

## MANAGING YOUR PRACTICE: A DIMENSIONAL PODCAST SERIES

# What Makes Diamond Teams Shine?

**Catherine Williams:** Hey, everyone, thank you for joining us today. You know, whether you're an advisor with one or two team members or large ensemble practice, how you structure your teams can inform your client experience, articulate career pathing opportunities, and even denote how key decisions in the business are made. My practice management team and I here at Dimensional are routinely asked about the optimal team structure for growing or established firms. And while there are a few ways to think about this, the one that we are asked about the most is incredibly popular, diamond team structure. Diamond Teams was created by Angie Herbers. And so I'm thrilled to have Angie with us today to talk about this particular team construct, why it's effective and how to go about implementing it within your organization. Welcome, Angie. It's great to have you with us today.

**Angie Herbers:** Thanks so much for having me. It's nice to be here.

**Catherine Williams:** Well, for the few people listening today who may not know who you are, I will share with our audience that Angie is founder and managing partner of Herbers and Company. Herbers and Company is a global consulting firm focused primarily on financial advisory firms. And so for over really nearly two decades, Angie has been delivering consulting, research, training to business leaders and their teams. So if anyone can speak to not only the importance of having the right structure in place, but how it can really create an optimal organization, I think it's definitely you. So really looking forward to our discussion today.

**Angie Herbers:** Yeah, me, too, I'm just glad to be here to share with advisors during a pivotal time in history how they can make their teams and cultures better for the benefit of their firms and helping clients.

**Catherine Williams:** It really is a pivotal time and we're going to talk a little bit for sure about what, you know, even the last 15 months has meant for so many organizations and how even this diamond team structure could potentially serve. I will offer as well that for many of the advisers that we work with, this is this is an evolutionary process. And we're often having this conversation with firms that are 10, 15, 20 years old, as much as we are with firms that are still very new in their business cycles. Angie, I'd love to start with a little bit of the why, you know, why is team structure important in general and how can it really ultimately support an organization?

**Angie Herbers:** Well, let's just start at the top of, you know, why an organization exists. So generally we have an advisory firm and it exists to grow, to serve more clients. So when you start out as one advisor, there is a point where you reach capacity in the number of clients that you can work with. And as a result of that, if you continue to grow your firm or even become quite a large firm, then it requires many other advisors. And so naturally, as a business is growing, it evolves into a team structure. Where teams break down, though, is how the teams are structured, which is why Diamond Teams is so pivotal in the industry and why advisory firms like the structure of Diamond Teams. Because it says teams are needed as you grow to expand capacity and here's how you structure a high functioning team. And that helps with increasing revenue, increasing profit, increasing valuation, servicing more clients, a more diverse set of clients, regardless of what their AUM is. And it expands and grows from there. At its core, it's about expanding capacity. What you can do on your own is not what you can do with the power of four. You can do a whole lot more.

**Catherine Williams:** And so, as you think about the this the diamond structure, which is that single senior advisor, you have two lead advisors and one associate advisor. What led you to come up with that particular structure? As I mentioned earlier, there are a lot of different ways to think about team structure, and this is a particularly compelling one.

**Angie Herbers:** Well, I think it's important we have some history here. So I graduated from a CFP registered program at Kansas State University, so I have a four-year degree in personal finance. And what you learn is that the industry doesn't always know that there are hundreds of thousands of students coming out of four-year college programs that have the technical knowledge of personal finance. So Diamond Teams was built to how do we accommodate all of these students that are coming out of CFP registered programs and get them trained as fast as a firm is growing. So in other words, how do you take a 23-year-old and put them in front of a 55-year-old client and get that client to trust them? That's a training program. And training programs are built out of great organizational strategies. So Diamond Teams started as a career path. How do we take a young advisor who is technically trained and move them up to a lead advisor or sometimes now called service advisors and then ultimately move them up to senior advisors, sometimes called relationship managers now, to work with clients quickly? And Diamond Teams came out of that. Diamond Teams transformed the associate advisor function from coming into an organization and spending years learning technical knowledge that was already learned in college and instead allowed for a structure to learn communication. How do you communicate to a client and how do you convince a client? Very much like a young doctor might have to convince a patient that they can be trusted. And while Diamond Teams seems simple in concept, it was years for us to figure out that structure and how we could move young advisors, those graduates up a career track quickly. We now know we can move them up a career track to a lead advisor in 18 months, which helps significantly when we have fast growing firms.

**Catherine Williams:** Yeah, and do you often see with the lead the one of the key differences, if you will, between what we as well often refer to as a service advisor and the lead advisor relative to those rainmaking responsibilities of business development responsibilities? Is that a differentiator or is this more about the technical acumen to engage with existing clients?

**Angie Herbers:** Well, interestingly enough, while this wasn't the intent at the time, the diamond team structure eliminated the need for a rainmaker. Because what happens is when you get people teamed up, the service automatically becomes better because it's not dependent upon one advisor. It's dependent upon four advisors working together. Four advisors that just happen to be at different differing experience levels. When you have four advisors working together, service automatically increases. So what we saw, again, this wasn't the intent of Diamond Teams, but what we saw is as those four advisors were working with the clients, the client referral rate, or the CRR as we call it in consulting, started to increase quite rapidly. And when that referral rate started to increase rapidly, it just became necessary that all of those advisors were servicing the referrals that were coming into the practices. And we didn't have a need for a rainmaking function. That allowed then the business to build what we would consider a true marketing program within the business. And so when we have great marketing strategies and great service, then why do we need to find the rare rainmaker or even create one? So Diamond Teams help to tear down that mentality that rainmaking was necessary.

**Catherine Williams:** That makes sense. I like that perspective. So I had an advisor the other day ask me, they are a smaller organization growing rapidly. He knows that he will be adding talent onto into his organization pretty frequently for the next couple of years at least. But right now, as he'd like to start moving in the direction of Diamond Teams. But he has, as he joked, he only has half a diamond, you know, from a headcount standpoint. So do the concepts of the diamond team structure work, even if you are perhaps not at a size or scale where you've got the associate, the service and the lead advisor already lined up or two service advisors, I should say. What are your thoughts on that?

**Angie Herbers:** Well, it's not feasible from a resource standpoint for a firm to just go out and hire four people and put it into a diamond team. I mean, you don't want to carry that much expense. So the goal is to evolve into it, not necessarily go out and create it and start generating client referrals, right. We don't want to hire four people and call it a day. That's not the goal.

**Catherine Williams:** Right.

**Angie Herbers:** The goal would be for smaller firms, if you are you know, if you are a senior advisor and you're growing rapidly and you need additional advisory talent, then you would hire a lead advisor. And then once that, you know, the two of you get at capacity, then you would hire another lead advisor and then you would hire an associate advisor or keep hiring lead advisors until the growth slows down and then back it up with associate advisors. So we have firms that grow very rapidly and we might have five or six unfinished Diamond Teams, if you will. And when the growth slows, then we'll speed it up by layering on all of those associate advisors. So the goal isn't necessarily to build out one diamond team, although that that's nice to have. The goal is to keep the growth going underneath the diamond team structure and then fill up the Diamond Teams as needed. I do want to point out that if it is a fast growing firm, you know, many advisors go about it, when they have high growth, they go about it by filling in with a lot of associate advisors. So they'll go out and hire the young talent as opposed to hiring lead advisors. I think that that feels more safe for them both from a salary and compensation standpoint. But it is far better to go if you're a fast growing firm, you go top down on the diamond team, senior advisor, lead advisor, the lead advisors and then associates. But if you're slow growing, you go bottom up. So senior advisor, associate advisor, they move up to a lead advisor, another associate advisor. So depending on your growth rate in your firm, what your goals are, what you are trying to accomplish, the diamond team can move with you. And I think that that's the beauty of the structure. There's lots of options for many different types of firms.

**Catherine Williams:** I think that's a great distinction in terms of in what scenario do you build that team from the bottom up versus you really should start at the top. Because I agree with you, we certainly in our work with advisors where we hear a really strong appetite for hiring these associate advisors. And then, you know, inevitably they're maybe coming back to us and saying, well, wait a second now I've got this gap between the associate advisor and our senior advisor. I need to fill that gap for a lot of different reasons. But also, you know, uh oh, now I'm a little bit over a barrel on the on how to do this. That's a really great distinction.

**Angie Herbers:** Right. I think it's important for firms to understand that if they're at capacity and they still have good growth rates, meaning good client referrals or even a very strong rainmaker that may have started the business, that it's often better to go out and hire already trained talent to continue pushing that growth rate forward and then layer on the associate advisor talent and develop that up.

**Catherine Williams:** Are there times or circumstances where you see a firm is implementing or has implemented the diamond team structure, but something's not quite gelling and it's not it's not quite there, they've not reached that optimal efficiency. There's something about the structure that's not quite coming together. If you've seen that, what might be some of those reasons or some of those some of the causes of that?

**Angie Herbers:** Yes, there are two main reasons why the diamond team structure falls down in firms. The first reason is a cultural reason. The easiest way for me to say this is Diamond Teams was designed also in human science. And human science says that if you encourage those around you and you lift them up and you use encouraging words versus telling people what to do or barking orders to say it bluntly, then you'll get the best out of people. But not all leaders, I mean, let's just be honest, not all leaders operate like that. Diamond Teams was designed to develop an encouraging culture. So if that's not the kind of culture that

you are or that you want and I don't want to say that there's anything right or wrong about either culture, then Diamond Teams is not going to work for you. It's not designed to be a hierarchy. It's designed to help each other. The way that I describe it is a diamond team looks like a baseball field, but the senior advisor is not the most important person on the field. Everybody in all the positions are equally as important and are just doing different types of work. So high management or micromanagement and Diamond Teams won't work. We have to have an encouraging culture. For those firms that just don't want to manage that way or prefer a little bit more control, you can build or Herbers and Company has built, many different structures to accommodate that. So that's the first reason why they don't work.

The second reason they don't work is solely on the associate advisor function. And I want to be very clear about that function. There has been some misunderstanding in the industry about what that associate advisor does, and I think it has to do with the title associate advisor. In the past, associate advisors came into the firm and they did a lot of behind the scenes work. So they would create a financial plan, they would gather information, prep for the meetings, put the agenda together, attend a meeting, do the follow up work after that. In addition to that, some associate advisors also did what we would consider client service work. So they would open up the accounts, do the account paperwork. To us, the service work is non advisory in nature. You don't need a professional degree or a professional licensing to do the service work. When you're giving advice, you do need professional licensing or a good background, however you view it in the industry, on how to give that advice and give those that those recommendations within, you know, being compliant. So the diamond team associate advisor only does two functions. They don't do a lot of that technical work.

**Angie Herbers:** They don't do the client service work. What they do is they observe client meetings and coordinate the work. So they're in a client meeting giving low level recommendations and financial, financial and investment advice. They aren't filling out paperwork. They aren't necessarily inputting data into a financial plan. They're observing and giving advice. So when we look at a diamond team that has been stood up in a DIY type of situation where someone has read our white paper, download the white paper, read the white paper and or even reached out to Herbers and Company Academy and done some of our training videos. And they come back and say, hey, this isn't working for us. We're going to ask them, what are you having your associate advisor do? Because it's designed to give advice, not do a whole lot of that work behind the scenes. So the goal of Diamond Teams is those teams give advice recommendations that requires professional licensing, that requires an understanding on how to communicate with the client. And once that communication is learned, then we can layer in more of the technical stuff. Many people train in the opposite way. They layer in the technical stuff, the technical knowledge, and then communication comes later. We've sped up the training process just by reversing that formula.

**Catherine Williams:** And so then just to kind of fill that out, if you will, for our listeners today, what sort of the rest of the organization outside of that diamond team structure is where you have the dedicated client service associate, the para planner? You know, certainly, you know, the operations portfolio management, perhaps even. Right. Those are sitting outside of that diamond team. And that associate advisor is actually someone really critical to engaging with those other teams, those other more centralized functions within the business. Is that an accurate statement or feel free to push back?

**Angie Herbers:** It's hard to explain because we have so many different sizes of firms and all of these functions have to be played at some level in all firms, but I'm just going to go all the way up to the large organizations. In the large organizations with Diamond Teams, that associate advisor's an air traffic controller. They're giving advice and then coordinating the work that needs to be done between a centralized financial planning department, a centralized client service department, and in some cases, if the investment management isn't outsourced, then a centralized investment management division. Now, that's a really large organization. When you get down into the mid-sized firms or the small firms, the question

becomes is if you don't have centralized financial planning or a centralized client service or in most cases that the investment management might be outsourced. But if you don't have those departments already, then who's going to do the work? And that's where I think that many firms get confused about what the associate advisor does. What we have learned is in the mid-sized organizations and the small organizations, we leave a lot of the planning, not the data gathering, meaning the paperwork, but we leave a lot of the creation of financial plans on the plate of the lead advisors. And the diamond team allows for enough space for that to happen because we're not overwhelming lead advisors, meaning we don't have lead advisors who are carrying 300 clients

**Catherine Williams:** Right.

**Angie Herbers:** And are overwhelmed. So they have plenty of space to handle the clients within the team that they are responsible for and are sharing with other people. And they can the lead advisors can very much help them help themselves out while giving advice to the client. The associate comes in their learning and move to a lead position very quickly. And as the firm grows, then you build out those financial planning departments and centralize client service departments.

**Catherine Williams:** Would you say that an organization that is leveraging the diamond team structure, that that those teams over time anyway, have greater capacity, they can actually handle a higher number? And I want to put all the usual caveats around that and that it depends on the size, the complexity of the clients, the services you're offering. But in general, do you find that that does, in fact, allow for capacity in ways that perhaps a more traditional house structure or even siloed team approach does within these organizations?

**Angie Herbers:** Yes, Diamond Teams does expand capacity significantly, it gives us scale within the client relationships, particularly in AUM models. But, and there's a big caveat here, what we see is when a Diamond Teams initially get built in firms, you know, especially if they're being built again on DIY, that there is space. We've created, you know, some space and that capacity isn't necessarily filled up. And then what advisors will do or leaders oftentimes begin to do is they add more service to the client relationship. So the I would say the downfall of Diamond Teams is it does expand capacity. It allows you to allows you to work with more clients. But if your capacity is expanding faster than you are growing, you know, go play some golf because adding additional service to an already great service model is not increasing the retention rate of clients. It's just increasing the work that is being done for the clients. And then we run out of capacity again. So the fear of Diamond Teams when they are actually working well, and what Herbers and Company watches in the ones that we help stand up, is at what point is over-servicing happening?

**Catherine Williams:** Now, because I think to your point, if you're not careful, especially in that sort of that DIY approach, you will inevitably end up with a high level of inefficiencies, lack of capacity. You certainly have to kind of end up having to sort of break it back down, if you will, to then rebuild it again versus, you know, being patient and allowing for that breathing space within those teams as they're being created. That definitely makes sense.

**Angie Herbers:** Yes, I mean, human behavior is, is when there is space, we're going to find something to fill it with. And if you're building a good diamond team structure, there is a gap. And you have to, I mean assuming you're not growing as fast as you want to grow, but there is a gap and we need to mind the gap and take a break. And those breaks are important because as a firm grows, we don't want to burn out advisors either. So enjoy it while it lasts.

**Catherine Williams:** You created the Diamond Teams back in 2013. Hard to believe, but that was, you know, a few years ago at this point. I mean, we've--

**Angie Herbers:** Yes.

**Catherine Williams:** We've come so far.

**Angie Herbers:** I know.

**Catherine Williams:** And we've particularly as we've gone through these last 15 months and really, more importantly, I would say, look forward to what I think will you know, I think for many organizations, the landscape is permanently changed relative to how people are operating, how they're functioning day to day. What have you seen relative to the diamond team structure, how it's maybe supported the last 15 months, will support how firms will operate going forward? Or is it, you know, kind of agnostic, if you will, to remote working, you know, folks maybe being spread out geographically, those kinds of things. I'm curious your take on that.

**Angie Herbers:** Well, the pandemic was very interesting for Herbers and Company to watch as it related to Diamond Teams. Diamond Teams when it was first launched in 2013, had a big it was a big hit. I think the industry was just wanting a good career track. When the pandemic happened, it just exponentially grew. And my story is that when you're in the virtual environment and you are siloed or soloed out there on your own, there is just want to have help and want to have a team around you. What we saw in the pandemic is a massive movement of solo advisors who said that they were always going to be solo, and siloed advisors who loved being siloed and said they were going to stay siloed, move quickly and rapidly toward ensemble structures. So the pandemic for Herbers and Company and for Diamond Teams was a massive shift to ensemble structures. And I believe that that is why we will see the once the industry studies come out, Dimensional probably has more information on this than I do at this time, but that's why I think that we saw great growth in the advisory industry over 2020.

It finally became about how do we organize people into groups that enhance each other and encourage each other, as opposed to what has been traditionally about how much money do we get, which is a you know, a siloed structure is very much here's your payout and you service your clients and build your client base on your own. And what we found in the pandemic is the team structures were now highly desired and they work.

**Catherine Williams:** I would say we have seen the same thing. As we've looked at characteristics of faster growing firms, firms that have high employee retention rates, high client retention rates, one of the characteristics that we often see is that team structure. They've gotten really purposeful about how to put those teams together to create career pathing and really opportunity for their young talent to create and deliver a consistent client experience and honestly, to perhaps better even manage profitability. And I think those firms were able to weather, if you will, what continued to be a lot of growth in 2020. Certainly, there was a lot of talent moving around as well, too. And the organizations that could help folks see themselves long term could see a path for growth, could see themselves being part of a team as opposed to a solo endeavor, even if they were sitting by themselves in their living room at home. They still had the sense that they were, you know, part of a team. All of those things really kicked in for a lot of those organizations.

**Angie Herbers:** I think the firms that won in the pandemic and are continuing to win did put a big focus on teams. I mean, just look at the trends. In Q1 2021, we had the largest turnover of service advisors in the industry across the industry. And where are those advisors going? Some are starting their own firms, but many of them are going to ensemble team-based firms. And, you know, key business principle, when you

can win the talent, you can win the clients. And I think that this the pandemic sped up a move toward an ensemble type of firm, but it also made aware the benefits of teaming versus being alone.

**Catherine Williams:** So one last question before we wrap our time today, and we've touched a little bit on this already, but if you're an advisor listening, who is not currently leveraging the diamond team structure but and has an existing organization, would like to begin moving in that direction. What's one of the first things that they can do as they go back into their business to begin making that change.

**Angie Herbers:** Well, it's always hard to say because, you know, every firm is different and there's, you know, the starting points are so different across every firm. But I would start with a very simple question. And that question is, what can we do better? And as simple and as general as that question is, almost always the answer is better communication and better communication begins with organizational strategy. And once you figure out your organizational strategy, who's in what seats, how those seats are communicating across your organization, I think what many advisory firms will find is you increase the flow of communication, you increase the training, then you will naturally move into Diamond Teams, which is exactly how we discovered Diamond Teams. We just increased the communication in the advisory firms that we were working with and the trend happened to be that they started to organize themselves in diamonds.

**Catherine Williams:** Well, thank you for letting me put you on the spot a little bit with that last question, and I think that's a fantastic note to end on. Angie, thank you so much for joining us today. And I want to remind our listeners that they can certainly connect with you on LinkedIn and other social media platforms. AngieHerbers.com is absolutely a great way to learn more about you and your great team there in the work they're doing with advisors. I also want to encourage our listeners that if they wanted to know more about Dimensional, check us out at Dimensional.com. You can see how we're working with advisors and investment professionals there. But Angie, thanks for joining us today. It was great to speak with you.

**Angie Herbers:** Thanks for having me. It was fun.

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