

Dear Retailer,

I apologise for the length of this letter, but it is written to bring you up to speed in a number of areas, including distribution, fulfillment, direct and digital sales to name but four, and so I would appreciate it if you could make time to read this carefully.

Distribution

Since the decision to bring home distribution from STL in Carlisle, we have worked tirelessly in the pursuit of providing you, the retailer, with a first class service; as a consequence this task has brought many challenges. Many of the skills that we previously possessed in this activity had been lost in the last 20 years.

I am aware that we have some way to go in this respect; however, I am extremely confident that within a relatively short space of time, our service to you will be much improved and by the end of October at the latest, we shall return to levels of excellence that many of you will remember.

Our new distribution system marries perfectly into our accounts package but has proved to be somewhat inflexible in certain areas, and while we have forced it to fit our needs, it has been a difficult process. Having to train new staff with little prior knowledge of our products or the new system also added to our distribution difficulties, however, we continue to work extremely hard to improve our service to you. Having now completed our annual stock-take (our year begins June 1st), we are confident that we have stock integrity and therefore going forward, fulfillment of orders will increase.

We are currently refitting our picking warehouse to increase the size of the pick face three fold, this will give us even better fulfillment and increased efficiency through a carton flow system. At the same time we are installing a new management warehouse system, Accellos, a global leader in supply chain solutions and one currently operated by our sister company in Canada, this will interface with our new distribution system to render a fast, efficient, effective and accurate order process. The system will be thoroughly tested before going live to the trade; experience has taught us all the need for prudence in this area.

We are grateful for your patience and continued support through this transition, and promise to reward you going forward with a delivery system that will make all of our lives easier.

Direct Sales.

I am sure that all of you are in no doubt that the retail world we have lived in these past years has changed, as have the buying habits of consumers altered in the way they choose where and how to buy. One US Christian music provider, informs me that 40% of all sales last year were digital downloads. This, plus piracy and direct sales through e-

tailers, has begun to eat into the music sales of traditional retail bricks and mortar outlets.

Our sales representatives and management team met last week to discuss these and other trade issues. The information our reps bring us is invaluable, as they spend most of their working lives in the trade and are in dialogue with many of you over these and other issues. Over the past several months, I have personally spoken with a number of you, and some have mentioned that potential purchasers browse through their store only to inform the store manager that they can get certain product cheaper on-line. I understand the perception that direct sales have taken huge amounts of business away from bricks and mortar retailers, but judging from our own figures and comparing direct sales to trade, our direct business comprises less than 8% of total trade revenues. Though this may be the case today, it is likely that sales through on-line retailers will increase; therefore it is important that we find solutions that will help you. Competing with our high street customers is NOT an ambition we have, and even if we were to close the Kingsway website, it would not increase sales in bricks and mortar retail by a single CD, as those who buy on-line simply source products from alternate on-line suppliers.

So, what are the answers to the above, well here are our initial thoughts: -

First:-We will increase discount to **50%** for all bricks and mortar retailers on the initial pre-ordering of any new proprietary Kingsway title, as it is usually new product which is the focus of the on-line argument. By doing this, it will give you some leeway to decide at what level to initially price new releases.

The new Kingsway partnership program also offers increased levels of discount, a see-safe-core stock rotation program and a number of promotional campaigns.

Secondly: - We do not 'deep discount' to any on-line business but we cannot force those who sell on-line to sell at the recommended retail price and the perception that everyone holds for internet sales is 'cheaper', we ourselves have to price down in order to keep up with the on-line retail prices that others offer. Therefore to help bricks and mortar retailers we will create the opportunity for any retailer who so chooses, to 'skin' the Kingsway shop site.

Essentially, this gives any retailer who wants/needs to sell on-line and enjoy the marketing power and on-line prices that Kingsway offer, the opportunity to never lose a sale or a customer. We will develop an agreeable level of commission that reflects this methodology. Retailers will have no product investment to make, yet the opportunity to enjoy a 'split' of the income, and confidentiality of their customer base.

This will take some time to develop, as the current platform that our site operates from cannot handle this, however we will enter into a covenant to make this available to you as and when we are able.

Thirdly: - We will also look to develop links that will allow any of your customers to purchase digital downloads of recorded or sheet music from our current/future sites. Once again, as our partners, we will promise this to you; the only proviso is that we can do this in a cost effective way in terms of technology, however we believe it is in all of our interests to share this rapidly growing sales channel with high street retailers.

Now, points two and three will require trust and co-operation, however, our intentions are transparent. As and when we are able to offer these services, we shall and we will track all customers who enter our various sites from affiliate sites, to ensure that on future purchases, you, the retailer, enjoy a portion of the sale.

Our goal, as the paradigm shifts, is to help bricks and mortar retailers transition in the belief that together we can increase your circle of influence, giving your customers a choice of how and where to buy and replace some, if not all, of those sales that would otherwise be lost, either through customers changing their buying habits, or choosing alternate methods of delivery (digital).

Our Ministry Work

We say very little about what Kingsway are engaged in, other than the developing and mentoring of great writers and great songs, and our day to day business which is focused on developing disciple-shaping worship resources that help build disciples world-wide. However, each year, irrespective of our results, we covenant a significant six figure sum to create or make available resources for Christian Leaders in the developing and underdeveloped world, resources that they could not get any other way, resources that help them disciple their communities.

I hesitate to mention this and I do so not to elicit favour or good-will, but to emphasise that we are here first and foremost on Kingdom business, this is our commitment and while it's not a huge amount when matched to the worldwide need, for us as a small UK business it is significant, and no small task to attain.

Difficult Times

I acknowledge that we have made mistakes, we all do, and I know these are difficult times and many retailers and suppliers are struggling, but the answer is not to feed off each other, and certainly not to condemn for this path divides us. The answer has to be about the pursuit of Kingdom values and the advancement of Christ's Kingdom here on earth. If in your eyes we have been adjudged to have been guilty of losing sight of this, I would emphasise that it has not been as a result of some deliberate policy to see Kingsway prosper at the expense of you, the bricks and mortar retailers, rather perhaps, more the urgent need to ensure that both Churches and Christians in every corner of the globe, can find the resources necessary to inspire and equip them on their corporate and personal walk with Jesus.

I believe that in one way or another we are all on this journey, so, wherever possible it would be encouraging and fulfilling to walk this road together.

With Kind Regards



John Paculabo
Executive Director