

[Rob Bates](#)

Memo— Plus Interest?

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Consignment was a hot issue at the JCK show. Christopher Ellis of [Consensus Advisors](#) floated an intriguing proposal – having memos charge interest – at several forums. Here it is, in a nutshell:

Let's say you are a retailer I'm your vendor. My typical volume with you is \$1 million a year. And you want some memo goods because you would like a little bit more selection. So I agree to give you \$150,000 worth of memo. You can keep it, no strings attached, but if it hasn't turned within 60 days or 90 days, then you sent it back, or you pay 1% a month interest to keep it in your case.

Memo is basically a loan. I'm paying money to have it sit in your cases. If you return it to me nine months from now, instead of now, I am going to get that much less for it, because it's that much more out of date. In addition, if you have \$150,000 of my goods, then I'm in for at least \$120,000. That's tying up my capital and it's hurting my business. If you are going to tie up my capital, you should reimburse me for it. And the retailers wouldn't get terms on the interest, by the way. Interest is interest. They would pay it.

He admits retailers won't be so happy about this, especially with times so tough ...

On the other hand, if they don't have that 150 grand to pay for the inventory they need for their cases, where are they going to get it? They are probably tapped out with their bank, and if they did borrow from the bank, it will probably cost them more.

And he thinks that this will ultimately benefit retailers:

If there is a consequence to the retailer having too much memo sitting around doing nothing, it's going to be more efficient for everyone. This gives them skin in the game. They will run a better business because they will pay more attention to their inventory, what's turning, and what isn't.

And you'll see some wholesalers shift their model a bit. They'll say: This is great. We'll do tons of memo. There are people who could make perfectly good money lending memo out.

Obviously, the big problem is getting wholesalers to insist on this, with so many vendors under-cutting each other:

They can go on trying to cut everyone else's throats. But every time they cut someone else's throat, they cut their own throats as well. Right now, the current situation is unsustainable.

He notes industry banks might start looking at these kinds of plans. Any thoughts?

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