

Memo Under Scrutiny

The economic downturn has brought the practice of issuing goods on memo under review for many jewelers. Suppliers got in the habit of giving out goods cost free as a part of doing business, but the system is now collapsing under a wave of bankruptcies.

The system was generally intended to help a specific sale or add value to a relationship, but some retailers are using others people's goods to fill their display cases on a long term basis, often with no interest or established time frame. At JCK Las Vegas in June, Martin Rapaport focused on the issue in his *State of the Diamond Industry* address. He called for an end to the practice, "You need real people with real money. We can't memo our way out the recession."

Suppliers, particularly in the United States, have take on a role similar to banker in the jewelry trade, lending goods with the expectation that they will eventually be paid. The practice assumes enormous risk for the lender. In the event of bankruptcy, suppliers are usually unsecured creditors and their goods lent on memo or consignment can be liquidated and disappear with little recourse.

In the past year, some have discontinued the practice altogether. Others require 30 percent down or a lengthy contract, often with clients personally liable if their business files for bankruptcy. The Uniform Commercial Code (UCC-1) helps recover funds in the event of a retail bankruptcy, but is not a guarantee.

JSIS Insurance, August 2009