

The HBO Story

10 years that changed the world of telecommunications

Home Box Office transmitted its first program on Nov. 8, 1972; since then it has become better known than the industry it dominates, leading would-be competitors against the three commercial broadcast networks for the attention of TV viewers

"I don't think any of us envisioned the impact HBO would have... I'm still somewhat amazed [by] its consumer acceptance. America seemed to be sitting out there waiting for pay television." When Time Inc.'s current president (then executive vice president), J. Richard Munro expressed those thoughts to BROADCASTING two-and-a-half-years ago, Home Box Office, with four million subscribers, was already the conspicuous success story of the cable television business. Ten years last week, Home Box Office can now count almost 11 million subscribers, plus another 2 million or so who subscribe to Cinemax, a second service the company initiated in August 1980. And if Wall Street analysts are right, HBO will earn \$100 million this year, a profit from the networking of video entertainment that is exceeded only by ABC and CBS. On a dollar basis, HBO now has to be counted as one of the big three networks—it's doing better for parent Time Inc. than NBC is for its parent RCA. And there's a lot more to the story.

Consider the following brief conversation—overheard recently in a New York department store: One of two young women asked her companion: "What did you watch on television last night?" The reply: "I turned on a movie on Home Box Office." "Did you like it?" "Yeah..." While HBO President James O. Heyworth still refers to his principal service as "complementary" to the three commercial broadcast networks, that phrase no longer reflects a view HBO executives once held—that viewers, if finding nothing to their liking on ABC, CBS or NBC, would then turn to HBO. The New York shoppers mentioned above are illustrative of a change noted by Time Group vice president,

Gerald Levin, in this week's "At Large" (page 54). "We see in pay homes already a change in habit structure in terms of set usage... Consumers are now going to pay first, then to network." And HBO, as the first and by far the largest pay service, gets the lion's share of the credit for working that change in the way a good chunk of America watches TV.

As Heyworth tallies the numbers, the 11 million HBO subscribers represent nearly 50% of the cable homes to which HBO is available. In fact, about 44% of all cable homes. A separate measure of HBO's impact on television is that most observers attribute some portion of the three-network decline in rating evidenced at the start of the current season to the "free-preview" weekends HBO and Cinemax offered cable homes on successive weekends in that period.

That's a far cry from the November evening in 1972 when some 365 homes in Wilkes-Barre, Pa.'s Service Electric cable system received the first HBO feed—an NHL hockey game followed by "Sometimes a Great Notion," with Paul Newman and Henry Fonda. Life wasn't exactly rosy for the fledgling. By the end of the first year, 1,395 Service Electric customers were subscribing to HBO. During 1973, HBO actually started to lose subscribers, before other systems were brought into the fold. The Time Inc.-controlled Manhattan Cable system introduced HBO in 1974 and that year closed with 57,715 HBO subscri-

bers on 42 systems in four states. The accompanying chart tracks HBO growth.

HBO was initially conceived as a service to help generate additional revenues for that Manhattan system, which at the time was operating under the name, Sterling Manhattan. All concerned note that the idea originated with the man who then was running Sterling—Charles (Chuck) Dolan, now head of Cablevision Systems, the largest privately held MSO in the country. The basic concept was to amortize the cost of product by making it available to a network of cable systems interconnected by terrestrial microwave. Jerry Levin was hired by Dolan to study the proposal and see if it could be turned into a workable business. (Dolan would later leave the company when Time assumed full ownership of the Manhattan system).

The next seminal development was the decision by Time to gamble \$7.5 million on a five-year contract to put HBO on RCA's Satcom I satellite (even before the satellite was launched). After several demonstrations of the feasibility of satellite delivery, HBO commenced regular transmission of programs via satellite on Sept. 30, 1975, serving three new affiliates in addition to the terrestrial microwave clients in the Northeast—UA-Columbia (now Rogers-UA) systems in Fort Pierce and Vero Beach, both Florida, and an ATC system in Jackson, Miss. That move, coupled with the FCC's December 1976 approval of relatively inexpensive 4.5-meter earth station antennas, led to more than the rapid growth of HBO affiliates and subscribers. With HBO to show the way, others stepped up to provide the multiplicity of additional satellite-delivered cable services that were to catapult cable into a new era. Indeed, the pay revenues cable operators were to realize from HBO and its eventual competitors revolutionized the financial structure of the cable industry. The programming itself gave cable something to offer besides better reception of over-the-air signals—something to sell in urban areas that had proved resistant to cable.

HBO's subscriber lead and

HBO subscriber and affiliate growth

Date	Subscribers	States served	CATV affiliates
11/ 8/72	365	1	1
12/31/72	1,395	1	1
12/31/73	8,000+	2	14
12/31/74	57,000+	4	42
12/31/75	282,000+	6	101
12/31/76	591,000+	40	282
12/31/77	1,000,000+	45	435
12/31/78	2,000,000+	50	731
12/31/79	4,000,000+	50	1,755+
12/31/80	6,000,000+	50	2,500+
12/31/81	8,500,000+	50	3,330+
11/ 8/82	10,800,000+	50	3,600+