

The COO Roundtable with Matt Sonnen

Episode 52 – Matt Sonnen of Coldstream Wealth Management

Welcome everyone, to episode 52 of the COO Roundtable! This is a very special episode – I think we could subtitle this episode, “The more things change, the more they stay the same!” While we have a new sponsor of the podcast, and I have a new employer, I want to assure our listeners that nothing about this podcast is going to change, and I’ll get into the details shortly, but first, the big announcement for those of you that haven’t heard...As of May 1st, I am now the Chief Operating Officer of Coldstream Wealth Management, Headquartered in Bellevue, Washington. We have 6 office locations – three are within about 15 minutes of each other – so one of my early tasks as COO will be to determine if it’s a good idea to have 3 separate office locations within 15 minutes of one another – we also have a Portland, OR office, a Boise, ID office, and one office in Alaska. The firm manages about \$6.5 billion of client assets, spread out across 7 different service teams. There are a total of 135 employees at the firm, with me obviously being the latest addition! Many of the seven service teams have come to the firm through M&A activity, as Coldstream has conducted 5 wealth management mergers over the past 11 years. Podcast listeners have heard me speak of “pods” or service teams, versus a centralized operations back office – Coldstream works under the pod or team structure, and we’re hoping to add more teams through future M&A activity.

Beyond just traditional wealth management, Coldstream also has three affiliated businesses under the holding company. Fit Insurance joined Coldstream in 2013 and offers property and casualty insurance solutions. Ascent Capital also joined the Coldstream family in 2013, and they specialize in real estate lending to builder borrowers in the Pacific Northwest. And finally, Rainier Group joined Coldstream in 2016. They are a strategic advisory and investment banking consultant helping businesses in the Pacific Northwest with a range of solutions from transition planning, business valuation, and traditional sell-side and buy-side advisory engagements. With these three affiliated companies, and hopefully more to come in the future, Coldstream is striving to be a one-stop financial solutions provider for our clients.

Loyal listeners to the podcast know that one of my favorite episodes was Episode 28, when we had Nikolee Turner and Tony Parkin from Schwab’s Business Consulting and Education division join me for a deep conversation around the importance of having a clearly defined ideal client persona. Nikolee shared some of Schwab’s benchmarking

statistics, and she told us that firms that have gotten clear on who they're trying to serve and have a documented ideal client persona add 28% more clients annually, which represents 45% more assets each year than those firms that do not have a defined ideal client and a defined service offering to attract that client.

Well, Coldstream has a well-defined client persona, which was spearheaded by Natalie Straub, who many of you know from her almost 20-year career at Schwab. Coldstream hired her last year as the new Chief Revenue Officer. Natalie was on the business consulting team that Nikolee and Tony are on, so when she got to Coldstream, one of the first things she did was work closely with Anne Marie Stonich, the firm's Chief Wealth Strategist, and put the firm through the client persona process, and now we have a document that details Kate Washington, a fictional representation of the best and most desirable characteristics of our favorite clients.

Simply put, Coldstream partners with busy families and business owners to simplify the complexities of finances in order to enhance their lives. And by having this document that details Kate Washington and her family, we can better deliver services that we think our ideal clients will desire. One of my tasks, as COO, is to figure out how to best scale and systematize the delivery of those services to our clients.

So I'm beyond excited to join the firm and take on this new role. I've gotten to know Kevin Fitzwilson, the firm's managing shareholder and my new boss...we've talked a lot on this podcast about the Visionary-Integrator relationship that was made famous in the book Traction and the EOS model...we talked about it in great detail in Episode 42 with Kristie Clayton and Melissa Bushman. I'll be working very closely with Kevin to ensure the firm can execute on the vision he's laid out for the organization.

I'm also extremely impressed with the Operations team that I am now a part of - I won't name everyone, but all you COOs listening know that I'm going to be working closely with our head of performance reporting, the head of client service, CRM, and IT...I'll also be working closely with HR (you've all heard me say many times that I believe 75% of a COO's job is tied up in HR...), and Finance, and I'll definitely be close with the Compliance team - we've talked to many COOs here on the podcast who also wear the CCO hat, which is what I did during my last stint as a COO from 2008 - 2012, I was a dual-hatted COO/CCO, but I'm very glad to work closely with Erika Yelle, Coldstream's extremely competent CCO, who has been at the firm now for 21 years! I'm also planning to stay very active with articles and speaking engagements, and of course this podcast, all with the goal of promoting the need for professional management in the RIA space - so I'll be working closely with our marketing team on those initiatives.

Coldstream does a decent amount of alternative investments business, and many of you know that the operational burdens that come with alternative investments was a big part of my job as COO of Luminous Capital back in the day, so I'll be working

closely with Howard Coleman, Coldstream's Chief Investment Officer, to determine the most efficient way to process and report on the firm's new investments in alternative investment vehicles. Many of you know that PFI Advisors published a few white papers on accessing and reporting on alternative investments, so I'm excited to roll up my sleeves there and tackle those challenges.

Now, for those of you contemplating a new COO position, whether that's a brand new RIA coming out of a wirehouse or IBD and you'd be the firm's first Head of Operations, or you are looking to join an existing RIA like I've just done (Coldstream is 27 years old!), I highly recommend the book, "The First 90 Days," by Michael Watkins. I don't know how I stumbled across this book, but I've spent the past few weeks reading and re-reading, highlighting, and outlining this book as the basis for my transition into this new role. The book was first written in the early 2000's and then he wrote an updated and expanded version in 2013 – that's the version I got my hands on...and again, I highly recommend it to any COOs transitioning to a new firm.

He talks about the "break-even point" – which is the point that an employee has contributed as much value to the organization as they have consumed from it. He says, "New leaders are net consumers of value very early on, but as they learn about the organization and begin to take action, they begin to create value. From the break-even point onward, you're a net contributor of value to the firm." And he says that this book, "The First 90 Days," tries to dramatically condense that time it takes you to reach the break-even point...

The book is also, ultimately, about change management. And we talk about that a lot on this podcast – how do you introduce new systems or processes into an RIA and get adoption from the advisors and employees? Because there is nothing worse than spending a ton of money on new software that no one uses. And the success of that user adoption has a lot to do with how you introduce yourself to the organization. You have to build credibility with employees before you can ask them to trust your recommendations and implement your ideas.

Mr. Watkins writes that leadership is ultimately about influence and leverage – so the question is, as you join a new organization, how do you get that leverage? He warns those in transition to not come into the firm and assume you have all the answers. He says, "You don't want to spend too much time learning about the technical part of the business and ignore the cultural and political dimensions of your new role." Later in the book he says that joining a new company is akin to an organ transplant, and you are the organ. If you're not thoughtful in adapting to the new situation, you could end up being attacked by the organizational immune system and ultimately be rejected. And unfortunately, I've seen that happen to many new COOs in our industry.

In Episode 8 of the podcast, I spoke with David Canter and Scott Slater, and we discussed that the failure rate for new RIA COOs is close to 50%, and during our

conversation, I asked, “What can new COOs do to set themselves up for success?” David listed off a few recommendations, most of which are similar to what Michael Watkins describes in his book:

1. Aim to take a full 360-degree review of the entire organization. David says, “Really getting the perspectives of the entire organization is key,” and he advised to, “Look beyond the existing leadership to the folks who make the firm run day to day.”
2. Get clarity in writing from the founders/principals on what the COO role will entail in their mind. Don’t be afraid to ask how success will be defined for this role.
3. Play the long game, not the short game. David says, “The first 90 to 100 days should be [filled with] a lot of listening and absorbing. Get a great understanding of how the firm works and where the COO can make an impact. You have to pick your spots wisely,” he said.
4. Make the first year about small, incremental steps that can pave the way for future success. Don’t try to come into a new firm and make massive change immediately because it will shock people.

Scott Slater followed up on David’s list of recommendations and astutely pointed out that the COO “...is really a political position in a lot of ways.” He continued, “In that listening that you’re doing in the first 90 to 100 days, you’re looking for the problems that not just the leadership struggles with, but others in the organization are frustrated with as well. Can you help solve those [problems] and add value to create some political support behind you throughout the organization? Then, get the flywheel moving and continue to build on that.”

When I spoke with Stacey McKinnon in Episode 46, we talked about my favorite scene from Ted Lasso. I’m sure most of you know the premise of the show – Ted Lasso is an American college football coach, and he travels to Europe to be a professional soccer coach, but he doesn’t know the first thing about soccer. So on his first day, the players are looking at him like he’s crazy because they know he has zero experience and therefore is not going to be able to help them at all, but he says, “Hi guys – tell me what you’re struggling with...how can I help you?” No one says a word, again, because they know he can’t help. So he prods them a bit and he says, “How’s the water pressure in the showers?” and one of the players says, “Well, now that you mention it, our water pressure is awful and we’ve been complaining about it for years...” So Ted says, “Great! I’ll get the water pressure fixed for you!” because that’s about all he can do for the team. But by fixing the water pressure right away, he got that one easy win under his belt and he started to build credibility with the team. “If you have a problem, let me know, and I’ll get it fixed for you!”

Michael Watkins devotes an entire chapter of his book to the power of securing early wins. He writes, “By the end of the first few months, you want your boss, your peers, and your subordinates to feel that something new, something good, is happening. Early wins excite and energize people and build your personal credibility. Done well, they help you create value for your new organization earlier and reach the break-even point much more quickly.”

Again, this is all about change management. Mr. Watkins advises that you focus on making successive waves of change, with each wave consisting of five distinct phases:

1. Learning
2. Designing the changes
3. Building support – we all need early adopters and champions within the organization to spearhead the change internally
4. Implementing the changes
5. Observing the results

He says, “Thinking in this way can release you to spend time up front to learn and prepare, and afterward to consolidate and get ready for the next wave of change.” But then he cautions, which is a critical point: “If you change too much all at once, it is impossible to figure out what is working and what is not.” And to David Canter’s point about shocking people, Mr. Watkins writes, “Unending change is a surefire recipe for burning your people out.” So in the famous words of Walter White from Breaking Bad, you need to *tread lightly*.

Now, going further into change management, Mr. Watkins warns that “Many leaders rely on simplistic fixes to address complicated organizational problems, and they end up committing malpractice” – that’s the word he chooses here, he calls it “malpractice.” So to avoid committing malpractice, he lists some common mistakes you want to avoid if you are a new leader in your organization:

1. Making change for change’s sake
 - Often, leaders feel self-imposed pressure to put their stamp on the organization and seek to make changes before they really understand the business – he calls that “ready, shoot, aim”
2. Trying to restructure your way out of deeper problems
 - Overhauling your organization’s structure when the real issues lie in the processes, skill bases, and culture can amount to rearranging the deck chairs on the Titanic
3. Creating structures that are too complex
 - You should always strive for simplicity, not complexity. Mr. Watkins advises to “Simplify the structure to the greatest degree possible without compromising core goals”

4. Overestimating your organization's capacity to absorb change
 - We've mentioned this a few times, and David Canter mentioned it in Episode 8 as well – you need to always think about the human element in all of this and not ask your new coworkers to change too much, too rapidly.
5. Lastly, he warns against not adjusting to the STARS situation that you find yourself in with your new firm – let me explain the STARS model, because it's an important part of the book and an important part of his recommendations for leaders coming into a new situation...

STARS is an acronym for five common business situations leaders may find themselves moving into:

Start-up
Turnaround
Accelerated Growth
Realignment
Sustaining Success

The end goal in all five situations is the same: you want a successful and growing business in any of these situations, but the challenges and opportunities vary depending on which situation you are experiencing.

A start-up situation would be a breakaway situation...the COO is charged with assembling the people and technology to get the new business off the ground. We discussed this scenario just recently with Vince Crane and Zack Morris in Episode 51. Employees of a start-up are excited and hopeful, but at the same time, they are likely to be less focused on key issues simply because the vision, strategy, structure, and systems that channel organizational energy are not yet in place.

In a turnaround, you are being asked to take a unit or group that has recognized that it's in deep trouble and they are asking you to get it back on track. Employees here understand that substantial change is necessary, although they may be in disarray and in significant disagreement about what needs to be done. Turning around a failing business requires the leader to cut it down to its core fast and then build it back up.

With an accelerated growth situation, the organization has begun to hit its stride and the hard work of scaling the firm has begun. This is what I think I've walked into here at Coldstream. In an accelerated growth scenario, the leader needs to put structure, process and systems in place to help expand the business.

With a realignment, your challenge is to revitalize a unit, product, process, or project that has been drifting into danger. The biggest challenge for the leader entering this

scenario is to create a sense of urgency...they need to open people's eyes to the fact that a problem actually exists – many of the employees may be in denial.

And lastly, in a sustaining-success situation, you are responsible for preserving the vitality and success that is already in place, and take the firm to the next level. This may sound boring to some COOs, but the real challenge here is making sure the organization doesn't get complacent. You need to understand, at a deep level, what made the business successful in the first place and position it to meet the inevitable challenges that crop up as the organization continues to grow and prosper.

Understanding which STARS situation you are in will dictate what types of actions you will take, both early on, and over the long term. You must establish priorities, define strategy, identify where you can secure early wins, build the right leadership team, and create supporting alliances. And Mr. Watkins is also good to point out that you must ensure your evaluation of the STARS situation matches your boss's evaluation – if you think you're in a turnaround situation and your boss thinks it's a sustaining success scenario, your early actions are going to seem incorrect in his or her eyes.

So again, I highly recommend Michael Watkins' book, "The First 90 Days," for any of you tackling a new job at a new firm. I'm very excited to apply some of the lessons from the book to my new position here at Coldstream Wealth Management, and I'm beyond excited to get back into the COO seat. I have been consulting to RIA COOs for the past 10 years – it sounds crazy to say that – I can't believe a whole decade has gone by! 2 ½ years at Focus Financial, where my Operations position at the holding company had me working closely with the COOs at the various partner firms, and 7 ½ years under the PFI Advisors brand. While I feel I've found the perfect RIA that values and supports the COO role, I still have a huge chip on my shoulder about how the industry approaches the COO position...and all Operations positions, for that matter. While some progress has been made, I still speak with Operations folks every week that tell me their firm still has the mentality of, "If you aren't in a business development role bringing in new clients, you are not a high priority around here." Therefore, I don't intend anything to change about this podcast – I still plan to interview two or three RIA Operations professionals every month and highlight the value they bring to their organizations. We'll talk about how they are approaching the ever-changing RIA landscape, how they tackle their never-ending To Do Lists, and I'll ask them to share any tips and tricks they've learned along the way, similar to what I've tried to do with this episode by providing some guidance for those of you transitioning into a new COO role.

I'm also excited to say that the COO Society isn't going anywhere. I told Coldstream that I need that community more than ever, so the recorded courses and interviews with RIA vendors and service providers are still up to date and I'm still adding additional content to the Discussion Forum and Operations Job Board, and we'll continue to conduct our monthly member meetup to share best practices and to ask

the group for advice on the issues we're facing at our respective firms. You can go to coosociety.com and learn more there – we'd love to have you join the community!

I'd like to say that this podcast will be even better due to the fact I'm now in the COO seat as opposed to consulting to the seat, but my focus has always been on our guests and asking them to share their perspective, with me just throwing in my two cents every once in a while. My goal is to continue to bring you as much value with every episode as possible, and while I want to say it will be even better, the fact is, I don't expect things to change much.

And if you know someone you think I should interview, please let me know! My new email address is matt.sonnen@coldstream.com – feel free to send me a note with suggestions on future guests!

Well that is a wrap here on Episode 52 – thanks for listening, and I look forward to speaking with all of you again soon!