



Silicon Valley Bank: Too Focused to Fail?

It's all Trump's fault. No, Biden's! Why not blame it on Alexander Hamilton? One thing is metaphysically certain: I bear no responsibility for the SVB collapse.

As a customer for over three decades, I have deposited many rounds of venture capital in the bank. SVB financed receivables for many of my companies, and they helped me manage through many inflection points. Most importantly, they helped me both buy and sell companies. When times were tough, they were always there for me.

Someone has to take the responsibility for the current problem though, and it's not going to be boards. All across the country, CEOs look coldly at their CFOs. The CFOs? They already fired all their consultants and, well, it's lonely at the top. Roll out the guillotine and let's get on with it. After all, sometimes business is just theater with sharp objects.

Despite the size of the fiasco, things have resolved quickly. Bank accounts at accredited institutions used to be guaranteed by the Federal Deposit Insurance Company (FDIC) for up to \$250,000. After that, depositors were on their own. Estimates indicate that more

than 90 percent of SVB accounts were over the limit and thus uninsured.

In its wisdom and to much acclaim, the federal government decided to extend FDIC protection to all SVB accounts regardless of size.

The decision to make uninsured depositors whole through government action is a serious one. It is hard to be a nation of laws when the rules are situationally elastic.

Fifteen years ago, the US faced a financial meltdown. Lehman Brothers failed. The US Federal Government bailed out other major banks that were deemed "too big to fail." It seemed like a good idea at the time.

Today's challenge is a bit different. Silicon Valley Bank, at its peak, had roughly \$212B in assets. That's a lot of money, but it is less than six percent of the country's largest bank JPMorgan Chase. In 2008, trillions were at risk and the financial system was on the brink.

So why SVB?

Is the new definition of “too big” now “a largish, politically connected bank with a lot of caché?” Or have should we begin to speak of “too focused to fail.”

Put aside all the politics, the bank was the financial home of America’s golden goose. It funded many of today’s most important tech companies with a sharp focus on what was next.

When observers discuss the bank’s failure they turn to SVB’s bond position and the long-term low interest rates that made it perilous during a time of inflation. The resulting weakness on the company’s balance sheet led to a run by savvy depositors.

The deeper reason is that SVB turned out to be too highly focused on a specific market segment. It is the most important area of the economy, but a highly concentrated one. High tech may take many forms but it is a highly specialized space. Focusing in this unique area made SVB important well beyond the size of it’s assets.

One thing successful entrepreneurs learn early on is that focus is king. The key to rapid growth and significant profit is to do a few, important things better than anyone else.

At some point, focus must broaden. To continue to grow it is important to extend a successful business to new areas. They must be near enough to the core business to leverage the firm’s strengths but distant enough to both create new opportunities and diversify risk. For SVB, expanding into venture debt, investment banking, and wealth management turned out to be too close to home.

No bank in modern times learned the first half of the focus lesson better than SVB. The company’s downfall indicates that it fell short on the second.

If there were a simple set of rules or a single algorithm that told companies how to diversify, everyone would be rich. SVB did many things well, but it didn’t find the right equation. As the mensch of high tech, it seems like they could have done better.

About MSP

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We have addressed a variety of inflection points across small, medium, and global companies. We have been there, and more importantly, taken companies to the next level organically and through mergers and acquisition

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