

HBO: off the ground, but flying low

Pay cable operation learns its lesson the hard way, but company is hopeful for the future and plans accordingly

"One of our earliest sales pitches to get cable customers to sign up for our Pay TV service was that they would get a new movie double feature every night." Gerald Levin, the president of Home Box Office (HBO), frowns and shakes his head. "So the customer would pay the deposit, get his converter installed, and a short while later he would be demanding that we disconnect him, because he really believed we were going to give him 60 new movies every month. Hollywood barely makes that many in a year."

Of course, HBO can only put on from four to six new movies (new, that is, to television; they've already made the rounds of the theaters) each month, so that each one will be repeated a number of times in the course of that month. (This month, for example, "Deliverance" is being shown eight times.)

Mr. Levin readily admits that misjudgments like the double-feature-a-night fiasco were commonplace a year ago November, when HBO was just getting off the ground, trying to put together a marketable package of movies and sports events to sell for a flat \$6-a-month fee to homes in communities already wired for cable. But he says he is full of optimism lately because "our staff has learned from mistakes like these. Now our pitch is that repetition is good because the viewer can see the movie at his convenience. And, what's more, he'll see it unedited, uncut and free of commercials."

As of now, HBO claims slightly more than 10,000 subscribers, spread out among 17 different systems (13 in Pennsylvania and four in New York state). HBO pockets \$3.50 out of each \$6 monthly fee, the other \$2.50 staying in the hands of the cable system operator.

And, according to an industry source, the movie company's percentage-of-gross formula with the pay cable company works out to "37½ cents per film, per subscriber, per month." Martin Firestone, the Washington attorney who represents the National Association of Theater Owners, says this figure is "peanuts" compared to the 70% of gross that movie companies demand of theater owners for important pictures. NATO is pushing for "a reasonable clearance period" before a movie shows up on pay TV so theater owners won't have to compete with the comforts of home for the audience dollars.

But, from NATO's standpoint, he says that the recent decision of the city fathers of Boston and Kansas City to keep cable outside the city limits, at least for the time being, indicates that "the bloom may be off the rose." The rate at which cable subscribers will sign up for the additional pay channel depends to a great degree on the income levels of a given community and on the aggressiveness of the local system's manager, according to Mr. Levin. On a few of the Pennsylvania systems, only about one cable subscriber

out of every 10 has been willing to pay the extra \$6 for HBO's added programming. Mr. Levin says, whereas in Babylon, N.Y., and Mount Vernon, N.Y., HBO actually recruited dozens of people who weren't even hooked up to the cable to come aboard because of HBO's movies and live sports events. "The significance of our getting new subscribers in Babylon and Mount Vernon," he says, "is that these are fairly large urban areas, which get excellent over-the-air reception. So the people there are buying our service because they like the package we have put together." In effect, adds John Barington, HBO's vice president for public relations, these viewers are willing to pay double for the privilege: a \$6-a-month fee to get on the cable, and another \$6 a month for the remote-control converter that allows them to unscramble the pay-cable channel.

HBO's real test of urban acceptance, however, could come as early as next month, when New York City's Board of Estimate is expected to give the go-ahead for a pay-cable experiment on Manhattan's two existing systems, Sterling and Teleprompter. Richard Galkin, the president of Sterling Manhattan, which has already announced it will use HBO's payable service, said at a public hearing last month that he expects about 20% of

Sterling's 60,000 Manhattan cable subscribers to fork over the extra \$6 for the pay-channel converter.

Some critics have charged that Time Inc. is inviting antitrust scrutiny by virtue of its ownership of the HBO programming service and of the Sterling Manhattan cable system. But, as Mr. Levin puts it, "Time is trying very hard to sell Sterling." He added that Time has already sold off all of its other cable systems and that a deal for Warner Cable to take over Sterling last summer fell through only at the last minute.

"Time is putting its considerable editorial marketing expertise into the software end of cable—the selecting, packaging and transmission of solid television programming," he says. The company has invested upwards of \$3 million in the first year alone, according to Mr. Levin. This month's schedule, for example, include six feature films, ranging from the R-rated cop movie, "The New Centurions," to the G-rated musical version of "Lost Horizon." (HBO has a policy of not showing X-rated movies and of steering clear of art-house foreign films.) The schedule also includes the home games of the New York Knicks (basketball) and the New York Rangers (hockey), three Mondays' worth of live boxing matches from Madison Square Garden, a few other miscellaneous sports events (such as Roller Derby from the Garden) and some children's movies.



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