

Jon Bernstein:

Welcome to PNC C-Speak: The Language of Executives. I'm Jon Bernstein, regional president of PNC Bank in New England, alongside my co-host Carolyn Jones, market president and publisher of the Boston Business Journal.

Carolyn Jones:

Thanks, Jon. It's great to be with you on PNC C-Speak. Each podcast features local executives talking about relevant and timely business topics. This knowledge sharing and platform showcases leaders with forward-thinking approaches that disrupt the status quo and cause us to think differently. Our guest today is Rick Faulk, the CEO of Locus Robotics. Welcome, Rick.

Rick Faulk:

Hey, thanks Carolyn. Thanks for having me.

Jon Bernstein:

Rick, it's great to have you. And we look forward to hearing the story of Locus and its outstanding growth. Can we start with an overview of the company, its core business and mission?

Rick Faulk:

Well, it's funny when we all order things online, it all looks so simple, doesn't it? You click a button and magically the same day or the day later something appears on your doorstep. And the reality is it is that easy for the consumer, but behind the scenes it's very difficult. Most of these operators today that are actually shipping those goods are dealing with six major problems and the biggest one's labor. Jon you were talking before we officially got started here that you worked in the warehouse. So you know some of these problems. Labor is the biggest problem and in today's warehouses around the globe, it's getting enough labor to actually ship what's been sold. It's the biggest problem. Secondly, volumes are exploding. COVID was a big spike in the volume, but the reality is volumes have been growing over the last five or six years and these warehouses today that have a fixed infrastructure are having to deal with these increased number of SKUs and increased volume.

Third is the SLAs. Amazon has sort of set the bar, if you will, on SLAs. That when you order something online right now, you expect to get it the same day or the next day and you expect to have free returns. So all these warehouses are having to deal with that problem. Fourth, it really is the data and analytics to run these facilities more effectively. These are operations that in many cases were built 10, 15, 20 years ago, and I don't say they're in the dark ages, but for the most part, running the buildings and getting data to run those operations, they really were in the dark ages. Fifth, it's there is around 135,000 existing buildings out there today. We call them Brownfield buildings. And the reality is these buildings have all those problems we just talked about and they have to be automated. So automating Brownfield buildings is a huge problem because these are buildings never, ever designed to be automated. Never. And they have to do it.

And the last problem is, we call it the Goldilocks problem, where you order a shirt, you may order a large one, a medium, and a small one, and then you keep the one that actually fits. And because of free returns these days, you send the other two back. Well, the reality is behind the scenes, that's a massive problem. And all these warehouse operators are having to deal with these increase in volumes and labor and that sort of thing, and they're having to handle these massive return problems. So we address all that with collaborative robotics. We have a business in Massachusetts. I'm pleased to say that we were

the BBJ fastest growing business in Massachusetts two years ago. Last year, we're only the third-fastest growing because it's really hard to do it two years in a row. By the way, Carolyn, thank you for all the work that you do. So our mission really is to solve those six problems that exist around the globe, and we do it across four segments, retail, healthcare, industrial, and three PLS.

Carolyn Jones:

Well, that is a great overview of what you do, and boy, you're in the right business these days. Well, some days you probably don't think you're in the right business when all those returns come back. So Rick, you mentioned being a BBJ Fast 50 company, which congratulations on that. And the growth that you've had is really, I mean, exponential. So with that tremendous growth and word is that you possibly shooting for an IPO in the next 18 to 24 months maybe. So talk to us a little bit about how as a leader, how have you managed that growth inside the organization with your team?

Rick Faulk:

It's a good question. I'm not sure any of this is rocket science that I'm going to say, but I think it's important and sometimes we all can sort of forget the basics and it really is sort of, it starts with being focused around a mission and a challenge and not get distracted. I get calls once a week from restaurants and manufacturers to put our robots in different places. I was in Japan recently and there's robots running around restaurants, there're delivering food. But we could do all that. The problem is we'd get distracted from our core mission. So I think the first most important thing is really understanding what your mission is and staying focused and not getting distracted by the shiny object. And I think a lot of businesses do that. In fact, if I just look around Massachusetts, there's what I call lots of robots looking for a problem as opposed to a problem looking for a robot.

And literally there have been hundreds of millions or billions of dollars spent on robots looking for a problem and the landscape is littered with venture capital investments that have gone bad. And as companies not staying A, focused on the problem and B, understanding that you're really looking for a big problem to solve, not a robot looking for a problem. I think understanding the customer's view in all this is unbelievably important. Understanding the problem. We were born out of a third party logistics business. We understood the problem really, really well. And by understanding that that problem, you get a product market fit very early. I think that was important. And I think in any early business, getting that product market fit is unbelievably important and we're able to do that.

I think last and probably the most important thing in terms of managing their growth is you really have to hire really smart folks. I've said it many times to our management team, that if I look around the room, I'm the smartest guy in the room, I've made a mistake, I'm not hiring the right folks. And I think a lot of companies today they, I call it the law of diminishing expertise where 10s hire nines, nines hire eights, eights hire sevens and the sixes do all the work and it normally doesn't work. I always look around the room or around the company. If I'm the smartest guy, I got a big problem.

Carolyn Jones:

Great philosophy.

Jon Bernstein:

Rick, please will you go back to the inception of Locus. You were a third party logistics business, you had a problem to solve and you went to robotics.

Rick Faulk:

It acts as a very interesting story. So we started as a third party logistics business. Running a warehouse, actually running IT, shipping goods for major clients, Mack Weldon, Zara, bunch of other major clients. And we automated that building with a company called Kiva. Kiva was a Massachusetts based business. Amazon came along in 2012, they bought Kiva, took the product off the market and gave everyone sort of a span of about two years to get off the solution. So we were faced with a big problem and the problem was go back to a manual operation or figure out what's next. And at the time it was a big problem because there wasn't another robot in the marketplace that solved the problem. We literally scoured the planet looking for another robot to replace that Kiva robot that had automated all the buildings and couldn't find one. So we had again, a decision to make and that was take all the profits from quiet and invest them in building Locus.

And that's what we did at the time. So we invested literally tens of millions of dollars of profit out of that business and founded Locus. So we were about three years in incubation. But the great thing about all that is we really understood the client's problem. We understood it because we lived it and really, and because we operate a Kiva, we designed a collaborative robotics solution understanding all the problems of that solution. And there have been since a lot of knockoffs of that. We call it a goods demand solution.

And we really designed a solution that didn't have all those problems where you didn't have to go down to bear concrete to actually deploy a solution. You'd actually deploy in a Brownfield building. You could actually change the wings on the plane while it was flying. So that's sort of the history. And along the way we've raised lots of money. We started out with about a \$16 million valuation six years ago. Our last round was done at about a \$2 billion valuation. So it's all the things all the employees have done along the way and having some great clients that have built the business.

Carolyn Jones:

Rick, Locus Robotics obviously was an early adopter of using robotics technology to improve productivity in the warehouse, kind of as your story just told. And so you as a company and individually quickly discovered what robots can do and then what they can't do. Can you talk a little bit about how the robots work collaboratively with workers and while not replacing them?

Rick Faulk:

We just had to focus on logistics and that's where we started. And like I said, we could do a number of other things. We decided not to do that. When folks think about collaborative robotics, they think about jobs being eliminated. And the reality is I don't think Locus has eliminated any job in any warehouse around the globe. Even though we're deployed in 250 locations, I don't think anyone has lost a job because of Locus. The reality is labor is so hard to find, so hard to find that typically when we make an operation more efficient and we'll make it two to three times more efficient with our solution. Efficiency defined as a number of units or lines you pick per hour. The reality is that labor will go to work in some other function in the building, could be receiving, put away, handling returns, that sort of thing.

And I like to always steer our clients to what I call our love video on the website. And what our love video is, is associates talking about working with Locus in buildings. It's about a seven or eight minute video. If you go to our website and go to the video section and search on love, you'll find it. It's associates talking about the solution and how they like working with it. The end of the day when the workers in the buildings are making minimum wage, typically love the solution, you're going to be

successful. And every prospect I talk to, I say go watch our love video and you'll understand why we're so successful.

Jon Bernstein:

I watched some of the videos, they're awesome actually, I will admit. Yeah, they're really great.

Rick Faulk:

It's funny, that's really Jon, how we built the business is the best marketing really comes from clients. About 60% of our business next year will come from existing clients. Our net dollar retention is about 130% and in part it's because we have very, very happy clients. There aren't many recurring revenue businesses on the planet that have a net dollar retention number like that. And we have it because the solution works and they're happy with it and folks love it.

Jon Bernstein:

Rick, strong leaders are often defined by how they lead and inform and faced with major obstacles or issues. Working in a high growth company presents many of those opportunities. Please tell us a bit about how you process and stay positive and focused for your team in those situations.

Rick Faulk:

Yeah, I think it starts with focusing on a really big problem that everyone understands in a really big market, you've got to start with that. Every business is hard today and I'm a firm believer if you focus on a really big problem in a really big market, you're ahead of the game. You've got to have tailwinds and have a little luck along the way. But it really all starts with that. Secondly, and I try to preach it every single day, yeah, just before this, I got off a call with our customer success team where we're talking about clients and what's going on with their accounts, but it really is looking at everything through the eyes of the client, looking at everything, every decision you make, you've got to have a lens and a view and the eyeglasses on that you're looking at. That decision you're going to make from their view.

I like to think, and I tell everyone, I told everyone on this call that you're empowered to make decisions even if the cost the company margin dollars or gross dollars to make that decision to keep the client happy. Because when you're in a recurrent current revenue business, if you have that, you're going to be successful. So we try to very much focus at that and empower everyone across the company to make those decisions. I took a lesson from the CEO at Zappos a long time ago before they were acquired by Amazon and that was the lens they used to run that business, is they empowered everyone in the line to make decisions as if you were the customer, even if it costs the company money. And that's what we do. We do the same thing. And in a business where you have a very high recurring revenue rate, very high renewals, expansion opportunities, it's unbelievably important.

The third thing is really track the metrics that matter. Every business, I'm convinced there are only three metrics that matter in every business, only three. Our business is different than other businesses, but typically they're only three. Companies can track a 100 different metrics, not focused on any of them. There are only three that matter in any business. And staying focused on those is unbelievably important. The fourth thing that I talked about it before, and I really mean it is the lesson I learned is again, that story of hiring folks that are smarter than you because they're going to do all the work. And as long as you can be the chief culture officer and give them the leeway and freedom and the environment to be successful, they'll be successful for the most part.

Two weeks ago I was in a meeting, I had a meeting with everyone individually, well I should say in small groups across the company and talked about, I wanted to hear from them about what frustrated them about Locus. We're not perfect like most businesses. And I wanted to hear from them about what wasn't working. And I think listening to employees about what's not working in the company, eliminating those frustrations is unbelievably important. And the last thing is, and I think we've done it here at Locus, is create a very compelling economic model for the company and for the customer with a measurable ROI.

I've been in the high-tech space for a long time in Boston and I've never seen a product like we have that has such a measurable ROI. And if any company can develop an economic model that works for them so you understand what are those three metrics in that economic model and secondly have a measurable ROI that you can quantify for a client, you can build a great business. And that's what we've been able to do and that's why we've been able to expand with folks like DHL and host of other folks around the globe.

Jon Bernstein:

Rick, this podcast has been described as a masterclass in leadership, and since this masterclass features you as our teacher, what's the best advice that you've received that has informed your growth as a leader?

Rick Faulk:

A couple things. I sort of said it before with the CEO being, I don't have chief culture officer on my business card, but I think it is important. And I interview almost every single person not to find out can they do that skillset that we're hiring them for, but are they a culture fit in the company? It's not perfect. You spend a half hour on the phone. It's not exact science, but after a while there's pattern recognition to what works and what doesn't. So hiring the right folks that fit within the culture I think is unbelievably important and you make mistakes along the way. We've all made mistakes, we made them, but when you make those mistakes, you've got to recognize it early and address it. Leadership, at least for the CEO, and this is true for any business, you have got to raise the right amount of capital to fund the business and raise it at the right time.

I've seen a lot of companies that have raised a large amount of capital at the wrong time and the dilution is severe. So you've got to have what I call stair step function to raising capital. You build valuation, raise capital, build valuation again, and do that along the way. We're at our series F. We've done that along the way. As I mentioned before, we started out at a \$16 million valuation. We've raised 430 million along the way at increasing valuations. Our last round's up to two billion. If the market hadn't, or if the market was in a better shape, it would've been higher than that, but it is what it is and you can't do much about it. The next thing is, and this I think really starts with the leader, is building a culture that is maniacally focused on the success of the client. We like to make our clients heroes and if you can make a client a hero and you're focused on their success, you'll be successful.

I lost count on the number of folks that have got promoted within their companies for having rolled out Locus within their company to automate those buildings. I've lost count of the number of promos, I've lost count of the number of awards that departments have been given because they deployed a Locus solution and we promote all that. We spend over \$500,000 a year on giving out things. These could be everything from little robots to pins to sweatshirts to hats. We have pins, I have on my wall over here, probably 100 pins recognized in different successes that we've given to associates and to executives who've rolled out Locus. So I think rewarding that success of clients and helping make them heroes and providing them the tools so they can be the heroes. We do a lot of videos for clients. There's a major

apparel manufacturer that I can't mention the name, but we made a video for them to play at their board meeting coming up in two weeks and they're major executives around the world on this company's board.

So making companies heroes and giving them tools to become heroes I think is really important. Next, listening to customers and it sounds trident and overuses, but the best ideas without a doubt will come from clients. And it's not just using the words, but it's actually doing something about it and having the tools to be able to listen to them. And sometimes that's not easy. And then having the tools to be able to assess that information and do something about it. We use a tool called Aha, which we collect customer ideas in that we rank them, look at them, evaluate them. And so it's not just using the words because everyone uses the words, but it's actually doing something about it. And sometimes that's the hard part. Letting your customers do the marketing to me is the next thing on the list. Go to LinkedIn and search for DHL. Just literally two days ago there was a post by the CEO of DHL talking about an investor meeting they have coming up in Columbus on March 16th.

And the background of that image was a whole Locus suite of robots and we gave them that photo to do that as an example. So helping your customers do your marketing, and again, Jon, I know you mentioned to Carolyn, I'm sure you've been there as well, been to our website, they're our last count. I think about 40 videos there of customers marketing for us and it's unbelievably important. So those are some of the things that we do or I try to do as a leader. And not only me, but I try to drive it down the organization so everyone thinks about it the same way.

Carolyn Jones:

Yeah, the customer as hero, I mean I think that's outstanding for the customers and that's where you get those [inaudible 00:19:35]. But it's also got to be great at building culture because your people feel great about the work they're doing and how that helps others. So it all works,

Rick Faulk:

And we're rewarding that too. A lot of businesses do that, but every single quarter at a town hall meeting, we recognize the folks who have done that. There's a poster that we have that look outside my office, there are probably 25 of them on the wall. There's a bit of a financial reward, but it's recognition that folks actually did something about it. So as a leader, when you recognize it and reward it, it gets propagated and that's what it's all about.

Carolyn Jones:

So what does the road ahead look like? And not sure if you want to mention this, but if you do decide to go that public route, how would that impact or change the company?

Rick Faulk:

Well, if we do an IPO, I hopefully, honestly not much. I think we're doing some great things and sometimes IPOs can screw up businesses, to be honest with you. You can get defocused on the wrong things, you get defocused on the stock price and not run the business. And that's not what we want to do, so. But it does give us some things that we can use to grow the business. Obviously it gives you a capital base to go out our industry. Consolidating the market I think is really important. There are a number of other solutions we want to introduce. We can build them, we can buy them, we can partner. And I think in many cases, buying them is probably a quicker path to market. So doing an IPO, it gives you that flexibility, which is nice.

And also it gives employees optionality. We have employees that have been here many, many years that have options. Everyone at Locus is a shareholder. We think that's important and it gives them optionality to get some value for all the work that they've done. So obviously that's important. And I think the other thing we hear from clients all the time, and we deal with major enterprise clients, these are not small mom and pop operations. They want to make sure you're financially secure to go the distance with them. And if you're not financially secure, they may go with another vendor to hedge their bets. So the nice thing about doing an IPO, it gives them that comfort that we have the mileage and the gas in the tank of the distance. So all those things are important, but I hope many things don't change.

Carolyn Jones:

So things have been going so great. Your success is inspirational. What you've built is inspirational. So what are the things that keep you up at night, if any?

Rick Faulk:

Oh, well there are two, other than my grandkids. There are two things. One is scale, people, and processes to handle the growth worldwide. We started in North America, we expanded to Europe. About 25% of our business now is into Europe. We're going to APAC. I just got back from Singapore and Tokyo, we're expanding over there. And I can see there are challenges in hiring people and putting the processes in place to support a global operation. I've been there and sort of done some of these things, but a lot of folks on our team haven't done that. Building the next layer down from me that can handle that growth in people and processes to build a scalable business is unbelievably important. And secondly, we build a great culture here. I think it's been a big part of our success and a lot of companies when they grow, lose all that and they give it away.

And we've spent so much time building that culture that I don't want to give it up. So that's the thing that does keep me up at night when I interview employees. And again, I interview almost everyone. The first question I asked them is, who'd you speak to and what did you learn? And typically what I hear almost universally, probably at 80 or 90% of the cases, the answer is you build a great culture. And that comes across when they have the six or seven or eight interviews before me. And I don't think those are just happy words and it's repetitive and it's a trend. So something we take seriously and I want to make sure as we grow and scale and do it around the globe that we don't lose any of that.

Jon Bernstein:

Rick, what are you optimistic about?

Rick Faulk:

Good question. Optimistic about a number of things. The thing that really makes me optimistic about our business is incorporating AI and analytics into what we're doing. It's a new area for us. We're going to be the best in the world at it. It gives our robots, basically these little robots running around a building are data collection machines. And what excites me is ability for us to collect data and use that data to help operators operate much more effectively. And we have a major initiative of building out a very large AI team, and I'm really excited about what they're doing and I think it's going to take the company to the next level and we've got some work to do to be able to do that. But a year from now, we've set this out as initiative number one. We want to be best at the world at it. And I think we will.

Jon Bernstein:

Rick, we also like to close with some rapid fire questions.

Rick Faulk:

Go for it.

Jon Bernstein:

What did you want to be when you grew up?

Rick Faulk:

I wanted to be a pro golfer. I was actually fairly good in college, I went to school on a golf scholarship, but grandkids and age and work and everything else makes your handicap go from a scratch to a bigger number. My son's a scratch and my grandson, who's nine is good too. But the lines have crossed where I was better than them.

Jon Bernstein:

Always, always. What's your favorite food?

Rick Faulk:

Well, that's simple. It's two things. A Dover Sole at Mistral in Boston is absolutely terrific. If you haven't been there, go there and try it. And there's a new restaurant in Woburn called Surf that has a sushi roll that's called the Hot Buttered Lobster Sushi. And if you haven't been there, try it. It's absolutely terrific. Brand new restaurant in Woburn. So it's the Hot Buttered Lobster Sushi.

Jon Bernstein:

Great.

Carolyn Jones:

Sounds good.

Jon Bernstein:

Who's a favorite sports figure that you admire?

Rick Faulk:

Well, being a golfer, I think I've always admired Tiger Woods, not because of some of the recent challenges and problems, but he was a guy who looked at competition in the face and always excelled and always won. There are other golfers that have come before him, and there are many that will come after him, but he was a guy who built it from ground zero. So obviously been through a host of issues and challenges personally, but I admired for his ability to hit a golf ball under high pressure situations and be successful.

Jon Bernstein:

Who's a Boston leader or organization to watch?

Rick Faulk:

I think the organization, I'll stick with the sports theme here for a minute, is the Patriots. I'm a football fan, but if you look at an organization that was riding the high road for years and years and years. I went to host a game. It was terrific. You expected them to win. They always won. Last year, we all know what happened wasn't good, but it's going to be interesting to see what happens and how they come back and how they manage that so, and companies go through these same problems. Right. You're at the top. You have issues and challenges. You sort of follow off the radar, screen the questions, how you rebuild all that. So I think it'll be interesting to look at Kraft and Belichick and the others around the table to figure out how they rebuild that organization. I think it'll be a lesson in business on how they actually rebuild that.

Jon Bernstein:

What's a favorite spot in our city?

Rick Faulk:

I think the favorite spot, I've always liked the lake cruise on Chicago because I think it has the prettiest skyline in the world, but Boston's a close second. So if you're on a harbor cruise in Boston, look at the city at night. It's a beautiful view. I think it's second to Chicago, but it's a beautiful view. So I would say that's my favorite spot in Boston.

Jon Bernstein:

And what makes you smile?

Rick Faulk:

If I look at my wall over here, okay, across what you can't see, there's a ticker, and it's a live ticker of every single unit being picked in real time in Locus. Okay. And right now I'm looking over here, we're doing 81 units a second right now around the world, 81 units a second, and a unit's defined as someone's taking an item that you ordered, that vest you ordered from Patagonia, taking it out of a shelf, sticking it on a robot and hitting go. That's happening right now. Well, it's down to 78 units a second right now.

We have over the last month, and this goes up every single month, over the last month we have been doing 35 units a second, 35 units a second, 24 hours a day, seven days a week around the world. It's absolutely massive numbers. So every time I look at it, I smile because not that Locus gets paid by pick, but it's the value we're delivering for clients. And every single one of those picks, an associate did a task. We made their life easier because they're walking less in a building. We saved our client a meaningful number of dollars. And like I say, it happens 24 hours a day, seven days a week. And for the last month it happens 35 times a second. Next month it'll probably be 40 to 45 units a second, 24 hours a day, seven days a week. That's what makes me smile.

Jon Bernstein:

And finally, what's a wish you have for Boston?

Rick Faulk:

Well, if I look outside today, I think it's less snow and an early spring. How about that? But seriously, I think I'd like to see Boston as robotics capital of the world. I think I'm on a mass high-tech council that we're exploring options on how to do that. I think Boston talks a good game now. MassRobotics does

frankly a terrific job with promoting robotics in Massachusetts. But there are others catching up right now. California actually right now has the highest number of investment dollars going in robotics businesses. I think that should be Massachusetts. Again, we're fortunate to have folks like MassRobotics, promoting robotics in Massachusetts. But there are a host of other things that have to happen from state and governmental funding to facilities that allow startup robotics businesses to test things, to tax incentives and that sort of thing. So I think Massachusetts could be the robotics capital, not just of the United States, but of the world. And I don't think we're quite there yet, but we should be.

Jon Bernstein:

Rick, before we wrap up, anything that we didn't cover that you want to talk about?

Rick Faulk:

In terms of the community, let me just mention one thing because you brought up, we have what's called the Locus Foundation that we set up, is funded by two of our major investors out of Boston. And we try to do the right thing with that fund. It's a sizable fund, hundreds of thousands of dollars. We've made number of investments along the way. Just recently in Lawrence, to a school in Lawrence to help underprivileged students get to the next level. And it's the type of thing that we feel good about and want to do. And one of the things as it goes along with that are a lot of initiatives that we have around ESG and environmental. We didn't talk a lot about it, but we have a recurring revenue model where you can't buy a robots, you have to rent them. And the reality is, we own them all.

And we have a very serious program around environmental recycling of the thousands and thousands of robots that we have in the world right now. I think at last count, we've only scrapped seven of them because we have a program called Second Life. And we'll take those robots and recycle them into counts that have a different value proposition that we have to deal with. And also, we're looking at secondary markets like Brazil as an example. There's a markets in Europe where the wage rates are low. So under our Second Life program, under our ESG program, we'll recycle those robots at a lower cost into those markets. So again, ESG is something that we take very seriously and we have a whole team right now that's dedicated to that and just brought in a leader for our whole ESG program, I don't know, probably six months ago. So some major initiatives that we have going forward.

Carolyn Jones:

Rick, thank you so much for joining us. It was really, really phenomenal.

Rick Faulk:

Great. Thank you Jon and Carolyn

Jon Bernstein:

And that wraps up another episode. Thank you so much for joining us, Rick and for sharing your insights. I'm Jon Bernstein.

Carolyn Jones:

And I'm Carolyn Jones. And this is PNC C-Speak: The Language of Executives. Our guest today was Rick Faulk, CEO of Locus Robotic.

Jon Bernstein:

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