

## JCK Exclusive Report: Jewelry Industry Credit Tightens Up

By Rob Bates, Senior Editor -- JCK Online, August 25, 2009

This recession has had many casualties, but the most far-reaching could be the long-standing jewelry industry tradition of extended terms and easy memo.

Many suppliers say they can no longer afford to be the jewelry industry's bankers, leaving their "capital" sitting in retailers' cases, sometimes for years. And the industry's real bankers are putting their foot down, some warning vendors they will no longer finance standard industry credit practices.

As a result, suppliers are tightening up-and retailers are noticing.

"I know of retail companies that can't get anything on memo," says David Truong, owner of Mimi's Jewelry in Fountain Valley, Calif. "If you have good relationships with suppliers, you can get what you want. But it's a lot harder to get a stone right now unless you have adequate credit and money in the bank."

Shanu Singh Guliani, Guliani's Fine Jewelry, Pembroke Pines, Fla., was shocked by the tone among vendors at the recent JCK Show in Las Vegas. "After finding a [vendor] or two whose merchandise I liked, I started talking about terms-boy was I blown away," she wrote on her blog at JCKonline. "I had never had a manufacturer say the merchandise would be shipped COD for the first time. Another manufacturer asked me to pay in full before the merchandise was even delivered. I was pretty shocked ... During [my father's] time it was just a handshake and terms that allowed him to grow from one store to three in the '80s and '90s."

Retailers should get used to this, says Abe Sherman, head of Buyers International Group and Balance to Buy. "The idea that vendors will leave \$50,000 sitting at a retailer to do \$5,000 in sales is no longer sustainable," Sherman says. "Bankers are looking at the jewelry industry and saying there is no other industry that does this. All the terms, the stock balancing-the banks aren't going to allow it anymore."

It adds up to a "paradigm shift in the industry," argues Bruce Pucciarello, owner and CEO of Novell Enterprises. "Up until this recession, the retailers were really calling the shots," he says. "But it needs to be a partnership. It's healthier for all of us. I don't want to go back to the excesses we had. The business was going out of control."

Why the shift? First, like all financial institutions, banks that serve the jewelry industry became wary following last year's crisis on Wall Street. "When banks are chasing after business, they tend to get more lenient," says Michael Ohara of Consensus Advisors in Boston. "But when capital is tight, they tend to get extremely cautious. They will have a jaundiced eye toward any behavior that would put them at risk if the company liquidated."

Lenders also got nervous when memo goods became a flashpoint in bankruptcies, notes industry analyst Ken Gassman. "I don't think bankers are going to be nearly as willing to lend money to a supplier who then turns around and puts his assets in jewelers' showcases, especially if there is a chance that the jeweler might go bankrupt and everyone will be fighting over them," Gassman says.

He notes that, in liquidations like Whitehall's, banker-creditors tried to take possession of memo goods, claiming them as store assets. And while the consignors won the case, it was only after a lengthy court fight that sapped time, energy, and money.

"The banks have really gotten nasty and said unless there is a serial number on this, 'it's ours.' And even then they will still bluff and say 'it's ours,'" Gassman says.

Because of this, suppliers are starting to demand backup for their memo goods, generally in the form of UCC (Uniform Commercial Code) filings. "UCCs are going to become par for the course," says Sheldon Kwiat of Kwiat.

"Anyone involved in a memo program needs to accept the fact that they need to be signing UCCs and security agreements."

For all this, memo isn't going away. The new restrictions apply primarily to companies that rely on banks for financing. But more-liquid companies will retain the option. "I think we are going to see vendors who have the ability to do aggressive memo programs separate themselves from those who don't," Ohara says. "There are a handful of vendors who have been smart over the years and have invested their money into other assets or have been in cash. And those vendors can consign on memo and not worry if the bank will lend against it. This will give them a double whammy, because they can buy from someone who is cash-strapped and then lend it out."

One banker predicts that if change does occur, it will be gradual, noting that, while industry financiers have long frowned upon too-liberal credit policies, the trade has always done them anyway. "I have regularly counseled my clients that memo is not the avenue to profitability and cash flow," the banker says. "Their response is: 'How else do we move the goods? Isn't it better to have the inventory sitting at Zale instead of my vaults?'... We are always being told as bankers, 'I'm reducing my memo; I'm reducing our terms.' But I don't really see a huge letup in the process."

He adds: "I think the business will change, but it will be step by step. Maybe you used to be able to borrow against a receivable at a certain percentage; now it's lower."

Rick Bannerot, jewelry industry consultant and JCK columnist, goes further, predicting that a new kind of memo will evolve. "There needs to be a better partnership between retailer and manufacturer," he says. "What we have now is a broken model. The new rules have to be for everyone's benefit. Because we are all in this together, and we are all hurting."