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Modern Prosperity in Commercial Banking

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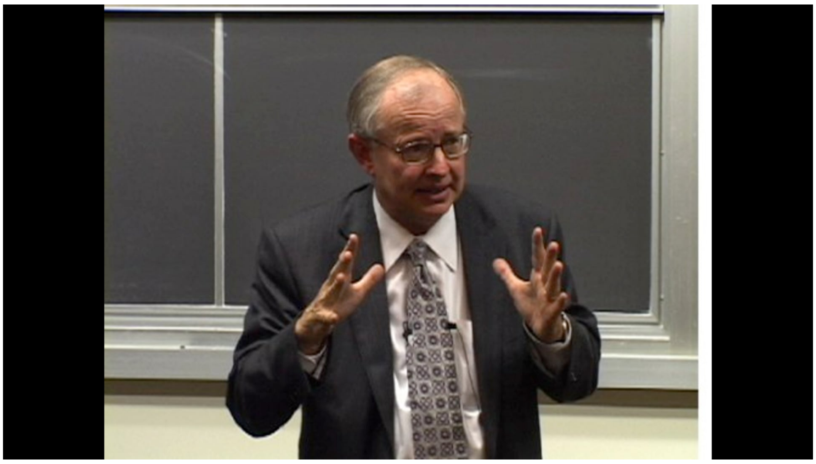
Under Ken Wilcox's tutelage as CEO, Silicon Valley Bank has cashed in on a winning hand. He added a broker dealer of money market accounts to their existing commercial banking services with huge success. The bank now focuses exclusively on technology clients (save for a few holdovers from the premium wine vertical), and they've expanded their product suite to cater to this unique market appropriately. The institution altered its efforts to retain larger customers longer, and worldwide.



Transcript

Because I came out in '97, but then become CEO until 2001, I became CEO in April of 2001 when we officially recognize that the recession had begun.. The first thing my team did was decide what we were going to do with the massive unused deposits because we didn't want to lend them the real estate developers.. We didn't want them to lend them to underserved niches, but we had to do something with them.. So we got this brilliant idea.. In retrospective, it's still sort of brilliant.. And that is instead of letting people put these things on our balance sheet, we would open a broker-dealer.. And we have two operations.. We have our commercial bank and we have our broker-dealer and we would tell people, "Put some money on our balance sheet so you can pay your bills with your checking account.. Take the rest of it and put it in the broker-dealer where we'll buy money market instruments for you, you know, things like CDs and commercial paper and stuff like that, and everybody is better off because you'll get a higher rate of return in the broker-dealer and it will be safer.. It's always safer to lend money to General Motors than it is to give it to us and let us lend it to technology companies." Well, that was true once..

Today, that's probably not true, but you get the idea.. And then we told them to put just enough on our balance sheet so they can pay their bills and their checking account and it would be just enough for us to fund our loans so that we wouldn't have excess deposits on our balance sheet.. And that has actually worked miraculously well.. That broker-dealer is just fantastic.. We're a $7 billion bank.. The broker-dealer has 22 billion in it and it makes a lot of money.. It makes clients happy.. It makes shareholders happy.. It makes all of us at Silicon Valley Bank happy.. So that was a good idea..

Pretty much, I could get into the sell-aways in which it wasn't brilliant, but no.. Save that.. That's the history of our strategy.. Now, I'd like to give you the four points of our strategy today, and then I'll move directly into culture.. Once we've made that decision, we made four or five other decisions and they have formed the basis of our strategy ever since.. The first decision was that we're going to focus exclusively on technology.. We're going to drop everything having to do with real estate.. We're going to drop everything having to do with underserved niches and focus exclusively on technology.. So today, we're the most focused bank in the country.. 95 % of everything we do involves technology companies or life sciences companies or venture capital funds or private equity firms..

The other 5 % by the way, is the only underserved niche we kept, and that's was premium wine.. And that's a nice niche in some regards, but it's not a very profitable niche.. But it's small enough that nobody can be upset that we continued to pursue it and many of the VCs drink wine.. And many of the technology executives drink wine.. So it has a little bit, but that argument is pretty flimsy because they also drive BMWs and we're not trying to finance BMWs.. We keep that and 95 % of everything we do is technology.. So then that's decision number two.. First one was a broker-dealer.. Use the excess deposits appropriately.. Second one was focusing on technology..

The third one was to expand our product set so that we can do anything for this world of venture-backed technology companies that would be useful to them as long as they'll pay for it.. They have to pay for it because in the end the shareholders have to be happy.. That's number three.. Number four is to keep companies longer.. And I want to be really explicit here because it's still true that almost all of our new business development efforts are directed at tiny companies that are just getting started.. Because what we want to do is bring these companies into our portfolio even prior to their obtaining venture capital.. So we tried to get to these companies and bring them in literally, just a couple of people and an idea or a business plan.. But we tried to keep them now as long as we can.. Up until 2001 when they got to about 20, 25 million in sales, we would let them drift off to Vevay or to Wells Fargo.. First of all, it was kind of a necessity in that era because we didn't have enough products to keep them happy as they grew..

But it was also a horrible idea because when companies are small and you're nursing them along and trying to help them, you feel very good about it because it's wonderful to help entrepreneurs succeed.. But you don't have much money because they don't buy a lot because they're too small to buy much.. And so what we were doing is nursing them along until they got just big enough to buy something and then we let them go to Vevay and Wells Fargo.. And Vevay and Wells Fargo would reap all the benefits of our hard work, and so we decided to keep them longer.. Now, we have companies up to a billion in sales, hundreds of companies, and they buy immense amounts of banking product.. So that was part four.. Part five is that we keep expanding our geographic scope ever further.. We started again right here in Silicon Valley, then we went to Boston, then we went across the United States.. Now, we're in Shanghai, we're in Honjo, we're in Bangalore, we're in Mumbai, we're in London, and we're in Israel.. And we're starting small..

We've been there a couple of years.. We're doing some deals, not a huge number.. We'll build on that.. But this is a good thing because this is a global community in which we operate.. And I can guarantee you if we don't follow our venture capital friends across the ocean into these markets, two things will happen.. One is we'll miss the big opportunity.. The other thing is somebody else will follow them.. And if somebody else follows them, they may make friends with that other person and then that could follow its way backwards into the United States...