



## Member's Corner

### China - another time

by Steve Grossman, CPMR

Former IHRA President & Chairman

In my last thoughts I told you about my pending trip to China. Well, as my favorite bumper sticker puts it; "Mother Nature gets last bats."

I held off as long as I could with hope the situation of SARS would improve, but as you all know, it has not. I was pushed over the edge when I found out that a growing number of exhibitors at the Hong Kong Houseware Fair would not be manning their booths. Even the people who I had appointments with told me I was doing the right thing by canceling, since they also had a high level of concern.

I was really looking forward to finding some new suppliers and have some additional products for Spring 2004, since most of my accounts are almost done with 2003.

After accepting my disappointment, I realize that I can go to the Fair in the future, and this is one of the many unexpected challenges of being a rep and being in your own business. The only constant is change and challenges.

This week I went to the MRERF office (Manufacturers Representatives Education and Research Foundation) to work on a new, future fax newsletter that will be sent to all of us. Through your IHRA membership you are member of this foundation. MRERF promotes the rep function to industry and educational facilities, develops and runs the educational programs, gains supportive research on what we do, and is a general clearing house for all that surrounds the rep industry. Remember there are over 30,000 reps out there.

Well this is about all from the front this month. So you can get a perspective of MRERF, this newsletter contains the strategic plans of this organization. If you have questions or comments, please direct them to Bill Weiner your Executive Director or myself. Steve Grossman, gmpartner@aol.com.

## Legally Speaking

### Compensating key employees with stock

by Gerald M. Newman, IHRA Legal Counsel; co-authored with Leonard Gambino, partner at Schoenberg, Fisher, Newman & Rosenberg, Ltd.

For the owner of a closely held business like a rep firm, it seems- only natural to seek to retain key employees by offering them some stock in the company. Not only does it offer the employee some "pride of ownership," but it also provides the current owners with a group of potential buyers for their stock when it's finally time to retire. But as with most things in life, there are some downsides as well. It is not an entirely win-win situation.

There are several ways to provide key employees with stock. The company can either sell stock to employees, or issue stock to employees as compensation for services. In addition, the current stockholders can sell a portion of their stock to keys employees.

#### Sale of stock by the corporation

This is very straightforward, but probably not very appealing to many employees, since it requires that they pay for the stock. The amount received by the company from the sale of its stock is a capital contribution rather than income to the company. A purchase of stock by an employee will not result in income to the employee except in the case of a bargain sale, i.e., where the purchase price is less than the fair market value of the stock. In the case of a bargain sale, the employee will realize ordinary income equal to the excess of the fair market value of the stock over the price s/he paid for the stock.

#### Issuing of stock by the corporation as compensation for services

Stock issued as compensation for services represents ordinary income to the employee in an amount equal to the fair market value of the stock. This same amount is also fully deductible by the company as an ordinary business expense for the same year in which the employee takes the value of the stock into income. From the employee's point of view, paying tax on the fair market value of the stock is preferable to paying the company for the entire fair market value of the stock. As a practical matter, the company may have to give the employee a cash

*continued on page 2*

INTERNATIONAL HOUSEWARES REPRESENTATIVES ASSOCIATION

175 N. Harbor Drive • Suite 4208

Chicago, IL 60601

(312) 240-0822 • Fax: (312) 240-1005

info@ihra.org • www.ihra.org

## Newman (from page 1)

bonus so that the employee can pay the tax liability on the receipt of the stock.

When stock is issued as compensation for services, the employee can defer taking the value of the stock into income in the year in which the stock is received if the stock is subject to a substantial risk of forfeiture, as, for example, where the employee's right to the stock is conditioned on the employee's continued employment for some period of time. Once the employee becomes fully vested in the stock, however, s/he must take its then fair market value into income. Hence, postponing the taxable event can result in an increased tax liability for the employee because the stock has appreciated in value.

### Gift of stock by existing stockholders

Whether a stockholder can make a gift of stock to a key employee will depend upon the relationship between the person making and the person receiving such a gift. If the key employee receiving the gift is a family member such as a spouse, child, grandchild, spouse of a child or grandchild, or a niece or nephew, the gift will undoubtedly be respected as such for tax purposes, and will not be deemed to be income to the recipient. If, however, the key employee is really just a key employee, then no matter that you "treat him/her like a son/daughter," the "gift" will be treated as compensation for services.

### Gift of stock by the company

There is no such thing. The company can give a key employee a nice plaque or a gold watch, but a "gift" of stock will always be deemed to be income to the recipient.

### Employees' rights as stockholders

An employee who owns stock in the company will have all of the rights that accrue to a stockholder, including the right to vote (if the stock is voting stock), and the right to examine the books and records of the company. In addition, the majority stockholders in the company owe a fiduciary duty to its minority stockholders. This results in a level of accountability to employee-stockholders that neither the company nor its majority stockholders had prior to the employees' receipt of stock.

### "Pride of ownership"

Although the positive effect of stock ownership is undeniable, its benefits to the employee are largely psychological rather than legal or economic. Ownership of a small percentage of the issued and outstanding shares of a closely held corporation will not give the employee, as a legal matter, any increase in compensation or any meaningful voice in the management of the company.

The stock will have economic value, however, if the company is sold. In the case of a rep firm, the buyer of the company will most likely be its key employees. For the key employees, then, eventually owning the company means that they need only to buy the stock (or have the company redeem the stock) of the company's other stockholders.

### Stockholders' Agreements

Any time a company has more than one stockholder, a Stockholders' Agreement should be entered into among the company and all of its stockholders which:

- Restricts a stockholder's right to sell his/her stock to a third party;

- Provides that the company and/or the other stockholders will purchase the stock of any stockholder:
  - who dies or becomes permanently disabled;
  - whose employment is either voluntarily or involuntarily terminated;
  - who retires; or
  - who files for bankruptcy or gets divorced.

The Stockholders' Agreement should carefully define the foregoing events and set forth the price (or formula for determining the price) and the payment terms applicable to each such event. The Stockholders' Agreement may also include a restriction on competition, prohibiting stockholders whose shares are being acquired by the rep organization from representing the organization's principal, calling on customers or hiring employees.

### Alternatives to stock ownership

Despite the strong desire that owners often have to put actual stock into the hands of their key employees, there are alternatives, such as stock options, stock appreciation rights plans, phantom stock plans and other deferred compensation plans. These alternatives can be used to avoid some of the downsides to actual stock ownership, which we have discussed. Once again, however, it is not a perfect world, and all of these alternatives lack one thing - they are not actual stock. For all of its complications, sometimes there is just no substitute for the real thing.

*Gerald Newman and partners are part of IHRA's Expert Access Member Benefit. They can be contacted at: (312) 648-2300 and eMail: gerry.newman@sfn-law.com*

# Strategic Plan 2003

## Manufacturers Representatives Educational Research Foundation & Institute for Professional Advancement

### Introduction

The Foundation embarked on a unique method for strategic planning in 2002/2003. To conserve costs, but at the same time encourage a wide range of participation by all stakeholders, technology was used extensively to do the initial strategic thinking and planning.

The process began with a questionnaire sent to all officers, trustees, staff, and association executives. The answers to that questionnaire were summarized and reported back. Officers were then assigned specific stakeholders to contact, which they did via telephone interviews concerning strategic goals and objectives for the foundation. Those comments were then added to the overall material gathered. To complete the process prior to the Board meeting officers and staff held a teleconference to discuss all that was learned and identify potential implementation strategies. The results of this process are found in the *Strategic Plan Pre Meeting Draft*.

The *Strategic Plan Pre Meeting Draft* was then issued to all trustees prior to the Board meeting in January 2003. With the wealth of material contained in the draft the Board was able, in a short period of time, to be responsive to the dynamic, changing environment the foundation finds itself in today. The ability to narrow the focus and establish achievable specific goals and objectives is the hallmark of a strategic plan that will impact and influence the future of the organization.

Five strategic issues and goals were identified; they are:

1. Fund Development
2. University Contact
3. Association Communication
4. New Research Projects
5. Program Participation

### **1. Fund Development**

Goal Submit a \$1,000,000 budget for fiscal year 2005

Objectives To innovate and develop additional programs of research and programming  
To provide sustainable fiscal strength for the organization

Guidelines Outline specific projects for support  
Develop endowment initiative  
Encourage core operating support  
Recognition of support

### **2. University Contact**

Goal Presentations to University instructors and students:

Objectives: To increase awareness of outsourced field sales function in academia

Increase potential pool of new sales people  
Increase understanding of future manufacturer management  
Increase potential academic research into the function

Guidelines: Utilize CPMR/FBs, candidates, IPA Board and Trustees as presenters  
Outline step-by-step approach to contact university  
Develop database of contacts, presenters, and presentations made  
Provide PowerPoint and other tools for presentations  
Provide CEU credit for presentation

*continued on page 4 . . .*

## Strategic Plan 2003 (continued from page 3)

### **3. Association Communication**

- Goal To have a MRERF related article in association newsletters on a regular basis.
- Objectives Increased awareness of the Foundation and its programs by association membership
- Guidelines Trustee byline for articles  
Focus on information that will be of benefit to members  
MRERF writer to provide material  
Subjects: Annual Report  
Interviews with CPMR instructors  
University Presentations  
Research Projects  
Sales Education  
Manufacturer Education  
Industry Trends  
Strategic Progress

### **4. Research Projects**

- Goal Fund and encourage research projects on the outsourced field sales function and communicate with constituents concerning the projects.
- Objectives Increased research projects and visibility of the function in academia.  
MRERF established as the information resource on the function  
Verify the scope and effectiveness of outsourcing field sales.
- Guidelines Electronic availability of abstracts and articles on research via web or upon request.  
Regular information on current status of projects  
Build database of researchers interested in the function.  
Provide access to participants and information for research projects.  
Provide guidance and information to researchers concerning the function

### **5. Program Participation**

- Goal: Fill the seats for Certification sessions, Sales Skills, and Manufacturer seminars
- Objectives Increased professional management of firms  
More knowledgeable work force  
More knowledgeable principal sales management  
Full classes and strong financial base
- Guidelines: Association promotions for programs  
Personal contact with potential participants  
E-mail versions of brochures  
Trustee and CPMR/FB involvement to fill the seats

## 2003 INDUSTRY CALENDAR OF EVENTS

### April

SCAA Show  
April 26, 2003 - April 28, 2003  
Boston, MA

New York Spring Tabletop Market  
April 26, 2003 - May 01, 2003  
New York, NY

### May

Gourmet Products Show  
May 03, 2003 - May 06, 2003  
San Francisco, CA

NASFT Spring Fancy Food & FMI Show  
May 04, 2003 - May 06, 2003  
Chicago, IL

All Candy Expo  
May 13, 2003 - May 15, 2003  
Chicago, IL

NRA Restaurant, Hotel-Motel Show  
May 17, 2003 - May 20, 2003  
Chicago, IL

### SOURCES

May 17, 2003 - May 19, 2003  
New York, NY

National Stationery Show  
May 18 - 21, 2003  
New York, NY

### June

IDDBA Show  
June 01, 2003 - June 03, 2003  
Las Vegas, NV

Coffee Fest Atlantic City  
June 06, 2003 - June 08, 2003  
Atlantic City, NJ

Gourmet Awards  
June 06, 2003 - June 08, 2003  
Dallas, TX

Dallas International Gift & Home Accessories Market  
June 20, 2003 - June 24, 2003  
Dallas, TX

NASFT Summer International Fancy Food Show  
June 29, 2003 - July 01, 2003  
New York, NY

### July

Atlanta International Gift & Home Furnishings Market  
July 11, 2003 - July 15, 2003  
Atlanta, GA

Fall Gift & Home Furnishings Market  
July 15, 2003 - July 22, 2003  
Los Angeles, CA

California Gift Show  
July 19, 2003 - July 22, 2003  
Los Angeles, CA

Washington Gift Show  
July 27, 2003 - July 30, 2003  
Chantilly, VA

### August

Orlando Gift Show  
August 02, 2003 - August 05, 2003  
Orlando, FL

New York International Gift Fair  
August 09, 2003 - August 14, 2003  
New York, NY

CGTA Gift Show  
August 10, 2003 - August 14, 2003  
Canada

41 Madison Gift Show  
August 10, 2003 - August 14, 2003  
New York, NY

Seattle Gift Show  
August 16, 2003 - August 20, 2003  
Seattle, WA

Tendence  
August 22, 2003 - August 26, 2003  
Frankfurt, Germany

San Francisco International Gift Fair  
August 23, 2003 - August 27, 2003  
San Francisco, CA

SIAL Mercosur  
August 26, 2003 - August 29, 2003  
Buenos Aires, Argentina

### September

Natural Products Expo East  
September 04, 2003 - September 07, 2003  
Washington, DC

Philadelphia Candy Show  
September 07, 2003 - September 09, 2003  
Philadelphia, PA

New York Home & Textiles Show  
September 19, 2003 - September 22, 2003  
New York, NY

Dallas International Gift & Home Show  
September 20, 2003 - September 22, 2003  
Dallas, TX

**Rooms for The Hardware Show!  
Reserve them, TODAY!**



**The Hardware Show is the most difficult time to get rooms in Chicago. . . but we have 100 rooms at the Hampton Inn & Suites! Just a short walk from North Michigan Ave. at 33 W. Illinois St.**

Here are the details:

**Room Block Dates: August 7 - 13, 2003**

Rooms & Rates:

King Deluxe or Double/Double                    \$143 single; \$153 double

Studio Suite    \$163 single; \$173 double

Two (2) Room Suite                                 \$193

Rooms include free deluxe continental breakfast buffet, free local phone calls, free cable TV and 24-hour hospitality room.

**For reservations, fill out the following and fax it to:**

**(312) 832-0333**

**Please - DO NOT PHONE IN YOUR RESERVATION**

**Reservation Form (Group Code WEN) Weiner Association Mangement**

Your Name \_\_\_\_\_

Company \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Business Phone \_\_\_\_\_ Fax \_\_\_\_\_

Room Type \_\_\_\_\_ Rate \_\_\_\_\_ Single \_\_\_ Double \_\_\_

Credit Card & # \_\_\_\_\_ Exp Date \_\_\_\_\_

Arrival \_\_\_\_\_ Departure \_\_\_\_\_

Comments or Special Needs \_\_\_\_\_

Note: Please copy this form and submit for separate reservations.

**Make your reservations, today. These rooms will go fast!**

**Manufacturers:  
Are You Looking for Well-Qualified,  
Performance-Committed, Field Sales  
Professionals?**

*Find them quickly, easily and  
cost-effectively with IHRA's two  
exclusive marketing services . . .*

**The IHRA Locator**

A directory of housewares  
representatives by territories  
covered, type of products handled,  
type of customers sold to/through and  
complete details about their companies.

**Instant *HOT* Lines**

A onetime eMail or fax that  
provides immediate information  
on *your line, only*, to reps in  
specific territories or throughout  
The World

**Call IHRA at (800) 315-7430  
eMail: [info@ihra.org](mailto:info@ihra.org)  
[www.ihra.org](http://www.ihra.org)**

**The *RE*porter®**

is published  
monthly for

**INTERNATIONAL HOUSEWARES  
REPRESENTATIVES ASSOCIATION**

175 N. Harbor Drive  
Suite 4208  
Chicago, IL 60601  
(312) 240-0822  
Fax: (312) 240-1005  
eMail: [info@ihra.org](mailto:info@ihra.org)  
Web: [www.ihra.org](http://www.ihra.org)

Statements of fact and/or opinion  
are the responsibility of the  
authors alone and do not imply an  
opinion of the officers or members of IHRA.

**2003 IHRA Officers, Directors & Staff**

**Officers**

Chairman: **Donna Peake**  
President: **Jim Adams**  
President-Elect: **James Ayotte**

**Senior Vice Presidents**

Industry & Membership: **David Silberstein**  
Legal & Education: **David Friedman**  
Fiscal: **Kent Kulovitz**  
Delegate to MRERF & AMRA: **Steve Grossman, CPMR**  
Executive Director: **William M. Weiner**

**Directors**

**Jeanmarie Bettencourt**  
**Mark Glotter**  
**Bob Kroll**  
**Mark Levy**  
**Richard Spitaletta**

**Past Chairs**

**John M. Clampitt**  
**Steve Grossman, CPMR**  
**Jay L. Cohen**  
**Tom Rooney**  
**Peter Bang-Knudsen**

**Staff**

Administrative Assistant: **Stephanie Baron**  
Operations Manager & Event Planner: **Emily Elliott**  
Financial Director: **Myra Weiner**

**Housewares Multiple-Line, Field Sales  
Professional:**

If you're not a member of IHRA, you  
owe it to yourself to join the organization  
that is your voice in the industry and the  
manufacturers' resource for finding  
**Well-Qualified, Performance-Committed,  
Field Sales Professionals.**

For complete information and  
an application, contact:



INTERNATIONAL HOUSEWARES  
REPRESENTATIVES ASSOCIATION

175 N. Harbor Drive • Suite 4208  
Chicago, Illinois 60601  
(800) 315-7430  
Fax (312) 240-1005  
[info@ihra.org](mailto:info@ihra.org) • [www.ihra.org](http://www.ihra.org)