

COLUMNS

Could Silicon Valley Bank's collapse affect luxury brands seeking funding?

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The collapse of Silicon Valley Bank (SVB) is leaving a stain on the banking industry and inducing anxiety to startup founders.

Many people are speculating about whether SVB's collapse, as well as others, was due to investing in the unknown startups and small nonprofits. But a simple look at SVB's internal investments paints a picture of a bank that put too many eggs in the proverbial basket.

As all consumers are intimately aware, interest rates have been near zero for years.

Betting on the future of low interest rates, SVB purchased several long-term bonds. As the government raised rates to combat inflation and stabilize the economy, SVB's investments turned risky.

To cut its losses, SVB was forced to sell those bonds at a loss.

Although fully aware of its poor investment decision, SVB continued generously lending money to startups.

As a condition of the loan, many startups were obligated to keep nearly the entirety of their money at SVB. But the economy was starting to slow down.

The increased interest rates sent borrowing costs higher, resulting in more expensive repayment of debts. Those deposits, therefore, were burning faster than anticipated.

Some startups also struggled to raise additional funding, drawing down further on funds held at SVB. Many banking customers panicked and withdrew their monies from SVB.

What lessons can be learned from these events and what can luxury brands and others do now?

For companies who have outstanding loans or pending loan applications from SVB

Many people are considering withdrawing their money from SVB. Prior to doing so, you should discuss with your attorney whether doing so would violate your loan agreement, or worse, trigger a default of the loan.

Placing a bank in receivership is serious and customers should be wary of taking any actions that are not business as usual.

Companies who are waiting for loans to be processed may want to explore alternative options. Even if the SVB loan consummates, it will be delayed. How urgent is the need for access to funds?

For companies who are going to seek funding for the first or second time from another bank

Hindsight is 20:20. Founders of luxury businesses are encouraged to look through the rear window for several lessons:

Diversify. It is difficult to have accounts in more than one bank because of cash flow issues and administrative burdens.

However, more than one bank relationship will prove valuable long-term and your company may benefit from various deposit interest rates and varied transactional fees.

Slow your burn. Assess your hiring needs with a view toward efficiency and profit maximization rather than revenue growth.

Review your cost of goods sold: Do you know with clear certainty your true costs? How about your customer acquisition spend? Are you spending more on customer acquisition than your average customer spends with you?

Hire smart. How many employees do you need in a specific department? Are you using hyper-specialists that require you to hire a greater number of people?

Grow naturally. The market is your loudest cheerleader or antagonist.

When consumers spend more, they are signaling you to do the same hire more people, purchase additional product or obtain a loan.

Determine your value. This is a play on words. I do not mean value, as in fair market value. I am suggesting that you determine what is valuable to you as the founder is growth of optimal importance, profit ranked highest, product manufacturing ranks first?

With limited funds, they must be earmarked properly. Defining your value will help with budgeting.

THE RECEIVERSHIPS SPELL trouble ahead for the banking industry and the small businesses they support.

With judicious planning and diversification of financial loyalty, companies may be less scathed when the next collapse occurs.

When Washington Mutual, Lehman Brothers and Bear Stearns closed their doors, few thought we would live to see another bank close its doors. A mere 15 years later, more collapses are occurring.

If history repeats itself, as it often does, entrepreneurs may find themselves living through four sets of bank collapses in their working lifetimes.

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