

[Transcript] My First Million / #156 - David Segal Talks Building a 9-Figure Tea Business, Decommoditizing Boring Products & The Future of Retail

All right.

Quick break to tell you about another podcast that we're interested in right now, HubSpot just launched a Shark Tank rewatch podcast called Another Bite.

Every week, the hosts relive the latest and greatest pitches from Shark Tank, from Squatty Potty to the Mench on a Bench to Ring Doorbell, and they break down why these pitches were winners or losers, and each company's go-to-market strategy, branding, pricing, valuation, everything.

Basically all the things you want to know about how to survive the tank and scale your company on your own.

If you want to give it a listen, you can find Another Bite on whatever podcast app you listen to, like Apple or Spotify or whatever you're using right now.

All right.

So, we got a special guest, got him referred in through Harley from Shopify, David Segal. Segal or Segal?

How do you say?

Segal.

But Segal seems a lot cooler, so.

Yeah.

I was going to say, related to one and only.

Actually, the guy who started the company with you, is that a relative of yours?

He also has the same last name.

Yeah.

He's a distant cousin of mine.

He's 50 years my senior.

That's the great starting pitch.

It's like me and my 90-year-old cousin, we're going to start a tea company.

Yeah, totally.

So, give people like, I don't know, explain what is David's teams for somebody who's never heard of him before, has never been inside one.

Sure.

So, I mean, you think about tea, so we started it in 2007, and if you go back to that time, you either bought it in a grocery store, where it was a commodity, right?

You picked what you wanted based on the picture on the box and the price point, and you had the usual suspects, Earl Grey, Camel Mile, Mint, and then you had 10 brands, Earl Grey, and 10 brands of Mint, et cetera, or you somehow found a tea shop that was either very Asian or very British and quiet, and you felt like you had to whisper.

And even just to walk in the store, you felt like you had to know something about tea.

We had the idea, because nobody was really doing tea in a fun way on the main streets of the country, and tea had this stodgy vibe to it, and really there was an opportunity to make it a lot younger.

And when you think about tea, it's actually a specific plant.

It's the chameleonus inensis plant, but how you process it makes it different.

But in North America, we call any herb, spice, fruit that you put in hot or cold water that's

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not coffee.

We call it tea.

Tea, right.

Yeah.

So I went to my now 90-year-old cousin and said, we should go.

So you're not joking?

No.

I thought the 90-year-old thing was a, was a, you're a, like hyperbole.

Yeah.

No, I mean, he's 90 now.

He wasn't 90 then, right?

He was in the 70s then.

I was a young entrepreneur.

I had been a hustler, you know, most of my life.

I had different businesses that didn't work, some that did to some degree, and then came across this idea.

I was actually working for him at the time to help him make investments in small companies.

Had this idea for tea, turn to him.

We looked at a few to invest in, realized the market was pretty wide open.

He said, you do it, and I'll back you.

And I was like, great.

We got to work and built a brand, grew it, and anyway, at its height, it was a billion-dollar market cap on the NASDAQ, 200 million sales.

I sold my stake in 2016.

I moved on and I've been doing other things.

I started a restaurant brand and I've added two other restaurant brands and turned it into a virtual kitchen.

And I'm looking to get back into tea, to be honest with you.

I think there's still a huge opportunity in tea, but yeah.

So your cousin, who you started with, he had done something cool before this, right?

Like something like that?

Yeah.

He had a clothing business.

So he had a company called Lushatou, which was in one time very big in Canada and even had a go at the U.S. market as well.

He started it in 1959.

He was selling in the 60s to like John Lennon and like pretty interesting characters.

And what he did was he brought the Carnaby Street look in the 60s to Montreal and it was really successful.

And he stepped back from it in the mid 2000s and was looking to make these investments.

And yeah, I mean, it was a great combination of, you know, at the time I was 26 years old and full of piss and vinegar and I still am.

I've never heard that phrase.

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What does that phrase mean?

Just like, I guess, I guess piss and vinegar is like an explosive combination.

I don't know.

It's a good question.

I never actually thought about what it meant.

It's just one of these things you hear and you're like, all right, did this make you incredibly wealthy?

Yeah, I did.

Well, I scored.

Yeah.

Oh, great.

So what I was going to ask you, and I think you just answered it.

Do you regret taking the company public because taking the company public seems pretty besides like, all right, so you generated, you created a lot of wealth for yourself.

That's awesome.

Besides that, which is like a huge besides, but besides that, do you regret it?

I don't regret it, but I wouldn't do it again.

I think I was in a very difficult situation at the time.

We had done a deal.

So my first million actually came when we did a deal with a private equity group and the business got complicated.

We did a deal with a group out of Boston, Highland Capital, this guy named Tom Stenberg who's the founder of Staples, actually.

And my original partner, my cousin, and Tom, it was a difficult combination.

My original partner wanted to bring in various family members.

I wanted to run a meritocracy professional outfit and there was a bit too much.

It just wasn't a good situation.

And when your management team and your board are fighting with each other, you're not focused on creating value for your customers.

And I just want to get out of there, there are too many bullets flying.

You could see there wasn't a lot of focus on the actual business.

So for me, it was great.

And I was the third largest partner, third largest shareholder, but I didn't really have the power.

The sort of piece was made in that they would go public for the private equity group to be able to exit.

And the CEO at the time would get fired and the family member that my cousin, his daughter that he wanted back in the business would come back in and then I was able to leave at that time as well.

So you know what, this is a bad combination and I'm out of here.

And so you, cause I always wonder this, when you take a company public, you know, there's a lockup period, just like a technical lockup period.

I don't know how it works on, actually you're a NASDAQ.

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So there's like, what is it, six months or something like that you can't sell?

Six months.

Although on this IPO, we were, I mean, we were making like \$30 million of EBITDA.

We didn't really need the money.

And so on the IPO, to make the IPO big enough, we were selling shares like myself and Highland Capital sold shares.

My original partner didn't want to sell any, and I was like, yeah, I'll sell.

I mean, it was a great price.

I ended up selling it at average price of 14 bucks a share and you know, the stock today trades at dead four.

How do you decide how much you're going to sell?

What's your psychology around that?

Like, you're like, all right, am I going to sell 100%, 60% and then there's the optics of it.

So like, how do you do you think about that part?

I think in this situation, I love tea and I think there's a huge opportunity in tea and I want to get back into tea.

When management is fighting with each other, you want to get out.

I mean, at the end of the day, you want to get out like the future of the business does not look bright in those types of situations.

So under normal circumstances, I wouldn't have sold it all.

I mean, I think there's an opportunity to just continue to grow and you look at tea.

I mean, it's one of the best hacks, productivity hacks that nobody knows about North America.

It doesn't give you the jitters like coffee does.

It doesn't give you the big spike in the crash.

It's a better hive and it just is and you know, in North, in Canada, I mean, it's less than 2% of Starbucks' sales.

We don't drink it.

And we have these, we're missing out, frankly.

There's so many amazing flavors to it.

So I still think there's a massive opportunity.

It's just, it wasn't going to happen with David's tea.

They took their eye off the ball and I didn't want to be part of a team that wasn't aligned.

So what do you, I guess, what are you scheming on now?

Well, I got this restaurant concept.

We have three stores in Ottawa, which is where I live in three in Toronto.

We're going to open more.

We added two brands to it during the pandemic.

So we had this concept called Mad Radish.

It's bowls and salads with big international flavors.

We added a burrito brand, which is a healthier take on a burrito.

And then we added a Neapolitan pizza company, so Luisa's Burritos and Bowls and Revival Pizza.

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And we're operating in about a one space with one app.

So we're trying to kind of combine the best elements of ghost kitchen with the best elements of a restaurant.

So we're still building up restaurants with some seating, but we're dedicating more space to kitchen space and we're taking perhaps slightly less prominent real estate and being able to service one customer with different types of cuisine.

So you can, if you have three people, one of you can get an amazing burrito, another one can get a salad, another one can get a pizza all in one order.

So I'm still doing that.

And I have an incredible operator there and an amazing marketing lead and just a great team all around.

And then I'm also actually working with Harley on a tea business.

I think there's a massive opportunity to make tea cool.

You know, David's team made tea fun, but people don't understand how incredible this plant is and how many amazing ingredients there are.

So we're going to do it without any flavorings.

So all tea companies use lab flavorings.

So they call it either natural or artificial flavoring.

And they just basically develop a liquid flavoring that they splash on and it coats the tea or the ingredients.

But you don't really need to do that.

If you get really high quality, high oil content, ginger or cinnamon from the best places in the world, like you can make these amazing blends.

Not to mention all these varietals of tea that people just don't understand.

I mean, what's the model this time?

So last time it was brick and mortar stores, right?

You opened up 100, 200 something locations and like Tivana, you would go in and you'd be able to buy teas there.

And I don't know how well that worked.

Tivana got acquired by Starbucks.

How much did they get bought for?

600 million.

600 million.

And, and I think they shut down their stores and now it's just sold out of Starbucks or something like that.

Is that right?

Yeah.