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UTILIZING MARKETING FOCUS GROUPS TO REINFORCE COMMERCIAL BANK MANAGEMENT CONCEPTS

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ABSTRACT

This article discusses how one Midwestern university combined senior marketing students with a senior-level Bank Management class to assist a local bank assess its standing with its customers through focus groups. The project utilized the marketing students' classroom focus group experience and allowed the banking students an opportunity to test their knowledge of bank concepts.

The experience not only helped foster positive "gown and town" relationships and provided meaningful information to the bank it benefited the students in two ways. First and foremost it helped reinforce classroom concepts for both the finance and marketing students' understanding of their own areas of learning. Second, it allowed them to expand their understanding and knowledge of each other's area of specialty.

This article discusses what was done during the course of the semester and how it was accomplished. The schedule of planning, action, and outcomes is discussed. The results of satisfaction surveys and interview comments, which are supportive of the project but admittedly not statistically significant, from the bank's management team, the marketing majors involved in the project, and students in the Bank Management class are shared. The article, despite the success our students experienced in conducting their focus groups, does not attempt to prescribe how to format the ideal focus group. That is a topic left to a marketing article.

From a faculty standpoint, clearly parts of the experience need strengthening. Ways to improve the experience are included. While, focus group opportunities probably won't present themselves for every class, when they do, we hope this article can be used as a guide for successfully scheduling them within a fifteen week semester.

DECIPHERING FIRMS THAT GENERATE HIGH RATES OF RETURN

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ABSTRACT

A sample of firms with annual stock returns in excess of 100 percent is examined to gain a better understanding of the characteristics of these firms and to identify any possible implications for investors. Our sample is based on firms with monthly stock returns data available on CRSP from 1993 through 1995. The firms seem to be well distributed across industries, except for manufacturing with over 40 percent of the sample firms. In addition, these high return firms are relatively small (as measured by total sales), unprofitable, and maintain stockholders' equity in excess of fifty percent.

INTRODUCTION

This paper seeks to identify firms that recorded high rates of return and the financial characteristics that may differentiate these firms from other firms. In addition, we wish to determine whether the performance of these firms is persistent. Finally we assess their risk experience to gain insight on the risk return relationship for such firms. Focusing on a sample of firms that recorded annual rates of return of 100 percent or greater, we found that they were mostly small firms with poor accounting profit performance. Most of these high rates of return firms were manufacturers.

DESCRIPTION OF SAMPLE AND ANALYSIS

To develop the sample we selected from the CRSP database all firms that recorded 12-month returns greater than 100% for each calendar year. For each year, a firm must have 12 monthly return figures to be considered for inclusion in the sample. The annual returns for each firm are computed from the monthly returns, using the formula, $r_a = \prod_{t=1}^{12}(1+r_j)^t - 1$, where r_j is the CRSP monthly stock return for the firm j^{th} firm. All firms with annual returns of 100 percent and greater are included in the sample of top performers and henceforth are referred to as high rates of return firms.

Our initial screening criteria yielded 1,414 firms spread over the three year period. These firms represent approximately 7 percent of the firms reported on CRSP with 12 monthly returns for each of the years covered by this study. For each year we classified the firms by industry according to the SIC classification reported on the OSHO website. Manufacturing firms comprise forty-five percent of the sample, with the remaining firms distributed across the other five industry classifications. Over the three year period covered, a disproportionately greater percentage (87%) of the high rates of return performances were recorded in 1993 and 1995.

Table 1: Sample of firms that realized annual rates of return of 100 percent or greater for any year between 1993 and 1995 are distributed according SIC industry classification. The percentages represent the proportion of sample firms that belong to the corresponding industry.

Industry (SIC)	1993		1994		1995		Total	
Mining and Construction	61	11%	10	6%	33	5%	104	7%
Manufacturing	196	36%	99	56%	343	49%	638	45%
Transportation, Communications, Utilities	43	8%	5	3%	29	4%	77	5%
Wholesale & Retail	52	10%	15	8%	48	7%	115	8%
Finance, Insurance & Real Estate	115	21%	13	7%	79	11%	207	15%
Services	76	14%	36	20%	161	23%	273	19%
Total	**543**		**178**		**693**		**1414**	

Table 2 presents a summary of the accounting characteristics of the firms over the three year period that preceded the year in which the high rates of returns were recorded. Based on the level of sales, these were small firms. The firms performed poorly on all accounting profit measures. Surprisingly the firms had sizeable stockholders' equity and did report some dividend payments, even though these were small.

Table 2: Financial characteristics of firms that recorded annual rates of return of 100 percent or greater for the years 1993-1995 are provided. The financial data describes the characteristics of the sample firms during the three years prior to the year in which each firm earned the 100 percent rate of return. For instance, the information presented in Panel A as Year -1 means that the figures represent one year prior to the year in which the high rates of return was recorded. Sales and Convertible debt are in millions of dollars. R&D intensity is computed as R&D expenditure divided by sales.

Financial Variables	1993	1994	1995
Panel A: Year -1			
Sales	$243.71	$117.09	$198.05
Gross profit margin	-92.54%	21.25%	-383.92%
Operating profit margin	-174.94%	-33.74%	-428.24%
Net profit margin	-235.63%	-113.43%	-867.50%
Inventory turnover	15.92	14.40	16.49
Total asset turnover	1.17	1.40	1.10
R&D Intensity	114.17%	26.23%	573.52%
Debt ratio	47.45%	42.03%	40.21%

Table 2: Financial characteristics of firms that recorded annual rates of return of 100 percent or greater for the years 1993-1995 are provided. The financial data describes the characteristics of the sample firms during the three years prior to the year in which each firm earned the 100 percent rate of return. For instance, the information presented in Panel A as Year -1 means that the figures represent one year prior to the year in which the high rates of return was recorded. Sales and Convertible debt are in millions of dollars. R&D intensity is computed as R&D expenditure divided by sales.

Financial Variables	1993	1994	1995
Convertible debt	$2.79	$4.46	$2.74
Convertible debt ratio	1.82%	0.94%	1.52%
DPS	$0.06	$0.02	$0.06
EPS	-$0.08	-$0.06	$0.10
Panel A: Year -2			
Sales	$233.74	$113.95	$181.00
Gross profit margin	-178.79%	35.33%	-170.28%
Operating profit margin	-478.18%	-2.67%	-281.36%
Net profit margin	1387.88%	-11.21%	-298.80%
Inventory turnover	19.93	18.17	18.31
Total asset turnover	1.18	1.50	1.15
R&D Intensity	147.61%	11.55%	294.82%
Debt ratio	51.32%	43.23%	44.58%
Convertible debt	$2.97	$5.15	$2.43
Convertible debt ratio	2.08%	1.24%	1.82%
DPS	$0.08	$0.04	$0.05
EPS	-$0.16	-$0.27	-$0.07
Panel A: Year -3			
Sales	$246.12	$113.51	179.60
Gross profit margin	-50.38%	12.89%	-267.16%
Operating profit margin	-129.64%	-24.77%	-360.52%
Net profit margin	-243.72%	-58.33%	-458.49%
Inventory turnover	15.58	12.54	22.86
Total asset turnover	1.22	1.32	1.15
R&D Intensity	9.58%	14.73%	359.95%
Debt ratio	54.00%	45.87%	42.45%
Convertible debt	$2.80	$3.58	$2.85

Table 2: Financial characteristics of firms that recorded annual rates of return of 100 percent or greater for the years 1993-1995 are provided. The financial data describes the characteristics of the sample firms during the three years prior to the year in which each firm earned the 100 percent rate of return. For instance, the information presented in Panel A as Year -1 means that the figures represent one year prior to the year in which the high rates of return was recorded. Sales and Convertible debt are in millions of dollars. R&D intensity is computed as R&D expenditure divided by sales.

Financial Variables	1993	1994	1995
Convertible debt ratio	2.32%	1.55%	1.44%
DPS	$0.16	$0.06	$0.06
EPS	-$0.06	-8.96%	-$0.24

SUMMARY

Our preliminary inquiry suggests that a substantial number of firms have recorded annual rates of return in excess of 100 percent. Furthermore, these are small, mostly manufacturing firms, with poor operating performance. Additional analysis needs to be conducted to better understand firms that have recorded these levels of stock returns. This should include other financial characteristics that must be examined along with the risk profile of the firms. Industry comparisons should conclude the study, thereby providing some insight on the implications for investors.

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A TIDAL WAVE OF REGULATION: A LOOK AT THE REGULATION FACING TODAY'S BANKS

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ABSTRACT

Regulatory burdens facing banks today are constantly increasing. Complying with such regulations is expensive. Compliance requires the bank to spend valuable resources on legal advice, forms, brochures, record storage, accounting services and postage. In addition, manpower is required for data entry, record keeping and completion of required regulatory forms.

This paper reviews the top five most burdensome regulations that banks face today. The goal is illuminate the difficulty that government regulation has imposed on banks across the country.

Today banks are responsible for complying with many regulations that are aimed at combating terrorist financing and money laundering, such as the Bank Secrecy Act ("BSA"). The BSA requires banks to identify situations where the United States financial system may be used for money laundering, terrorist financing and other illicit activity. Another regulation aimed at terrorist activity is the Patriot Act. The Patriot Act, which was passed shortly after the terrorist attacks of September 11, 2001, has a similar goal to the BSA. The Patriot Act made terrorist financing illegal and strengthened the BSA. The Patriot Act also significantly increased the responsibility of banks to promptly respond to requests for bank record information. Under the Patriot Act, banks must respond to government requests for information within 120 hours. The BSA and the Patriot Act require extra diligence by banks to review transactions and relay information to the appropriate government agencies. This creates a significant burden and additional responsibility on the part of the bank.

In addition, there are several other regulations banks must comply with. The Community Reinvestment Act is intended to encourage banks to assist in meeting the credit needs in the community in which they serve. Specifically, the legislation is aimed at assisting low to moderate income communities. Another regulation is the Equal Credit Opportunity Act ("ECOA"). This regulation requires that banks not discriminate or reject a loan on the basis of the perspective borrower's sex, race, national origin or marital status. There are several other regulations that banks must follow.

From assisting in tracking terrorist activities to reinvesting in the communities in which they serve, banks are subjected to more regulation than ever before. This creates not only a financial burden for the bank but also a drain on its manpower resources.