



Will credit crunch make memo a memo-ry?

By Michelle Graff

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Las Vegas--It's a talk that many retailers might not want to have, but the economic downturn and the slew of retail jeweler and supplier bankruptcies that have accompanied it--is pushing this topic to the forefront.

The recession has forced banks around the globe to tighten lines of credit, leaving suppliers with less leeway when it comes to giving out goods for nothing, save a promise that they'll get paid...eventually.

Meanwhile, too many suppliers have been burned in bankruptcies. As unsecured creditors, they are often forced to line up behind banks for payment and many end up watching the goods they lent on memo get liquidated to raise capital and then vanish into thin air.

Gill Goshen, vice president of business development for Ramat Gan, Israel-based diamond manufacturer Arabov Group Ltd., says the time is now for the industry to get together and figure out how to handle memo in the future.

"Ignoring it is the biggest mistake," says Goshen. "It's not my favorite subject, but we need to talk about it and...make sure we are all getting used to the new market conditions."

Goshen says the practice of issuing goods on memo started as a way for jewelry suppliers to add value to long-standing relationships with good customers.

Over the years, memo took on a life of its own, becoming the norm for doing business in the industry.

"The suppliers practically became the bankers of the industry," Goshen says. "They take all the risk. They take all the financing costs and the burden of it."

But with banks tightening up on lines of credit, he predicts the industry will be forced to get "back to basics" when it comes to memo.

The practice won't disappear entirely, but there will certainly be less of it, a trend that the trade has started to see already, Goshen says.

Pulling back the goods

Diamond jewelry designer Sasha Primak has been in the industry long enough to remember when a simple handshake was enough to seal a deal.

"Unfortunately, times have changed," he says. "We know that."

Primak, like many other suppliers, now relies upon Uniform Commercial Code (UCC-1) financial statements when loaning out goods on memo.

Although even UCC-1s are not a 100-percent guarantee of getting loaned goods or money back, the forms help protect suppliers in the event of a retail bankruptcy.

In addition, starting in September, Primak says he will require all customers requesting long-term memo to pay a 30 percent deposit.

"They have to give me a commitment, some kind of commitment," Primak says.

Israeli diamantaire Avi Paz, founder and chief executive officer of the Avi Paz Group, agrees wholeheartedly with Primak's idea, although, ironically, Primak and Paz are partnering in a new business venture--sealed with a handshake--in which Paz is supplying Primak with his trademarked PrinceCut diamonds, a variation on the emerald cut, for use in his jewelry designs.

As president of the World Federation of Diamond Bourses, Paz issued a statement prior to the Las Vegas jewelry shows stating that the industry's use of memo has ballooned out of control and placed an undue financial burden on suppliers. Rough producers and the rest of the trade, he contends, must play greater roles in financing goods.

Paz echoed those sentiments during the show, saying that others should take Primak's lead and ask for a deposit for long-term memo. Those who want memo goods need to "show something, show goodwill," he said.

Although other suppliers might not be asking retailers to plunk down cash, some are tightening up their terms on memo.

Christian Tse President Victoria Tse says her company has already called back 50 percent of its memo goods, and that the amount of goods it had out on memo during the Vegas shows was at a historic low.

The company is also hesitant to supply memo to new clients, regardless of their standing in the industry.

"I don't care what name you have," she says, noting that the economic climate has felled major retailers such as Fortunoff, once one of the industry's most venerable

names.

Nilesh Sheth, president of Nice Diamonds, says he insists that clients fill out a four-page memo agreement with very strict terms, and all new customers are now asked to sign a personal guarantee as part of the company's credit application process. The guarantee holds individuals personally liable for the stones, even if their company files for bankruptcy.

"Now, we want to make sure they can't get away with it," Sheth says.

New set of rules?

At the Rapaport Bankers' Conference during the Las Vegas jewelry shows--held immediately after Rapaport Group Chairman Martin Rapaport himself went on a tirade about the overuse of memo in his "State of the Diamond Industry" address--panelist Chris Ellis, president and managing member of investment banking firm Consensus Advisors, offered a fresh idea.

At Consensus, Ellis has had a front-row seat to many of the industry's major bankruptcies, including L.I.D. Ltd. and the recent downfall of manufacturer The Colibri Group. He suggested an interest program for long-term memo in which retailers get a specified amount of memo goods for a set amount of time. If the goods are turning at an agreed-upon rate, then the supplier keeps refreshing the stock. If not, they are returned to the supplier.

If the retailer wants to keep the goods to fill out the store's display cases, then the retailer might pay the supplier some percentage of interest each month, Ellis says.

He says the way the jewelry industry currently conducts memo is akin to handing out a credit card with no minimum monthly payment or interest charges. Anyone would take full advantage.

"You'd run it up as far as they'd let you and let it sit there," he says. "And that's what retailers are doing with memo."

In an industry that's slow to change, it is hard to say how many retailers will take to a pay-as-you-go memo system.

One retailer, Michael Greene of Wick and Greene Jewelers in Asheville, N.C., says he's not likely to pay interest for memo goods.

But Greene says he would support a guarantee type of system, where a supplier gives, for example, \$100,000 worth of memo goods and the retailer guarantees that he will sell a percentage of those goods within a specific timeframe. If he does not meet that goal, then he pays a certain percentage of the original cost of the goods to the supplier.

"Personally, I would be less likely to do the interest idea than agree to some kind of reasonable guarantee," Greene says.

Whatever the system is, having discussions on how to improve the memo system is crucial, Ellis says.

"The main thing," Ellis says, "is to at least start the debate."

Have any of your suppliers changed their memo programs? What do you think of memo systems that involve deposits or interest payments? E-mail Senior Editor Michelle Graff at michelle.graff@nationaljeweler.com.



Victoria Tse, president of Christian Tse, says the company's memo merchandise level is at a historic low. The company sells pieces such as this 2.44-carat, fancy-intense purplish-pink, oval-shaped diamond ring. Price available upon request.

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