

Knight Entertainment

CD Manufacturing & Distribution Services



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Introduction:

Thank you for taking the time to review this proposal. Knight Entertainment is a production company located in San Antonio, Texas and Memphis, Tennessee. We have the capabilities to aid you in the creation, manufacturing, and distribution of CD productions. We would like to promote and provide our services to you in any way that we can. In this proposal we will outline the services we can provide, as well as explain how we will be able to help you to promote and get the word out on your production.

Objectives:

Knight Entertainment (K.E.) would like to work with production in the creation, manufacturing, distribution of a CD production that is comprised of the material, content, and any related medium that you provide to Knight Entertainment. We offer a range of services, and will outline each in the following sections.

Copyrights and License Agreement:

Prior to the start for any production process, K.E. will require a License Agreement to be signed between the creator and K.E. This agreement will protect the copyrights of all material presented by the creator. We do not ask for exclusive rights, but will ask for rights to use your material for promotional purposes, such as advertisements on other productions, and at events in which K.E. will be promoting productions manufactured and distributed by K.E. We will seek permission from you, the creator prior to use on other productions to insure your image or company image is not affiliated with subject material that you or your company may not agree with or wish to support. The agreement will also outline the payment procedures for all funds due to sales. It will also outline the responsibilities of K.E. to disclose all sales and financial data, or risk the right to use the copyrighted material.

If the content is comprised of material from several artists, we are willing to work out agreements with them as well, and offer them the same conditions as outlined above.

Production and Editing:

K.E. has the equipment and ability to edit and authorize master CD disks for manufacturing purposes. We can use your material, or we can accept already authorized master disks for manufacturing purposes. We do not charge for this service, and include it in all production packages.

Graphic Art and Package Design:

K.E. has graphic design capabilities, and can create the CD case cover, page inserts, and disk design for manufacturing. We can use your images and material to create the packaging that you desire. If you prefer to design and edit your own packaging, we can send you templates, and samples to create your own packaging. We also include this into all manufacturing packages with no additional cost. We do ask that we have the authority to add our small logo to the back of the production jacket and onto the disk. This is added when we add the bar code data prior to manufacturing.

Disk and Graphic Art Screening Approval Process:

Should you, the creator elect to use the K.E. disk creation or graphic design services as a part of your selected package, we will submit sample packaging and disk samples with a final authorization form. This form will ask for any required edits, or changes required by you, the client, prior to manufacturing and distribution. If there are a lot of required changes, another final screening packed may be sent with another form. We like to insure that you are 100% happy with the production before we send it for manufacturing. We may also submit proofs for your approval via the net, or in e-mail, and then would request an e-mail confirmation of approval.

Manufacturing:

We have several manufactures that we work with to make sure we provide you with the best cost for your production. We can manufacture CD productions in quantities of 1 to more than 10,000. We have several packages we would like to suggest for your company. These packages range from no initial cost for set up, to nation wide retail store distribution. We can initiate a production for online sale on web sites like Amazon.com, as well as others, and let initial sales drive the determination for broader distribution.

We can package your CD production in a variety of cases, but we prefer to go with a traditional jewel case, with a full color wrap. This will all be packaged and shrink wrapped for each CD. We also have box set capabilities, and traditional Black DVD case capabilities for your productions. We also can also do CD& DVD combination packages.

Manufacturing processes that include initial unit manufacturing requires 4 to 6 weeks of manufacturing time prior to an official release date that you can determine (based on standard dates available for your title). Once manufacturing is complete we will notify you so that we can make arrangements to ship the units to you. Should you decide to use one of our distribution packages, we will work with you to determine the number of units you need for your own promotional and sale needs. K.E. usually requests 150 to 200 units to use for promotional purposes to help support the sales of the production. For small production runs of 1,000 units K.E. will cover all shipping charges for units sent to the distributor, K.E. and you. For shipping of larger quantities, and wider distribution a fee will be charged. This will be covered in the *shipping charges* section in association to *national retail distribution*.

Once we have manufactured the initial production, additional units can be manufactured upon request. This may be required if we find that demand is more than expected, or if demand increases due to content popularity, or successful marketing and advertising.

Online Distribution:

No Cost Online Distribution - For no fee, K.E. can have your production listed for sale on Amazon.com and other retail sites. This plan requires no stock to be made in advance as this is based on an “On Demand” process in which units are made as the production is ordered. Our manufacture and distributor will take out all cost on the front end (35%). K.E. will receive a monthly statement of sales, and a direct deposit each month. K.E. will distribute received funds in accordance to any license agreement signed prior to production release. We can also offer whole sale unit packages to you and content providers in orders of 1 to 200. The price will vary depending on order size.

Extended Online Distribution - For a fee we can extend distribution to more online retail stores, but this will require an initial manufacturing run of at least 100 units. This extended online distribution networks reaches to more major internet retail web sites. Some of the more notable retail web sites that are apart of our network are: Best Buy, Amazon, Barns & Nobles, E-bay, Circuit City, Sam Goodies, Target, as well as many others. Our traditional store distribution network extends to over 30,000 online and traditional retail store locations; however, this will require a major manufacturing run of the production. See “*National Retail Distribution*” for more information.

Prior to listing online, we will need to set the SRP or “suggested retail price”. This price then is subject to being marked down for retail stores to buy at wholesale. Some retail stores require more of a discount than others, but the average wholesale discount is around 35% to 50%.

Each retail store may require a 90 to 120 day grace period in case a unit is returned by a consumer. After several months, stores then release payment to the distributor based on sales. Those funds are held until a certain bench mark number has been met. Once the number reaches this amount, the distributor will keep 32% for storage, order filling, and distribution. Once K.E. receives payment from the distributor, we then submit payment to the customer based on our agreement.

National Retail Distribution:

K.E. can also provide national retail distribution; however several minimum requirements have to be met in order to get a national retail chain to carry your production.

First we need to devise a marketing strategy and budget based on a manufacturing run of 10,000 units. This budget is to be spent in coordination with retail marketing programs and traditional means of advertising. The retailers like to see a budget of at least \$1 to 1 unit for sale. This budget is up to your advertising department and can be more should you decide to increase spending for your production. By sharing our marketing plan, describing the production and target market, and informing the retailers of the number of people you reach with your broadcast, we will then get a firm commitment from retail chains that wish to carry your production. Once we have an idea of the number of stores that will carry the production, we can then adjust our manufacturing and marketing plan to account for more or less units.

K.E. would suggest at least starting with an online distribution package as we plan out the detail for a major release. This will give us sample units, initial sales numbers, and retail internet links to provide to the retailers before we commit to a large manufacturing run and marketing strategy.

An example based on 10,000 CD units and a \$10,000 marketing budget will be provided below. As the units are being manufactured, we can then follow out with the marketing plan, and create a buzz about your production.

Note:

Shipping Charges - A budget of at least a \$1,000 will be required for every 10,000 units to provide shipping to all the chains of retail stores should retailers decide to carry your production.

Distribution Charge – Reduced 5% due to additional volume and less number of units stored per units produced. (Down to 27% from 32%)

Package Price Summary:

Note: Prices Vary For CD packages.

Package 1: No Cost Online Distribution

- CD Disk mastering / Graphic Design Editing and creation (No Charge)
- CD Production Listed on Amazon.com and affiliated web sites
- Wikipedia entries for each production
- CD promotion on several popular web pages for cross advertising

Package 2: Extended Online Retail Distribution \$500 CD

- CD Disk mastering / Graphic Design Editing and creation
- 100 CD units (\$400 CD)
- Product distribution and placement on over 30 retail web stores (\$100)
- Wikipedia entries for each production
- CD promotion on several popular web pages for cross advertising

Package 3: Full Online Retail Distribution \$1,200 CD

- CD Disk mastering / Graphic Design Editing and creation
- 1,000 CD units (\$1,100 CD)
- Product distribution and placement on over 30 retail web stores (\$100)
- Wikipedia entries for each production
- CD promotion on several popular web pages for cross advertising

Package 4: Nation Wide Retail Distribution Upgrade \$19,000

- \$10,000 Advertising / Marketing Plan to Attract Retailers (\$10,000)*
- 10,000 CD units (\$8,000 CD)
- \$1,000 Shipping Allowance (\$1,000)
- Wikipedia entries for each production (No Charge)
- CD promotion on several popular web pages for cross advertising (No Charge)

Package 5: Full Retail Distribution \$19,100 CD

- CD / Graphic Design Editing and creation (No Charge)
- Product distribution and placement on over 30 retail web stores (\$100)
- \$10,000 Advertising / Marketing Plan to Attract Retailers (\$10,000)*
- 10,000 CD units (\$8,000 CD)
- \$1,000 Shipping Allowance (\$1,000)
- Wikipedia entries for each production (No Charge)
- CD promotion on several popular web pages for cross advertising (No Charge)

**This price may vary and is intended to run in coordination with retail marketing programs and existing marketing plans for your company.*

Please see price and sales chart list on the next page for more details on cost, charges and returns.

Projected Return On Sales Chart:

No Cost Internet Distribution								
Units	Initial Cost		Units Received (KE)		Units Received (C)		Units For Sale	
0	\$0.00		0		0		0	
Sales Price & Numbers								
SRP	Total Cost						Final Return Per Unit	
\$10.99	35%	\$3.85	0%	\$0.00	0%	\$0.00	65%	\$7.14
Sales Projections								
Units Sold	Return	Total	KE	(C)	KE	(C)	Upgrade	Net
100	\$ 7.14	\$ 714	50%	50%	\$357	\$357		\$ 714
250	\$ 7.14	\$ 1,786	50%	50%	\$893	\$893		\$ 1,786
500	\$ 7.14	\$ 3,572	50%	50%	\$1,786	\$1,786	\$2,000	\$ 1,572
1000	\$ 7.14	\$ 7,144	50%	50%	\$3,572	\$3,572	\$2,000	\$ 5,144

No Cost Internet Distribution (Third Party)								
Units	Initial Cost		Units Received (KE)		Units Received (C)		Units For Sale	
0	\$0.00		0		0		0	
Sales Price & Numbers								
SRP	Total Cost						Final Return Per Unit	
\$10.99	35%	\$3.85	0%	\$0.00	0%	\$0.00	65%	\$7.14
Sales Projections								
Units Sold	Return	Total	KE	(C)	Third Party	KE	(C)	Third Party
100	\$ 7.14	\$ 714	30%	45%	25%	\$214	\$321	\$179
250	\$ 7.14	\$ 1,786	30%	45%	25%	\$536	\$804	\$446
500	\$ 7.14	\$ 3,572	30%	45%	25%	\$1,072	\$1,607	\$893
1000	\$ 7.14	\$ 7,144	30%	45%	25%	\$2,143	\$3,215	\$1,786

The top chart shows the initial cost, and possible returns for the no cost package. The numbers are based on a \$10.95 suggested retail price, and a 50/50 split between Knight Entertainment and the creator which can be subject to change based on the agreement between Knight Entertainment and the creator. The “Upgrade” represents the idea of allowing initial sales of a popular title roll into a 1,000 unit extended distribution package. This will then allow all parties a few promotion units to distribute to further promote the title.

The second chart represents an additional 25% coming out for third party interest. This may be for content providers, or music providers of the content on the production. Once again these numbers are subject to the agreement prior to distribution.

Chart 2 – Extended & Full Retail Return Charts

Extended Cost & Unit Distribution								
Units	Initial Cost		Units Received (KE)		Units Received (C)		Units For Sale	
1,000	\$1,200.00		200		200		600	
Extended Sales Price & Numbers								
SRP	Wholesale Discount		Wholesale Price		Distribution Discount		Final Return Per Unit	
\$10.99	35%	\$3.85	65%	\$7.14	32%	\$2.29	67%	\$4.79
\$10.99	50%	\$5.50	50%	\$5.50	32%	\$1.76	67%	\$3.68
Extended Sales Projections								
Range	Units Sold	Qty.	Per Unit	Return	Investment	Profit	Return	Units Left
Low	60%	360	\$3.68	\$1,325.39	\$1,200	\$125	10.45%	240
Low	75%	450	\$3.68	\$1,656.74	\$1,200	\$457	38.06%	150
Low	90%	540	\$3.68	\$1,988.09	\$1,200	\$788	65.67%	60
Low	100%	600	\$3.68	\$2,208.99	\$1,200	\$1,009	84.08%	0
High	60%	360	\$4.79	\$1,723.01	\$1,200	\$523	43.58%	240
High	75%	450	\$4.79	\$2,153.77	\$1,200	\$954	79.48%	150
High	90%	540	\$4.79	\$2,584.52	\$1,200	\$1,385	115.38%	60
High	100%	600	\$4.79	\$2,871.69	\$1,200	\$1,672	139.31%	0
Full Retail Cost & Unit Distribution								
Units	Initial Cost		Units Received (KE)		Units Received (C)		Units For Sale	
10,000	\$19,000.00		200		200		9,600	
Full Retail Sales Price & Numbers								
SRP	Wholesale Discount		Wholesale Price		Distribution Discount		Final Return Per Unit	
\$10.99	35%	\$3.85	65%	\$7.14	27%	\$1.93	72%	\$5.14
\$10.99	50%	\$5.50	50%	\$5.50	27%	\$1.48	72%	\$3.96
Full Retail Sales Projections								
Range	Units Sold	Qty.	Per Unit	Return	Investment	Profit	Return	Units Left
Low	60%	5760	\$3.96	\$22,788.86	\$19,000	\$3,789	19.94%	3,840
Low	75%	7200	\$3.96	\$28,486.08	\$19,000	\$9,486	49.93%	2,400
Low	90%	8640	\$3.96	\$34,183.30	\$19,000	\$15,183	79.91%	960
Low	100%	9600	\$3.96	\$37,981.44	\$19,000	\$18,981	99.90%	0
High	60%	5760	\$5.14	\$29,625.52	\$19,000	\$10,626	55.92%	3,840
High	75%	7200	\$5.14	\$37,031.90	\$19,000	\$18,032	94.90%	2,400
High	90%	8640	\$5.14	\$44,438.28	\$19,000	\$25,438	133.89%	960
High	100%	9600	\$5.14	\$49,375.87	\$19,000	\$30,376	159.87%	0

These two charts represent the possible returns for extended and nation wide release packages. Item entries are explained in the section on the following page. Please contact Knight Entertainment if you have any questions. His contact information is posted at the end of this document.

Chart Description:

Units – Number of units manufactured.

Initial Cost – Cost to manufacture units.

Units Received (KE) – Units sent to Knight Entertainment for promotional purposes.

Units Received (C) – Units sent to creator for promotional purposes.

Units for Sale – KE Units and Mania Units subtracted from the total number of Units.

SRP – “Suggested Retail Price” is set prior to distribution. This price can vary and is set by the client. KE suggest a price near \$16.95 to stay competitive.

Wholesale Discount – Discount for retailers by percentage and cost based on SRP.
This discount may vary between 35% (Low) and 50% (High)

Wholesale Price – The price after applying Wholesale Discount

Distribution Cost – Distribution cost per unit

Final Return Per Unit – Final Return after applying all cost.

Range – Low = Low Wholesale Price High = High Wholesale Price

Units Sold – Percentage of total units sold

Qty. – Number of units sold based on percentage to total.

Unit Price – Final Unit Price

Return – Unit Price multiplied Number of Units Sold

Investment – Initial cost

Profit – Investment subtracted from Return

Return – Return on Investment based on cost and profit.

Units Left – Number of units left. Units Sold subtracted from Total Units.

In Conclusion:

By working together we can get your production to market for a reasonable price and offer you a great marketing tool and financial growth opportunity for your company.

For any questions contact: Knight Entertainment (901)634-0866 or info@knient.com