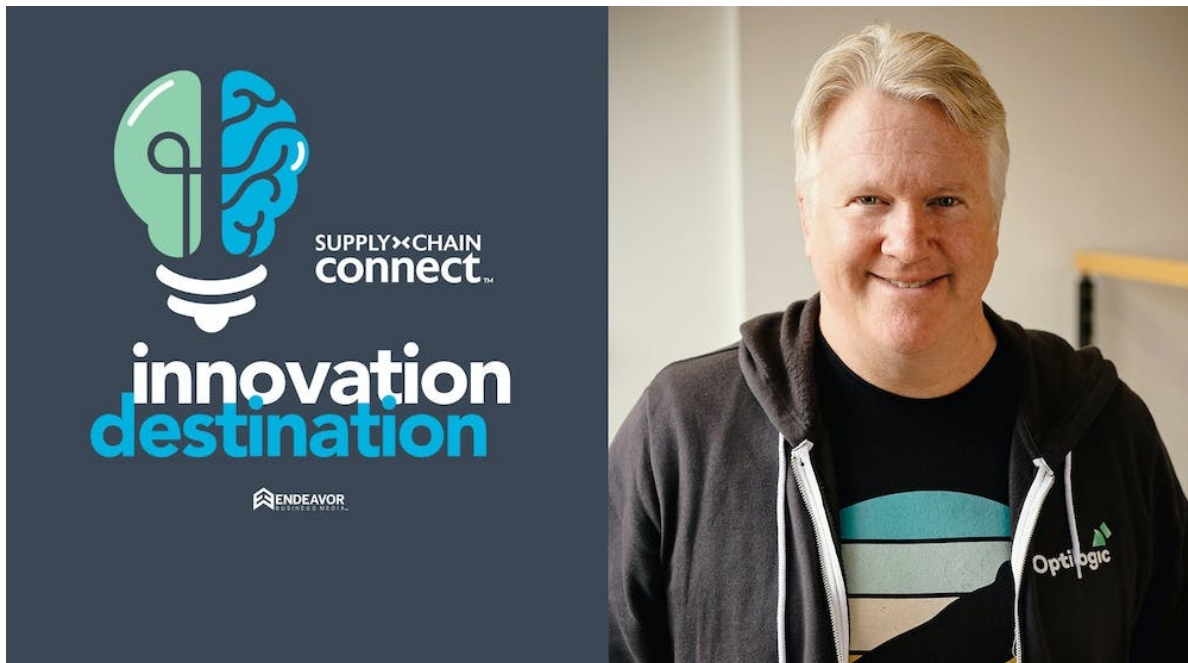




Executive Perspectives: Donald Hicks

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Donald Hicks, Founder and CEO of Optilogic, joins to discuss the state of the supply chain industry and how now is the time to shift out of a 'reactive' mode and into a 'proactive' and forward-thinking system of operations.

Tyler Fussner

In this Innovation Destination—Executive Perspectives episode Donald Hicks, Founder and CEO of Optilogic, joins to discuss the state of the supply chain industry and how now is the time to shift out of a 'reactive' mode and into a 'proactive' and forward-thinking system of operations.

This interview was edited and formatted for clarity.

Tyler Fussner, Managing Editor, Supply Chain Connect

Don, thank you for joining us today.

Donald Hicks, CEO & Founder, Optilogic

Hi, Tyler. Thanks for having me.

Fussner

If you could please introduce yourself to our audience.

Hicks 0:28

My name is Don Hicks. My main job is Chief Executive Officer of Optilogic.

Fussner 0:33

And can you tell us a little bit about Optilogic?

Hicks 0:37

Optilogic is a great next-generation software company. It's about five years old. We built it originally to make a platform for deploying OR solutions and engines in the cloud. And then, about two years ago, we pivoted to the supply chain design space to bring a next-generation fully cloud based application to help these companies that are struggling with trying to design and redesign their supply chains to try to give them the toolkit, the technologies and also the people and support that they needed.

Prior to Optilogic, I had spent 20 years doing supply chain design. I founded a company called LLamasoft back in 1998. And about 20 years later, I needed a break. I sold it to a financially oriented private equity company who proceeded to destroy it.

The need has never been greater for supply chain design. And quite frankly, cloud-based technologies have come a long way. People needed a solution that LLamasoft and Coupa couldn't give them. So, I took this Optilogic company with its incredible platform and people and we decided to go and solve this problem.

Fussner 1:41

You said something there that I think is very relevant. It's a very important time to have the supply chain design questions answered for your organization. I think throughout the COVID pandemic, the last couple of years, it was a scramble for survival. Companies were focused on short-term solutions. Maybe this last year, albeit cautiously, some companies started to look ahead. But what does 2024 look like?

Hicks 2:04

It's funny. You and I have been doing this a long time and we're always saying some of the same things, like, "It's a time of unprecedented change," and, "The environment is shifting at an accelerating rate." And it's always true. But 2020 threw us a bunch of extra curveballs. Not just pandemic, but there was a massive change in the environment prior to pandemic. I pin it on... We've had a consensus post-cold war

around more globalization; around falling trade barriers; around stable, rational government policies. And all of that really came into question. Stuff was going off the rails prior to 2020. 2020 just sort of scratched all of that and double, triple underlined it.

And indeed, there's no point in looking at the future or even trying to think about big strategic changes to your supply chain, when you are struggling to keep your head above water. Companies across the world very, very correctly (in my view) had no choice—they focused on execution. And so, what you saw is the tech industry responded. And they responded by providing more of a focus on visibility solutions. "I don't need to optimize my warehouse locations if I don't know where my actual products are." And so, you saw this focus on traceability and visibility and getting your hands on the data. Makes a lot of sense.

And the converse part is I think there was a real loss of focus on long term. I match that up with LLamasoft had been the clear leader in supply chain design. And when it got absorbed by the mothership, and then crushed, it wasn't that big of a deal in many ways, because network design and overall strategic design just wasn't on the agenda. And as we emerged out of that in the end of 2022, into 2023, people were still catching up.

It's hard to optimize your organization, for example, when you're not sure if people should be in the office or not. You don't even know where they are, or if they're working multiple jobs. So, I think this last year was really [about] companies settling back in and starting to pick their heads up for the long term.

I'll pick up on the one word you used there, which was "answers." And what you said was, "They need answers to their supply chain design." They're going to "solve it." I want to throw down the gauntlet right now to redefine what we think about when we think about design. Design is a long-term capability that companies get to deal with anything that the environment in the world throws their way. Supply chain environment is a lot like the weather: If you don't like the situation now, wait until tomorrow and it'll change.

And the fact is, dealing with big changes—it's a permanent need. You can't execute and plan your way out of a crappy supply chain design. You're always going to get these big existential changes. Design is a capability, and its people and technology. And if you have that, you can look ahead when you can, and get in front of things by changing the design and making redesigns.

We are in an interesting stretch right now where people, the supply chain executives in the community, we remember we were just in pandemic, but now we've settled in; we're looking at the changes in the environment—and they're massive—and we see that our supply chains are not set up for the situation we're now facing. So yeah, we ramp up. It's going to be a big year for supply chain design, but it's not the end. Because as soon as we get these things sorted out, we're going to get handed other changes. This is a moment to decide: Are you a dinosaur or are you a survivor? Because the survivors will have the capability to deal with big changes better than the competitors.

Fussner 6:16

Maybe this is a big question here, but I'm going to ask you, how do we shift out of that? How do you shift from survival mode into designing and planning in the flexibility and the capability to be able to pivot and adapt when needed? How do you change the strategic focus to that resilience?

Hicks 6:35

This is an evolutionary problem. And what I mean by that is... Are you familiar with the Nobel Prize winning economist and psychologist Daniel Kahneman? Danny Kahneman won the Nobel Prize for his work on decision making. He and his collaborator, Amos Tversky, brought in this notion of behavioral economics. [The notion] that people are not very rational decision makers. Shocking, I know. But we're not irrational either. We're predictably irrational. We fall into patterns and problems. And we get stuck making a dumb decision because we flinch.

Danny Kahneman talks about two types of thinking: system one thinking and system two thinking. System one thinking is that immediate response, that fight or flight. It's your lizard brain. You don't have to stop and think about if you've got an animal charging at you, you're not going to make a decision to run, you are running already. System one makes most of the decisions. We don't think about all the things we do; we are kind of "operating." We know how to walk; we know how to turn; we know how to deal with sudden crises. But there are other situations and problems that get thrown at us as organisms, that you have to stop and think about. My food source is going away, or I'm running out of water, or I've got too many mouths to feed in my tribe. How do I change this? System one, my quick thinking, my heuristic thinking, doesn't help me with that.

System two goes along with, honestly, having a bigger brain and then using it to step back and intellectually consider the bigger picture. System two is deliberate and it requires a lot of energy and a lot of effort. I highly recommend people go out and pick up *Thinking Fast and Slow* where Dr. Kahneman goes through all of this, because that's the metaphor for what organizations are dealing with right now. Organizations are complex organisms. And what they've been doing is dealing with system one decisions—moving so fast. They just have to stay alive; they just expedite; they make quick decisions. They're not thinking their way out of it. System two—I think of as the corollary of design. And that means taking a step back, looking at how I'm setting up, making longer term decisions, implementing changes that take more than a week to get through (that that are sometimes multi-year plans). And here's the thing... Animals are driven by system one. Humans evolved a system two to deal with the more complex problems as they became social animals. Companies must similarly be evolving the capability to design and redesign in parallel. You don't get to stop executing and planning so that you can figure out your stuff, figure out your strategy. You have to do both simultaneously.

There's a playbook for this, by the way, because prior to the pandemic and back when LLamasoft was a thriving company, we developed organizational strategies. We worked with the largest companies in the world to help them choose an organizational approach and a technology approach for building design as a strategic long-term capability. A lot of that atrophied with the loss of LLamasoft and then the pandemic crowding out everybody else's attention. What we see is a lot of companies largely let go of their design capabilities. But there are some of these companies that are out there right now—and I'm thinking of leaders like Mondelez, and I'm thinking of Unilever, and I'm thinking about a whole bunch of other guys—who still have these little design cores, these teams that are still there, and they're about to have their moment.

Over time, if you haven't evolved the capability to do continuous design, to always be looking ahead, you're a dinosaur and you're just going to get wiped out by the next asteroid. And those companies that have managed to evolve this capability alongside of being an excellent operator, those companies will stay alive.

Fussner 11:04

Don, say we're flexing our system two thought process and looking back over the past few years... What were the lessons learned? I'm sure there were plenty. But when you look at your supplier partnerships, are companies reevaluating their sourcing strategies?

Hicks 11:21

Lessons learned implies that organizations have actually learned knowledge and wisdom from looking back at the last couple of years. The pandemic showed something that they probably should have known already. And that is, if you focus on financial optimization—only—if you look at reducing cost, and you assume you don't need redundancy, and you assume that transport and your long lead time supply coming in from Asia, if you assume all of that is solid and can be depended upon, and then you optimize for that, if that turns out to be wrong, you're screwed. That's the lesson. And we helped, we aided and abetted the bad decision making over the previous 20 years. I have to own this. We helped companies apply and employ optimization methods and we did a really poor job advising them on the risks that went on. "What's the downside of going for this financially optimal structure?"

The dirty little secret about network design and optimization is that it gives you the best answer for whatever you stuck in the model, but you always leave a bunch of stuff out. And often the answer is to reduce redundancy, eliminate multiple suppliers, shorten the legs so that they're really tight. And all of that assumes that there'll be no change. And we saw companies financially optimize for a world that ended in about 2019. And what they saw over the next three years is that they had a lot of sophistication, but the world has moved on. And it turns out, if you've only got one supplier, and that supplier is in a city that's been completely locked down in a country where you have no influence, you're screwed. And you designed it that way. Big companies figured out that if you put all your eggs in one risky basket, there's a good chance you're going to lose. If you come up Joker, Joker, Joker on that one... If you take those risks, they might come back and bite you.

I will use the concept of car insurance. Everybody has car insurance if you're driving (or most everybody). And most years, you're lucky; you never use it. You might be tempted to say, "Well, I haven't had a claim on my car insurance in the last 10 years. I'm going to stop paying it." And my financial optimization software might tell me, "You haven't been in an accident, so therefore stop paying for insurance." And guess what? You might get away with it. But if you don't, you're in real trouble.

We're in a situation where executives around the world still remember the pandemic; they still remember what that did to their supply chains. And this year, it's such a brilliant opportunity for the world and for corporations that make and move physical goods. You still remember, your board remembers, that you had a risky supply chain; that you probably should have had backup suppliers for all of your critical functions. That inventory isn't a sin. Inventory is a way for you to bank product against variability and lead time. And you have to do it smartly. But if you get rid of all that, you're a gambler. The lesson learned has

got to be even while you are thinking about financial improvements, you must incorporate the other element of risk and understanding that when I grabbed for cost reduction, I am often loading up on risk. I still might take that risk but I need to know that. And I need to let my board know, “Hey, if I reduce and I shut down from three suppliers to one, if that supplier goes down because they happen to be located next to a 1970s-aged nuclear power plant, I’m taking a big bet.” Because that disruption may cost me dearly.

Understanding and putting these on the docket as important considerations—that is what I hope is happening out there. We’re certainly trying to help with that, and we propose, as a framework, we offer people [the chance] to think about supply chain design and making choices [while] weighing three different dimensions. We talk about the financial piece, which is largely expense and cost driven, but also includes capital and capital employment. What’s the financial performance of the supply chain?

Trading that off with the service that it can deliver. If I can deliver a better service at lower cost, I don’t have a decision to make. But most of the time, I have to make a tradeoff between, “What service can I deliver with my system?” and “What’s the financial performance I’m going to get?”

The third leg of that triangle is the risk. When I make my choices, reducing inventory, or reducing suppliers or putting a supplier in a risky location in the world—they may be the cheapest, but I just added a bunch of risk. The art of design for senior executives has got to be knowing the tradeoffs between finance, service and risk. Advising my board and then we knowingly pick that set of tradeoffs; we knowingly choose a compromise. And that’s our supply chain design. And as we go out and move that forward, I’m reevaluating all the time.

Fussner 16:51

I think recent history has hopefully gotten organizations to reconsider these strategies, bring these considerations to the forefront again, and maybe have to make some realignments. On the flip side of that, outside of the organization, how have customers evolved over the past few years? Have you seen customer or user practices changing? And what should companies be doing to keep up with newer, evolving customer demand and expectation?

Hicks 17:19

It’s a really interesting question, isn’t it? There’s a couple of things. And when we talk about customers, let’s talk a minute about consumers. My customers are the large companies, and medium and small companies as well, but especially the larger companies that are filling consumer demand. I’ll focus for a second on the consumer demand picture. And this is (in my humble opinion) how it shifted.

I think what we saw is acceleration, a dramatic acceleration, of the acceptance of digital and Ecommerce. Now everybody, in the West at least, is very comfortable relying on the internet and digital purchasing to do their business. It’s been headed that way. We’ve heard of the company called Amazon, right? They’ve been pioneering this, but walmart.com and target and these guys, they’re all catching up. And we just saw, I think, a massive uptake in the internet as a primary method for exploring purchase options and then buying things. And there’s a lot of implications with that when your customer can click away to a different site.

I remember when we were talking about the onset of something called 'omnichannel' where we're thinking, "Gee, a customer might walk into my store and, shoot, they might even go home and buy that product. Is that a good thing if they buy it from the computer instead of in my retail store?" Just think about how much the discussion has changed. Now everybody is omnichannel. In fact, many companies still are questioning if there is even a point to having any retail store at all, because there's tremendous success stories of all-digital storefronts.

What that means is consumers have a lot of power. They're really easy to lose. And the lesson about this, by the way, is that customer loyalty is king. When you serve a customer, and you serve them well, you just jumped to the front of the queue. And their habit is going to be to go back and buy it from you. But one screw up and you're gone, and you're replaced as a supplier. I hope everyone's really thinking about that. Think about your own purchasing habits. No matter what that website is that you're buying from, if it gets there, you're coming back to that thing. And if it doesn't get there, or they send you the wrong stuff, or they treat you like crap or they overbill you, you fire them. Consumers have never been more demanding because that's the reality of a digital marketplace.

I'll overlay that with one other trend which is it seems like everything and everybody is worse at what they do. I don't know about you, but I've been shocked to see service slip across the board. Companies struggle to do many of the basic things and just do what they said they were going to do. I think the consumers out there, they're demanding more, but they also accept. There's a lot of stuff that's supposed to work that doesn't work. Crappy products aren't surprising anymore. Doors pop off of planes in mid-flight, and we're like, "Yeah, it's probably post-pandemic. It's probably a COVID thing."

It's such a tremendous opportunity right now for you to, as a company, leap ahead. And if you're consistent and you're easy to work with, you can earn that customer for a lifetime. This is a time for people to vault over their competitors and really change where they're at in the industry. It should be a fierce competition. But right now, it feels to me like everyone's sizing up the situation.

We're all consumers, also. We're aware of how much things changed during COVID, when, quite frankly, you were just happy to have toilet paper on hand. The importance of reliable supply for consumers has gone way up. They're factoring this in when they make these choices. The stakes are higher. But also, the opportunities are wide open, because the performance is generally lower. This would be a fantastic time to be a big company; focus on doing this right for the longer term and you'll change where you're at in the industry.

That's from the consumer side, maybe we can pivot for a second and talk about where I live, which is software and technology that we provide to the big companies. My customers are executives, analysts, engineers—people who work at the big companies running the world's supply chains. And we provide them with software; we provide them with expertise; and just like everything else, they're very demanding. They need things to work.

Fussner 21:48

I'm going to ask you one of the harder questions I've thrown at you today, to tell me what the future looks like. What can companies expect in the market this year? Any anticipation of some down rounds or any turmoil?

Hicks 22:03

In terms of forward-looking predictions, this is going to be a momentous year. We've got a whole bunch of changes in the macro environment. Let's start there with the world. Everybody knows that it's a big political and election year, and we should be really concerned and worried. It affects everybody. One thing is for sure, and that is come January of 2025, we could be looking at a whole set of changes in terms of the regulatory environments that are out there. And I just don't think there's any possible way to predict which way the winds are going to blow in any one election, and how they're going to shake out, so you've got to be preparing right now. You've got to be thinking ahead and modeling out contingencies. What happens if the U.S. carries through with its threat to put a tariff on everything? Right now, the oddsmakers say that there's a better than 50% chance we get a new regime in the United States. And those policies are going to be anti-foreign, anti-immigrant, high tariffs and picking winners and losers in a way that we've never seen, well, we rarely see, in this country. I think you've got to be prepared for that. You've got to be modeling it out and thinking about if a new government in the U.S. comes in and implements a 20% tariff on all imports, you better believe that's going to radically change your supply chain. You can't wait and see next February if that's what you're facing. You've got to model it out right now.

I think companies understand this. I think you're going to see a heavy focus on analytics and forward looking. It's going to be a great year for design. People are preparing for and thinking about big changes that will disrupt things but will present them with a new reality. This is the year to focus on it. If you don't have a spun-up supply chain design capability, if you're a supply chain VP and you don't know how your company is designing for 2025 and 2026, first of all, you should be fired. Second of all, if you're not fired, it doesn't matter because you will be fired the next year when the company that buys your company out comes in with their design capabilities and then replaces you.



About the Author

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Tyler Fussner is Managing Editor - Community Manager at Supply Chain Connect, part of the Design & Engineering Group at Endeavor Business Media.

Previously, Fussner served as the Associate Editor for *Fleet Maintenance* magazine. As part of Endeavor's Commercial Vehicle Group, his work has been published in *FleetOwner* magazine, as well as *Bulk Transporter*, *Refrigerated Transporter*, and *Trailer-Body Builders*.

Fussner's May 2022 print feature '*The dawn of hydrogen trucks*' was named the best single technology article in B2B by the judges of the 2022 Folio: Eddie and Ozzie Awards. Fussner was also awarded Silver in the Technical Article category for the Trade Association Business Publications International (TABPI) 2021 Tabbie Awards.

Fussner previously served as Assistant Editor for Endeavor's Transportation Group on the *PTEN*, *Professional Distributor*, and *VehicleServicePros.com* brands.

Fussner studied professional writing and publishing at the University of Wisconsin-Whitewater. He has experience in shop operations, is a Michelin Certified Tire Technician, and a Michelin Certified Tire Salesperson.

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