that you asked is, well, what is the magic of filters?

And effectively what it does is it removes contaminants, pharmaceuticals, herbicides, pesticides, fluoride, chlorine from the water and it gets you something regardless of the tap water source.

Flint, Michigan for example, where we were pulling water sample, sending it a third party labs that were coming back testing 43 times a maximum EPA allowable limit for lead down to undetectable levels with a FloWater refill station. And so the first stage of the filters is just to remove an extract and bring it as close to a distilled state as possible without actually being distilled water.

There are some water fountains, for example, that actually I won't drink out of because I know that that filter never gets changed thing. There's 10 million water fountains in the United States. 1.5 million of blackbox water coolers, and five million 5 gallon jugs just in the United States alone.

That's not even including the packaged water industry, which is \$100 billion a year.

The secret sauce of our filters is reducing friction and is in many ways the game changer between really driving consumer behavioral. A fraction of a second on a checkout cart on e-comm site can be the difference between a 2% redemption rate and a 20% redemption rate.

Warby Parker solved a lot of that. How do you get the glasses? How do you return the glasses? How can you try them on? How do you get samples? How do you not get charged for it unless you actually keep it? How do you make a prepaid label? So it's easy in a box. You need to drop it back in if you don't want to keep it.

And solving for friction is a big part of the magic of doing something and being disruptive or really dismantles an existing incumbent industry.

If you look at water fountains, five gallon jugs, water coolers, there are, as I mentioned, 10 million, 5.5 million, 1.5 million respectively. If you look at that very little has changed over the course of 10, 20, 30 years.

A couple of water fountains came up with a bottle filler on the back. There's a single stage carbon filter. It probably doesn't get changed that often. I don't know if it gets changed. There's not an installed base of people that are designated to change that. So it can end up becoming to some degree a petri dish. Therefore, it takes something that's good and it turns into something that's not good. What we did was we create a proprietary seven stage set of filters that, extracts things that shouldn't be in the water and removes them.

It re-enhances minerals, electrolytes sodium, calcium, potassium, magnesium, 12 trace minerals, increases alkalinity content. And then there's a proprietary coconut carbon filter that we use that gives it a taste that consumers prefer 8 out of 10 in blinded taste test to Fiji water.

The idea was how do we get consumers prefer this water more than their favorite bottled water brand and then have this brand have a little bit of a chutzpah like red bull. Which is as an organization that has created a strong, rebellious, powerful brand. Part of what we're doing is delivering an amazingly powerful difference at the top based upon the purification. Part of it is we're creating a cool brand.

We're creating a brand that people like. And if people didn't care about brands, 6 out of 10 of the most commonly sold skews of bottled water that account for 80% of the revenue across the United States, wouldn't be brands. They would be the generic things that you buy at Costco for 22 cents a bottle, but they're not even in.

The majority of revenues are actually comprised by big brand products. So consumers have a brand preference, they have a brand intention, they have a brand affinity, but they also have a taste preference and an affinity. So we're trying to tap into a lot of those. Part of the magic is in the purification and filtration itself. Part of it is in user experience.

For example, that unit that you have in the office here is great. You have a 20 person office. I'm biased. I would spend another \$1 a day to get a flow water unit because it's, I think one of the greatest ROI is when we install a floodwater unit.

We'll see a 50% reduction in coffee consumption, 50% reduction in soda consumption. An 80% reduction in single use plastics for those people that had single use plastics that are before. And we'll see a two to five fold increase in actual daily consumer hydration. So something is powerful in the outcomes and what the product will enable you to drink more.

That being said, the unit that is a standard black box water cooler in your office, there's 1.5 million across the United States. What they won't do is they won't adequately serve the needs of a lot of the addressable market that we're going after.

For example, if you're in a hotel in Asia, you'll see actually quite a number of water coolers throughout hotels and public spaces because people don't have trust in the tap water there to the point where they just will not drink it. This is a perfect application for FloWater.

3. San Francisco airport just banned all single use bottles. Airport, I assume they're using water fountain stations. Obviously that would be a great opportunity for FloWater. Correct?

It would be a great idea. In fact, I was just talking to some people about it this morning. I mean that other airports are going to follow suit and so the question becomes like obviously you need a sales force. You need, how do you get the word out to like what is this?

4. What are some of your challenges right now?

Well scaling for sure. I mean, you know, just anytime you're starting a hardware company, just building the product. The majority of hardware companies that get incubated never make it off the ground and get to a series a funding.

There's a couple of reasons for that. One is product market fit, but another is a lot of people just can't get the hardware built and they can't keep it all on time.

We're building it in Korea with a partner that we've used. We've got an exclusive relationship with them for the products that we have. We own all our tooling and molding all the IP related to that. And so they've been working with us for over six years at this point.

So scaling is certainly a challenge. Getting a piece of hardware out into the market, be able to do that at scale, ultimately satisfy what will be tens of thousands of distribution points, if not hundreds of thousands of distribution from where you're at today.

5. How many units can you get out a month?

I can't say. I would love to be able to tell you how many units we have on the ground. I can tell you it's enough now. One of my proxies is obsessing over metrics and looking at KPIs. One of my KPIs is how many people on Facebook that are in my network are texting me photos of them running into flow water refill stations in the market.

And when I say bottom up or top down, one's not better than the other. It's really just a frame of reference where bottom up is going market to market, city to city. So a city or a market for us, may have five sales reps, a couple of techs, a truck, small warehouse, and they call on hotels, schools and corporations primarily. And they're putting 30, 40, 50, 60 units in every month, month after month.

Ultimately part of the capital that we raise is to be able to open up into more markets. Right now we're in three markets under owned and operated premises, Northern California, Southern California, and then Phoenix.

Top down is working on national accounts. We'll probably have over 5,000 units that are contracted that will be deployed over the next three years as store's open up and gyms open up as well as other retailers. So about 40% of our business today are national accounts. The other 60% are local, kind of owned and operated markets.

6. You raised \$15 million from the Swedish purification company Bluewater. Can you share a little bit about that strategy?

I really viewed them as a strategic investor that has great expertise. Bluewater has a fund that is established. It's a substantial fund. We were their largest investment, at least to the point at which they made the investment.

They focus investments in three categories, air, water and food.

They focus on quickly emerging brands that have the opportunity to dismantle effectively the status quo. But I emphasize the word brands because having a commodities business or just having a business that's only focused on sustainability and doing good, but not getting people to develop a brand preference is a very, very long road.

7. You're working to have FloWater for home use. Seems like a huge opportunity if you can make it very easy to hook up and cost effective and cleans rather easily. You can change a whole industry. Is that what your thinking is?

You're exactly right. I mean, fundamentally, you know, our strategy around this B2B product, which is primarily focused on hotels, schools, corporations, gyms and retailers, not limited to those five, but those are our primarily five verticals. If we look at what is the real big opportunity and ultimately the opportunity is there's a market opportunity, but then there's also an environmental endpoint, which is we're on a mission to put an end to single use plastic water bottles.

The vision of the company is to change the way the world thinks about water, but the mission is really to end single use plastics in the way that we do is by totally dismantling that so that you have water available.

You have to trust your water. And so then what you did is you just worked backwards from there and looking at the TAM, the total addressable market.

Just working backwards from that really we're focusing on these five verticals in a BDB environment. And what we're doing is we're also building out our brand where we've saved today about roughly 130 million single use plastic water bottles from the environment. And what that also means is we've had 130 million consumer fills and touch points and we're just getting started.

We're on our way to a billion bottles saved by the year 2022. I'd like to blow that number out of the water. Part of the way that we do that is by working backwards into the consumer household.

They haven't experienced FloWater. And in an event like Coachella or Dreamforce, the goal is to do 50, 70, 80 events during the course of the year whether a hotel, school, or corporation.

It's a little bit like, you know, using an iPhone, it'd be like if you had a Motorola startech, and then someone during the Workday said, hey, here's an iPhone and you can use it during the course of the day, but then you got back to your startech at night.

This experience is really crappy compared to my iPhone. I want my iPhone all day long and all night long. And so we're working on solving for the consumer household.

You're right on the UX on it, you know, it's gotta be simple to hook up. It's gotta be elegant, it's

gotta fit in with this space. And nobody has nailed that yet. We feel like we have a great opportunity to nail that, but the responsibility is ours to do that.

8. Is your consumer product going to hook up to the tap or are you gonna need a plumber?

We're working on that and that is part of the magic. I think the answer is going to be you don't have to have a plumber. We're in the middle of the development of it right now. I can tell you the desire is to make it so simple that you don't need a plumber to hook it up.

9. *So that it has to attach to the spigot?*

That's one of the biggest challenges. The beauty of the Brita is it's really simple.

That's about the biggest beauty with it thought. It doesn't change the taste of the water. That little sediment or carbon filter does next to nothing. It's always empty. So it's really lousy user experience and it causes you kind of roll your eyes when you have to go and fill that thing. It just doesn't do much.

If you have TDS in your water, total dissolved solids in Los Angeles at 600 parts per million, and you put it through, you know, one of those filtration systems that are commonly available direct to the consumer through retail model that sits in the fridge. You're ending TDS after going through that filter or 600 parts per million, it doesn't affect it. And those are dissolved solids that are in your water that you don't want in there that cause it tastes bad.

So we're working on taking the power of a seven advanced purification system that's in this kind of commercial system, miniaturizing it, put it into a counter, having it be a very simple, very elegant, beautiful experience that is both iconic but also fits into the home and your residential space that you love to use.

There's some products in my household and I'm sure yours that you love using or some devices. That's the goal right now. It's one of the reasons why we've been very intentional about taking our steps to make sure that when we launch this, we launch it right.

10. What would be your dream costs for the consumer, for that product?

I think there's two fundamental models either a monthly where you rent it and everything's included or you buy the equipment upfront just like you would an espresso and then you pay for the refills. So it depends a bit on what a model we end up selecting.

We might give consumers an option of both, I think a \$500 as a price point for the unit itself. If we can be sub \$500 would be a sweet spot. And then you know, you would have quarterly filter changes.

11. Is it not possible to get the cost below \$200?

Well, I would say no. Here's why I would answer it that way. It's not impossible to create a water dispenser that goes in the counter sub \$200. They have them everywhere throughout Asia, even in the US so you can find some. I think it's impossible right now to create something that you would want to actually consume every day and putting your body and putting your kids bodies for under \$200.

A reason being, it's really difficult to create it if you just work back from like retail margins. Presuming to some degree that somebody's got to make some money on the wholesale channel along the way. Wholesalers are selling it to the retailer And then retailer then is selling it to the consumer.

For \$199, it's pretty difficult to produce something at that price that has great technology, a great set of purification and filters, that are built into it, that has a great user experience that's going to deliver water on demand when you want it, how you want it for less than effectively one 10th the price of an iPhone..

12. Do you feel your company is in the forefront of something big?

Yeah, absolutely. I think our timing is really good right now. It's ours to capitalize on. There's a lot of decisions downstream that you have to keep making that needs to be a lot more right than wrong.

The entire focus of our company is really on the user experience. And so dimension is important on the kitchen counter top. You don't want it to be 19 inches because you know, counter space and under counters sub 18 inches. So there's some things that are parameters that you have to work within if you want to be smart about the market. But at the same time, I look at price kind of as an element of that, which we will never be the low cost market leader based on volume and we will not take a discount strategy and going into the market, particularly as it relates to something like water.

So what I'm trying to do is I'm working very hard on hitting certain pricing targets that make it easily available and accessible for the masses at the same time, really making sure that we don't give up really important product attributes and user experiences along the way to make that happen.

13. How far away do you think you are from the consumer model?

The second back half of 2020.

14. The population in the world that really needs clean water is third world countries and especially Africa. Do you have any plans to bring clean water to these places that really need it?

There's a massive need there. As much as we talk about the issues with our tap water in the

United States in many ways compared to many other markets, we're lucky to have those issues.

That being said, the US still has a massive plastic problem that we are creating disproportionately compared to the majority of other markets on a per capita basis around the world.

I have a very strong affinity for us to build a global company that doesn't just focus up to 20 verticals in business and only consumer households that are well healed enough to be able to afford to pay for FloWater.

The way I look at philanthropic endeavors, and so there's some things that we do. We donated \$50,000 worth of flow water refill stations to the city of Flint, Michigan. In fact, that was the hardest sale, so to speak, to actually give away a product that I've had in the last six years of FloWater. Part of it was because, you know, the market was so rightfully skeptical.

We have also donated to schools. One of the things that we've focused on is first working to help protect, restore and preserve our backyard. In some cases, literally, we're giving a FloWater to schools in Northern or Southern California that can't afford it.

Right now what we're doing is we're assessing partnerships with nonprofits that could help us scale that part of the domestic philanthropic program, as well as, the FloWater on a global scale.

This is one of the biggest issues that we could solve for to be a part of the solution to provide clean, great tasting water to people worldwide and eliminates and use plastic water bottles.

There's a big market opportunity out of it. And that's, that's why we do have investors, but they're also mission minded investors where they want to do well by doing good. And part of what causes me to have such great passion about this business is that there are a tribe of people that are rallying around us to help catalyze our success. And when I say our success, I mean the markets, I don't mean FloWater success. I mean the market success in ending single-use, plastic water bottles and providing people clean, great tasting water that they deserve. Fundamentally I would love for that to be a global initiative. I would love that to cross all socioeconomic strata.

We're trying to do that in moderation. Part of my philosophy around philanthropic endeavors too, as an investor, as a person that's run half a dozen different companies is when you're starting a company, it's kind of like when you're in the airplane and there's something gnarly going on and they tell you, put the oxygen mask on first.

You don't want to be just started giving away all your kind of resources through too many philanthropic efforts where you don't really focus.

15. The United Nations has 17 sustainable development goals. Do you align with them at all publicly?

We don't misalign with them, but we don't publicly align with them either.

The reason most of our focus has been really fixated on the US. However, for the first time last quarter I've made intentional efforts to start to put our strategic reach into key international markets. And we're starting that process.

16. What international markets are you interested in?

Europe is very interesting market for a variety of different reasons. And then of course, Asia.

One of the biggest challenges when you talk about scaling the company is anyone that you meet, every investor, every advisor, every consumer, every customer, everyone has an idea on what you can do with water because everyone drinks water.

There's a myriad of number of customer segments, verticals, methods of distribution and scaling and partners, international and domestic.

One of the things that I just did for the first five years to say no a lot. Many things can be a total distraction that ends up kind of being a death by a thousand cuts of your business.

17. You're gonna need to raise a lot more money if you want to scale. Is that a fair assumption?

I wish I could just give you a very binary answer, there's a little bit of an explanation around that. Under our core business plan that we have today under the capitol that we raised we believe we have what it takes to execute upon our core business.

The other side of that coin though is 22 million raised in a market that's a trillion dollar market cap that has millions of distribution points globally and you look at the issues as it relates to just the whole opportunity behind a consumer countertop product that nobody has solved for yet really at scale. In that context we haven't raised nearly enough money/

18. Isn't the flip side of that, just like oil companies are investing in solar power and car companies are investing in electric cars do you think the same is with big plastic bottle water companies? Might one of the come to you and say, we're believers now we see the future and want to invest in or acquire your company?

Fundamentally, I completely agree with that which is the classic innovator's dilemma for these big companies. They built their business and it evolved over time and they now are in the thick of having something where the majority of their P&L revolves around plastic.

Now there's a massive mega trend away from that. And consumers are going to be relentless. They are going to be unforgiving and relentless and you can't just send out a press release on earth day as saying you're doing something good for the environment. You're going to launch some new hardware someday in the future that's going to help solve for that.

They are going to be looking at not just stated intent, but action and how these companies behave.

We don't have infrastructure, we are building the rails as we go. That's what we've done over the last six years is building rails through our own organic development, our organic growth as well as through national accounts and third party partners, and soon to be international distribution relationships.

If someone came to me and they were a big, bottled water company or a big beverage company and they had scale, I think that can be really interesting. Some people might look at that and say, well gosh, your anti PET and you're trying to crush plastic and you're outraged by this. And I absolutely am.

The only thing that could get me over that is working within an organization to help them successfully do that. That to some degree perhaps they have seen the light either because of awareness of what's going on or because of social pressure and they can make more money through this over time.

Different things, drive different people. And for corporations, particularly public corporations are under an incredible amount of pressure. Therefore, I try to be conscientious not to vilify companies. But I will vilify the product because the product is decimating the environment.

I feel like our job in a tribal group of rebellious people that are going to spearhead the way to help drive a change. That actually ties back to our investor Bluewater and my enthusiasm around Andrew's Jacobson, the founder, and his team. They strategically aligned with us.

So if we got an investment from a big beverage company and they put some money in, on the one hand, it could be really appealing. On the other hand, it can be really unappealing if I'm not really convinced that they would be rooting for us instead of just being a hedge in case, you know, by some crazy chance we're right and they're wrong.

That changes as the company evolves. The writing's on the wall and the market's changing now. If we were to look at investors and if there was a strategic investor or strategic buyer for the company, if it made sense to do it for the market and for the business and ultimately for the environment, what we're trying to do and change the way the world thinks about water and eliminate the single-use plastic water bottles, that can be a really viable pathway for us.

Thank you very much. Thank you for taking the time for this interview.