

The COO Roundtable with Matt Sonnen

Episode 58 – Featuring Author Cameron Herold

[00:00:04] **Luke Sonnen.:** Hi, I'm Luke Sonnen. Welcome to *The COO Roundtable* powered by Coldstream Wealth Management. Here's your host, Matt Sonnen.

[00:00:14] **Matt Sonnen:** Welcome, everyone, to a very special edition of *The COO Roundtable*. As you all know, the general format of this podcast is for me, once a month, to interview two RIA operations professionals who are in the trenches and they're doing the job every day. I want to highlight the value they bring to their organizations as well as allow other RIA operations folks to hear not only how others are solving the challenges around efficiency and scalability, but also to let people know that they aren't alone in the struggles they're facing at their firms.

Once in a while, I like to break the standard format and instead of talking to people that are in the trenches, we like to take a step back and speak about the role of the COO. I have an amazing guest today who can do just that. Not only has he sat in the COO seat himself, but he's written a fabulous book directed at CEOs who are contemplating hiring a COO. The book is called *The Second in Command: Unleash the Power of Your COO*. He is also the founder of the COO Alliance, and he has his own podcast directed at COOs, it's called *The Second In Command* podcast. We're going to have a fantastic conversation today with the one and only Cameron Herold. Cameron, welcome to *The COO Roundtable*.

[00:01:26] **Cameron Herold:** Hey, Matt, thanks so much for having me, really looking forward to it.

[00:01:29] **Matt:** Perfect. Well, I blew through your impressive bio, I just provided the cliff notes, but why don't you tell us a little bit about yourself?

[00:01:36] **Cameron:** Sure. I was groomed as an entrepreneur, grew up in an entrepreneurial family. My dad was an entrepreneur. My both sets of grandparents ran their own companies as well. All we ever really knew was entrepreneurship. I was that strange little kid back in the '70s. I had probably 16 different little operational businesses by the time I was 18. When I was 20 years old, I had 12 full-time employees in my business, and I was only in second year university, so I was already running a company and up and going.

I also started coaching entrepreneurs back in 1989, so way before coaching was even the thing. I'd coached 120 entrepreneurs by 1993, so I'd really been around the business coaching space, started building companies with a few different friends. I came in as the second in command for the franchising group of what's now called Gerber Auto Collision in the US and is Boyd Autobody in Canada, it's a \$2 billion revenue company publicly traded now. I was the second in command for 1-800-GOT-JUNK. I was the Chief Operating Officer, helped them grow from 14 employees to 3,100 employees in six years.

Then I also played a de facto second in command role for a house painting company. I opened up the West Coast of the United States for a group called College Pro Painters, so I had 200 employees. I went from 1 to 200 employees in one year. I've been around these operational businesses, typically entrepreneurial. Then when I left 1-800-GOT-JUNK 16 years ago, I started coaching real companies, typically 50 to 500 employees, lots of YPO companies.

I've been paid to speak in 28 countries, and I've been paid to speak on every single continent, including Antarctica. I was paid to speak in Antarctica two years ago, and then six years ago started the COO Alliance as really an exclusive mastermind community for second in commands. You need to do at least \$5 million in revenue just to qualify, our average members are about \$40 million in revenue, and we have members from 17 countries. And then I've written six books and blah, blah, blah.

[00:03:33] Matt: [laughs] Perfect. Well, thank you for that. Listeners to our podcast know the main reason I started this almost five years ago, was the confusion around the COO role in the RIA industry, and in my opinion, the lack of respect that the role garners in our industry. You open your book speaking directly to CEOs and explaining why they need a COO, and you also speak to the difficulty in defining exactly what a COO does, because each company will have different needs for the COO, and each CEO needs to hire for his or her blind spots. Can you talk to us about those difficulties in finding the right person to fill that COO role?

[00:04:12] Cameron: Yes, it's interesting. There're a few parts to this, so the first part is that even as good as I was, as the second in command at 1-800-GOT-JUNK, I would probably be a horrible COO for you. If you're the entrepreneur and running Coldstream, maybe I don't match the skills that you are weak in. Let's say that you are really weak at IT and finance, oh ****, so am I, that's a mismatch. Brian at 1-800-GOT-JUNK happened to be very strong at IT and finance, was not good at the sales and marketing and operations and culture and people side, so I ran everything he was weak at.

I started to learn that the COO or that second in command needs to be really good at all the things that the entrepreneur is not good at. We need to love working on all the areas of the business that the CEO doesn't like working in. It's a very idiosyncratic role and it's a tough hire. The next part is you have to be the right person at the right time or

growth trajectory of that company. Even though I was a perfect COO from \$2 million to \$106 million at 1-800-GOT-JUNK, I would've been the wrong COO to take them to the \$400-million mark. Their current COO has taken them to \$450 million, but he would've been horrible for the first six years because he wasn't as entrepreneurial, didn't understand franchising, and couldn't scale what I was able to scale.

Even though we are the same company with the same CEO, the skillset also has to match the season that the company's in or the growth trajectory that company's in at the time. The first part of the question was, why do CEOs hire a COO? I talked about that in the book. We only start a company for one of three reasons, 1) to give us money, 2) to give us free time so we can do whatever we want; 3) to put a stake in the ground or a flag in the ground to say that we did it, maybe to get that praise that we're still starving for as a student, we're all still 16-year-olds trapped in adult bodies. We're still looking for that praise or the accomplishment to say, "Hey, we did it." Then it's the cash and the money.

Well, at some point our businesses tend to have enough cash coming in, so we keep reinvesting in growth and buying more stuff and hiring more people. We don't need any more cash and we're already taking out of the business, and we've already accomplished it. We feel good about what we've done, and yet we have no life. We're working 50, 60-hour weeks, we're spending all of our time thinking about the business. We're not really spending time with our hobbies or our friends or our spouse or our kids, if we are, we're barely present.

Hiring that second in command can really free up the time to allow you to have a better life, to allow you to enjoy the money that you're earning, to allow you to enjoy the hobbies that you've probably given up or forgotten and the time with friends. Because you're hiring somebody who's really good at all the stuff you're not, it'll probably accelerate the business, anyway, because now you're freeing up your time and you're only working in your unique ability areas. There are all those different reasons, but we tend to get blocked in that reason for hiring, or we hire someone that we can tell what to do, we can delegate everything to them, and they don't necessarily come in with a level of strategic insight or P&L responsibility or autonomy or the ability to scale parts of the business. We end up almost flatlining for a couple of years because we've hired that wrong person.

[00:07:39] Matt: I love everything you just rattled off because I'm asked all the time, "When do I know to hire a COO?" Everyone wants - you know our industry, financial advisors, they want metrics; "at what revenue number, at what EBITDA number, and how many employees?" Actually, I was speaking at a conference earlier this week and I gave this answer very similar to what you said. I said, "Well, I don't really do it based on mathematical metrics. When does stuff feel broken? When are you spending too much time on operational issues and when do you feel like you're not spending enough time

on your clients and prospects, and you need to start delegating to somebody else?" I love everything you said.

[00:08:19] Cameron: Stuff may not even be broken, stuff may be going really well, but wow, what could it be doing if you had that MVP or that partner who could really take it to the next level? Maybe you're going as Jim Collins talks about, from *Good to Great*, maybe everything's running pretty darn well right now. But imagine what it could be doing if you brought in that person that could supercharge the organization. Another lens to look at, you talked about it was, often the CEO has time to manage the business, but they have no time to lead people.

They have time to make sure that stuff's getting done, but they have no time to grow their direct reports or raise their confidence or delegate more to them. They have no time to slow down and take pause and look ahead and be strategic. They're very reactive, even though they're holding it all together and they're getting it all done, imagine if you gave yourself the time to be able to see differently. They talk about these two people that we're told to clearcut a forest, and the one manager is very effectively clearcutting the forest, and the other one climbs up to the tallest tree and says, "Holy ****, we're in the wrong forest." Imagine if you, as a leader, could see your industry and do that.

We often go to events like, we'll go to Million Dollar Round Table, or we'll be around other people in our industry, and we go to industry events, and we learn about how to grow our people from within the industry. What if you, as the entrepreneur, also joined YPO and also joined the Genius Network and also attended War Room? Imagine if you were in three or four different mastermind communities where you could have ideas having sex. You take ideas from War Room and ideas from Genius Network and ideas from TED, and an idea from your industry and those things have an idea baby, and now you can really scale your company. But because you're so busy running the day-to-day, you miss that. It's also important for your second in command, your COO, to get them into a community like the COO Alliance or get your managers and leaders into the ops spot. Get them away from your industry to also learn because you might learn something, how an internet company is doing something and how a healthcare company is doing something, and you may take those two ideas back into your wealth management firm and that's what supercharges your industry, so you're not just doing what everybody else in your industry's already doing.

[00:10:40] Matt: In the book, you quote an old saying which says, "If the rate of change outside your business is greater than the rate of change inside your business, you're going to be out of business." I love it, and I'm going to say it again because I want to make sure people hear it. "If the rate of change outside your business is greater than the rate of change inside your business, you're going to be out of business." I don't think a lot of RIA owners understand that concept. Can you go into a little detail around this amazing quote?

[00:11:09] Cameron: Yes, it's interesting. I also saw a t-shirt when I was traveling around the world 25, 30 years ago now, and it said, "Somewhere right now someone is practicing. When they meet you in a head-to-head competition, they will beat you." I remember going, "Holy ***. That is so true about business." The reality is right now, COVID radically changed companies where people maybe work from home a little bit. Now everybody works from home. At worst case, you're a hybrid organization, but you're certainly not having 100% of your employees come to work. That means you have to learn how to adapt to leveraging technology, building relationships with people that are remote, building relationships and trust, and communication with people you only see for 30 minutes a week. How to ensure people are getting work done and they have the tools at hand, and how to build these hybrid organizations. That is massive change.

We've also got the entire tech stack. We're dealing with stuff like Asana and ActiveCampaign and HubSpot and Trello and Monday and ClickUp, all these different amazing technology tools that can power the business. This iPhone, I can hammer a nail in. It could be a hammer, but it's also a tool that can do a thousand other things if I could get trained on all the other things it does, but I don't see a lot of companies training all their employees on a lot of these technology tools that exist to allow them to work faster. Most people in your industry are like a fly and they're going to try to keep banging their head on the window until they get out.

They're going to keep working harder, banging their head on and they end up dead on the windowsill. Whereas all these technology tools would allow them to realize there's a door, just go out the door. It would allow them to move faster. I think we have to learn the tech stack. AI as an example. People are talking about ChatGPT, that is only one AI tool. There's actually a dashboard called, There's An AI For That, which shows 7,900 other AI tools that exist to do a total of about 3,000 other tasks that ChatGPT doesn't do.

Imagine if you let your team play with those tools to learn how to automate or optimize or make our business faster, but most people, again, don't have time because they're so busy in Slack or in email and managing the day-to-day. I think I've always been a little bit like Andy Grove from Intel who said only the paranoids will survive. I've always really tried to be on the bleeding edge of that, which is why I'm in all these mastermind communities. It's why I invest in this, why I listen to the podcasts I listen to. I'm trying to be way ahead of the flywheel instead of trying to catch up to the flywheel.

[00:13:42] Matt: Part one of the book you define the seven types of COOs, and you don't have to go through all seven, but can you walk through some of them, the types of COOs?

[00:13:50] Cameron: Yes. It's "what types of little boys are there?" There are little boys that like to play with trucks. There're little boys that like sports. There're little boys that

like music, and there're little boys that like playing outdoors. There're different types of little boys. What type of little girls? What types of COOs? You could have a COO that is the executor. Someone you're bringing in to just get **** done. To really get stuff done quickly.

You could have the change agent, someone who's coming into your organization to help you pivot or help you go in a completely different direction. You could have the MVP, maybe it's someone in your company that's the most valuable player, and if you don't move them into that COO role, they're going to quit and go somewhere else. You might have the heir apparent. Maybe this is the person in your company that at some point we know that you're going to be leaving the company. Everybody else knows they're that true heir apparent. Call them what they are.

There's a few different roles and understanding each of the seven distinct roles that the COOs can play, that helps the CEO understand who you should be recruiting and how to articulate what their roles and responsibilities are to the market and to the leadership team and to the inside employees and shareholders and customers, so they understand who this person is and what their roles and responsibilities are, and why we have them in the organization.

[00:15:14] Matt: In your experience as a COO and in all your conversations with COOs, either on your podcast or through the COO Alliance, what advice do you have for those that aspire to be a COO?

[00:15:25] Cameron: Really work on your communication skills; really work on your skills around situational leadership, coaching, delegation, project management, time management, managing conflict. I actually outlined 12 core leadership skills in a course called Invest in Your Leaders, which would be amazing for anybody who wants to grow into a COO role or really anybody who's managing people.

It's working on all the soft skills of leadership that's critical to be a second in command. Your functional areas when you're the head of marketing, you just have to stay ahead of the curve on marketing and be good at managing people, but when you're leading leaders, that's very different. Especially as your company and organization scales, when you go from 100 employees to 300 employees and from 300 to 1,000, you really have to get the strong leadership skills to be able to lead people.

If you're going from 30 employees to 100 people, your leadership team is finally a real leadership team. When you have 30 employees, they're more a management team. They've never done it before. They're trying their best, they're figuring it out as they go, but when you're building an organization to scale a second in command, that COO has to be really good at leading other seasoned people, or you can never be in that command-and-control role. You certainly cannot be the tiebreaker.

One of the issues I have with the book *Traction* and *Rocket Fuel* is they talk about the integrator as being the tiebreaker. That works when you're a 30-person company and you need to be the one to make the decision. But when you're leading leaders, you need to be able to get them to collaborate, get them to debate, get them to look at the facts and really, really get into the arguments and discussions.

Then they have the debate and then come out with consensus, but you're not the tiebreaker. Almost like mom and dad when they tell the seven-year-old, "You'll do it my way because I'm your dad and you're in my house." That works until the kid's 13, and then at some point, they go, "F you dad, I'm moving out of the house." You no longer can be "because it's my house," that you can't leave your grownup children that way anymore. You have to adapt. That's really a core skill for a COO is to learn how to be the leader of leaders.

[00:17:35] Matt: Earlier we were talking about the CEO needs to hire for their blind spots. I think in our industry, in particular, the CEOs, the owners of the RIAs are great financial advisors. They know how to work with their clients. They will admit, "I didn't get into this business to be a manager of people." I think to everything you said, the way I've been saying it, 75% of the COO role is HR, is the way I always say it. It's about managing people because the owners of RIAs typically don't want to be managing people.

[00:18:09] Cameron: Also, it goes from managing people to leading people. They're very different when you're no longer--

[00:18:16] Matt: True.

[00:18:16] Cameron: *Fortune* Magazine asked me in 2003, "How do you hold your people accountable?" I said, "I don't, I hire accountable people." I hire people and then I'll give them the skills and the confidence to do their role. I flip the org chart upside down where I'm below them, supporting them. I'm not managing anyone. I'm sharing the vivid vision with where we're going. I'm giving them the skills and the confidence to roll. I'm helping remove their obstacles, but I'm very much there to support them. I'll hire people that can manage themselves.

I was coaching a client recently and they had four full-time \$150,000 project managers. \$150,000 each, so \$600,000 worth of overhead, and their entire role of those project managers was to manage about 40 people's projects for them. I'm like, "Are you f**king-- You've hired babysitters. You've literally hired \$600,000 worth of babysitters to babysit adults that can't do their own job." We started training these 30 people to manage their own projects, manage their own time, ask for what they needed, and started training the leaders on situational leadership, and got rid of \$600,000 of overhead, and we got rid of about 6 of the 30 people because we actually identified that when we gave people the skills, they could get more done.

We replaced \$1 million in overhead, and that's going to happen every year for the next five years, that million dollars is gone. That's pure profit to the bottom line. That's what a leader will do, is they'll actually look to remove those root cause issues and look to grow people instead of band-aiding it. Most managers would say, "I'll hire another project manager." The leader would come in and say, "I'll get rid of all the project managers, and I'll train people on managing projects."

[00:20:02] Matt: I love it. Well, part two of the book is dedicated to the hiring process, and then part three details how the CEO and the COO are going to work together. I've said on this podcast and on my blog and in countless conversations I've had with frustrated COOs in our industry, I think the failure rate of new COOs at RIAs is about 50%, and that's because the owner of the RIA says all the right things during the interview process, they say, "We need to bring you in to formalize many of our systems and processes, we need you to turn this into a real business."

Once the COO is hired and they start making recommendations, many times that RIA owner objects and says, "Well, we've been pretty successful doing things the way we always have." Then the poor COO realizes that they're a lame duck and that they don't hold a lot of power at the organization, and then they're forced to move on. What recommendations do you have for both RIA owners and/or RIA COOs that can prevent this from happening?

[00:21:03] Cameron: I think it's to look at the fly trying to bang their head on the window and try to get out the window. Most RIA owners are doing that same thing. You will end up down on the windowsill, you will not succeed. Average means that 50% of the companies are below average, and 50% are better than average. To be world-class, to scale like you're scaling, you have to be in the top 5%. Average means you suck. Average means you're getting a 12th place participation ribbon, like average isn't good. We need companies and owners to strive to be better than average and to look outside of their industry to see what others are doing as well.

Most owners miss hire on that second in command because they do too much time talking in the interview and they don't do enough time asking questions and listening and probing and actually interviewing. Here's another scary data point as well. Most owners have never been trained in how to do an interview. You've done thousands of hours and hundreds of hours learning how to be compliant and sell what you sell and yet you've hired people and done interviews of people and you've had no training. I had a CEO recently say, "Well, I've hired about 100 people, so I've done at least 100 interviews." I said, "Maybe you've done all 100 wrong." He went, "Holy ****."

You could go out and hold a golf club and swing it like a baseball bat and maybe hit the ball, but if you were trained and held it properly, you'd be more efficient. Most people have had no training, so they say that it's hard, and yet they have no idea what the hell they're doing. It's like sending a kid off to play little league baseball without teaching

them how to hold the bat and how to catch a ball and how to toss the ball. Johnny would come home and say, "Daddy, baseball sucks." It's like, "No, Johnny, you suck at baseball." Most of the reasons why owners hire the wrong people is they've had no training on how to hire the right people.

Then what they end up doing is they end up not knowing how to manage because they've had no training around situational leadership or coaching or delegation or time management or running one-on-one meet. Most people are horribly adept at running a company. It's why guys like me can scale businesses so quickly is because all we've ever focused on are the leadership skills to actually scale. Most people that are professionals, whether you're doctors or chiropractors or lawyers or dentists that go off and build their dental firm or go off and build their doctor's practice, go off and build a law firm, have had no training on how to be in business. All I ever did was run businesses; I don't have any professional designations.

My real professional designation would be building the operation side of a business. I think entrepreneurs can get out of their way and recognize that-- it's like when we get into a taxi and the taxi driver or the Uber driver says, "Do you care which way I go?" It's like, "No, go ahead." When our spouse is driving, we try to tell them which way to go all the time. We need to stop telling the COO how to grow our company and hire the right COO who knows how to grow our company, to free us up to do the two or three things that we're amazing at so that the company scales and we can do more of what we're already great at.

[00:24:10] Matt: To that end, the appendix of your book provides an exceptional COO scorecard. We were just talking about all the things the CEO needs to learn how to do, I think the other thing that RIAs struggle with is, okay, I've hired this person because I wanted to delegate to them, but I have no idea what they should be doing, and I have no idea of how to figure out if they're doing it well. Talk to us about the COO scorecard.

[00:24:36] Cameron: If people want the scorecard, they can actually go to the [COO Alliance website](#), and then if you go to the second tab on the website, which is info for CEOs, right at the very top is the actual scorecard and you can rate the skills of your second in command in that survey. What we identified by running the COO Alliance was that all of our different second in commands tended to be strong or weak in areas that other members were strong or weak at. We started to identify there were about eight core areas that you had to be really good at as a second in command to be effective and we were always having to continue to grow that.

Let's say that you rated yourself today on those eight areas and you rated very well. Well, if your company doubles in size over the next three years, your skill at most of those areas has got to continue to improve as well. We have our COO Alliance members rate themselves every three to six months on the same eight areas that you can rate your COO on today as well.

[00:25:40] **Matt:** We'll definitely link to that [survey](#). We're going to absolutely [link](#) to your book as well. You're the expert here. I'm going to just throw it out too. What have I not asked you? What else should we be talking about in terms of either the skill sets the CEOs need or what they should be looking for from a COO? What have I not asked you?

[00:26:02] **Cameron:** It's not even that you missed on a question either. I think there's an opportunity, though, to talk about when the party's over. How do you know when it's time to get that next second in command? I think it's almost like a marriage that ends in divorce, the divorce can end and both people can move on and have great relationships and maybe even have a great relationship with each other and honor that time that they were married and then you go to your second marriage, and you create something different or better. I think at the end of the day, an organization at some point as it evolves, has to replace that second in command.

When we were scaling, 1-800-GOT-JUNK, again, we took the company from \$2 million to \$106 million in six years. It's massive growth. We doubled the size of the revenue six consecutive years in a row. By year five, four of the five members of the leadership team had been replaced. The head of the call center had been replaced, head of finance had been replaced, the head of IT had been replaced, the head of franchise sales had been replaced, and then I was the 5th of the five to get replaced. Because I couldn't continue to scale the company, I was starting to pull my hair out. We had 13 operating P&Ls. We were operating in 330 cities, 46 states, it was just four countries. It was just a big company.

We had 250 people at the head office and 3,000 system-wide. I leave the company, Brian told me it was the right time to go, and I agreed, and we both cried all morning, and a year later they found my replacement and she'd been the former president of Starbucks, USA. She walks in and says, "What a cute little company." Now, the reality was, it was the right time for me to go. It wasn't necessarily done in the right way, but you have to recognize that at times you have to actually make those tough decisions and confront the brutal facts and recognize that the company has to continue to scale, and you have to replace people and do it in the right way.

We identified that a mid-level to a senior level manager can only be with their role, in their role for two doubles before it's too hard to run the 3rd double. If you come in as the head of marketing and you're doing \$5 million in revenue and you take it to \$10 [million], you can still be the head of marketing. You take it to \$20 [million], you can probably still be the head of marketing, but it's going to be hard for you to be the head of marketing at \$40 [million]. That company's now eight times bigger on its 3rd double. That was something that we identified. I talked to the founder of Infusionsoft, Clate Mask. He agreed on that number and then Ben Horowitz, who wrote *The Hard Thing About Hard Things*, talks about one triple, which is effectively a nine-bagger.

You can't do two triples, you can't do three doubles. It's looking at your organization and making sure that you're identifying that, well, while we continue to double, we have to keep growing the skills of our people. Put them into the ops spot, put them in the Invest in Your Leader's course. Get them mentors, get them coaches, whatever, keep growing their skills. After the company doubles twice, they're probably going to get to report to someone that comes in over top of them or they're just going to have to be a full-on replacement.

[00:29:17] Matt: I think in our industry also very small businesses, and I think just loyalty people, the owners hung up on loyalty and you do have to make that hard decision sometimes of either getting rid of them altogether or getting them into a different role. I'm glad you brought that up because I think a lot of RIAs struggle with that, for sure.

[00:29:39] Cameron: Yes.

[00:29:39] Matt: Well, this has been a real thrill for me. I told you, Cameron, that I had read your book and really enjoyed it, and while reading it and taking notes and flagging things, I never thought I would actually have the opportunity to interview about these concepts. I can't thank you enough for being here today.

[00:29:54] Cameron: You're welcome. Really glad to be here. Thanks for sharing.

[00:29:58] Matt: Well, that is a wrap on episode 58. We will talk to all of you soon.

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[00:30:18] [END OF AUDIO]