HBO: point man for an industry makes it into the clear

Pay cable's predominant firm turns its first profit in five years; indications are that the foundation is solid and there's nowhere to build but up

This month marks a watershed for the medium of pay cable in general and the pay-cable company, HBO Inc., in particular. The Supreme Court, on Oct. 3, refused to review an appeals court decision overturning the FCC's restrictions on pay-cable use of movies and sports. And just last Thursday, HBO parent Time Inc. announced in a third-quarter report that the pay-cable subsidiary was itself paying—turning its first profit after nearly five years of operation.

The news was a double shot in the arm for HBO, which almost *is* the pay-cable industry; it controls 80% of the business. HBO's satellite and terrestrial network has a lock on 60% and its Telemation Program Services subsidiary has another 20%. The remaining piece of the pay-cable pie is shared by some half-dozen others. HBO has 800,000 (up from 600,000 in 1976) subscribers in 46 states who shell out $8 to $10 monthly—of which HBO's take is $3.50 to $4—for movies, entertainment specials and sports. From this base will grow HBO, and from the territory explored by this company will grow HBO's direct competition.

As the child of Time Inc. and currently the only pay service using satellite transmission, HBO's grip on the industry is not surprising. And in the view of at least one multiple system operator, it may be a blessing—having one company explore the way without it being eaten alive by competition.

Nick Nicholas, HBO president, who watches over day-to-day operations, rejected the idea that his service hasn't had to compete. "In my year and a half at HBO, I cannot recollect one new affiliate of significance that has joined us that hasn't also had several other pitches made at the same time," he said.

Whatever level of competition HBO now faces, it is being stepped up, rapidly. RCA currently has 12 of its 24 satellite transponders allocated to cable, and according to one industry source, has been "talking to more people than there is space."

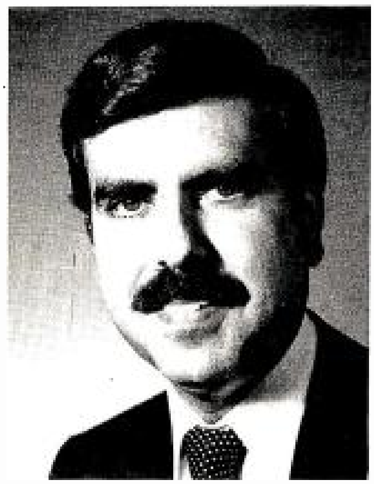
This should come as no shock to HBO. Two months before HBO began programing to its first satellite affiliates in Fort Pierce and Vero Beach, Fla., and Jackson, Miss., Sept. 30, 1975, HBO Chairman Gerald Levin told a CATV analysts group in New York:

"When I first announced our satellite networking plan in April, I made it clear that, yes, we did recognize that it would be competitive. In dealing with a terrestrial network, I pointed out, once we leased a frequency from a common carrier, it became rather difficult for anyone else to duplicate it. The satellite system, on the other hand, does lend itself to a multiplicity of services ....

"We are not so naive as to believe that we are acquiring automatic squatter's rights. We do, however, believe there is an important advantage...." The advantage he was speaking of is HBO's head start.

Just how far ahead HBO is in the satellite pay networking market may soon begin to come to light. While Viacom International apparently isn't ready for an announcement yet, its Showtime service is expected to be up next on the bird. The company admitted to talks with both RCA and Western Union. Showtime's fare—also movies, specials and sports—currently services about 80,000 subscribers. And although programing is delivered by cassette, it follows the network approach, with one set of shows and set times to run them.

Another company showing considerable interest in the field is Walt Disney Productions, said to have the largest inventory of G-rated films available. Although it has made no formal commitment, it already has a nontheatrical and pay-TV division.



Levin:

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HBO executives are reticent about projecting where their business will be down the road. And, with Time Inc. in registration with the Securities and Exchange Commission pending its merger with the Book-of-the-Month Club, they are cautiously following attorneys' orders not to predict anything beyond that written in the SEC filing. (Based on the facts and figures of 1976, it still characterizes HBO as having "not developed to a profitable stage.")

It's likely that many boardroom discussions have been held in Time Inc.'s midtown Manhattan headquarters about where HBO will be next year, in five years, and beyond. But it's hard not to believe Mr. Nicholas when he claims: "We can't tell you what we're going to have in 1982, we can't begin to tell you. It gets very difficult and hazy when you begin postulating about who's going to be up on the bird and who isn't."

■ Listening to those who have nurtured HBO from day one, it seems that the venture always has been somewhat hazy although obviously a project with enough potential to warrant risking stockholders' dollars.

Richard Munro, Time Inc. Video Group, vice president responsible for HBO as well as Manhattan Cable, Time-Life Films and WOTV(TV) Grand Rapids, Mich., recalled the beginnings: "We all sat in this room and Jerry [Levin] and Chuck [Dolan] put on a presentation that outlined what this was all about." Mr. Munro said he and the other Time Inc. executives left that 1972 meeting "scratching our heads."

"The basic theory was very simple," said Mr. Levin, who was hired to see if an idea of then Sterling Manhattan Cable President Charles Dolan (now heading Cablevision of Nassau county, N.Y.) would work. Time Inc.'s New York City cable system needed more than just the promise of clear reception to attract subscribers. The competitive edge was to be additional programing and "the only way that could be amortized," said Mr. Levin, "was not just to put it on in Manhattan but to send it out to other systems."

There were doubts from the start—fundamentally, whether consumers would open their wallets for more than what was already available. "Just to indicate the dark ages," said Mr. Levin, "we had various attitudinal surveys that essentially told us there was no inherent demand for the kind of pay television we were modeling. We kept hammering away at more particularized kinds of research."

Ironically, the persistence of Mr. Levin and the others was the result of the example set by the industry that has become HBO's arch enemy: conventional television. "I think we felt justified," he said, "by virtue of the fact that some 30 to 40 years earlier, if you had asked people during the radio era if they would be interested in *watching* radio—calling it television—most people would have said no. So we had realized very early then that the demand, if it was there, was latent and not explicit and really needed to be brought to the surface and scratched."

The Sterling Cable Network, later to become known as HBO, kept scratching. Paperwork became reality on Nov. 8, 1972, when HBO microwaved programing to about 365 homes hooked into Service Electric's Wilkes-Barre, Pa., system. Initial offerings were a National Hockey League game from Madison Square Garden followed by a Paul Newman-Henry Fonda