
Time Inc. CEO Dick Munro


Time's chief financial officer, Nick Nicholas Jr.

consequent revenue lead, had some self sustaining effects, allowing the service to finance expensive, national, marketing campaigns. In 1980 HBO launched a $6 million effort; in 1981, it announced a $10 million dollar campaign that included cable's first prime time commercials aired on broadcast networks.

Satellite delivery, gamble that it was, quickly paid off for HBO. In two years, HBO went into the black, and its road to $100 million in annual earnings, while not without some bumps, has been an amazingly short, five years from break even.

Contrast that with the performances of its competitors. Showtime, formed by Viacom in 1976, wasn't able to afford to go on the satellite until 1978. In the interval, HBO secured a commanding lead in subscribers, and by being there first, an advantage that's proved as yet insurmountable in securing affiliates among the vast bulk of cable systems whose limited channel capacity restricted them to offering one movie service. Showtime's present subscriber base of 3.7 million comes from 1,900 affiliates. The service turned its first profit only last year (though it expects a "substantial" profit this year). Warner Amex's The Movie Channel is still not profitable—with 2.2 million subscribers in 2,150 systems.

Still, Jerry Levin cautions that the move to satellite wasn't the most significant development by HBO. What matters more, he says, goes back to the very germ of the concept. "The establishment of subscription pay TV was the major event ... The direct payment of consumer support is at the heart of redefining the television set ... It's the seedbed of the uses that require direct financing."

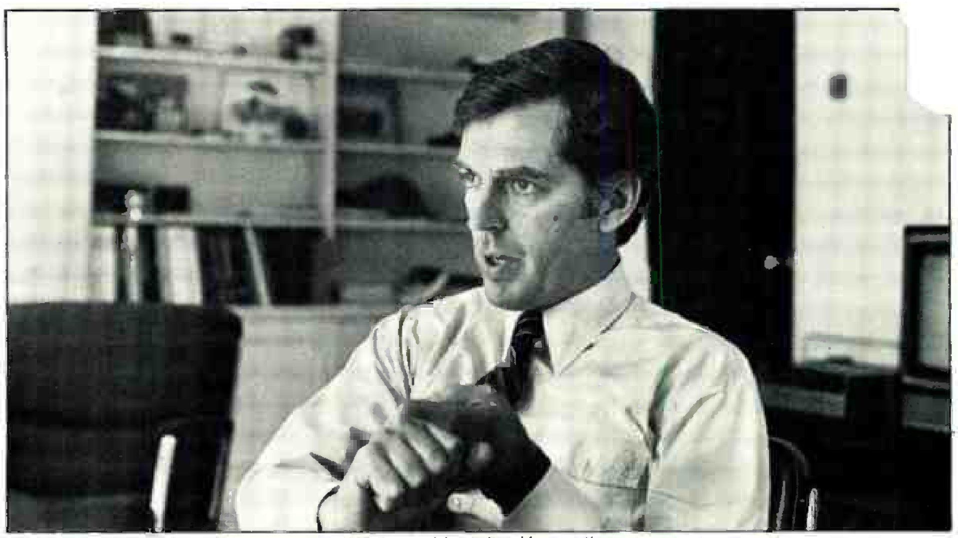
HBO's effect goes beyond the television business. While Heyworth claims that relations with the motion picture producers now are "from our perspective, fine," they've clearly not always been so.

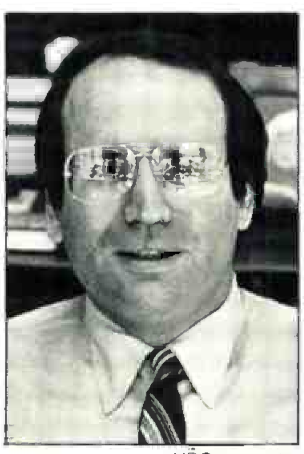
It's not that HBO or pay television is any longer perceived as going to kill off the motion picture business. As analyst David Londoner of Wertheim & Co. notes, while HBO has "probably to some extent impacted on box office revenues, the net impact is positive," thanks to the HBO revenues that funnel to Hollywood.

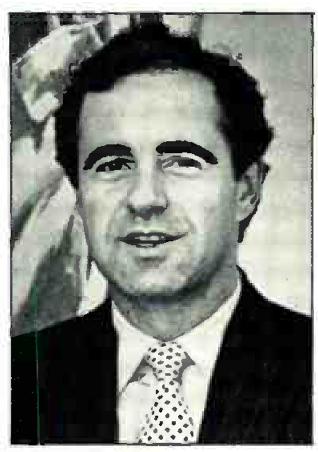
But a production community desire to participate more fully in the profits pay television derives from movie product brought four producers, Columbia, MCA, Paramount and 20th Century-Fox, together to attempt to form their own pay cable service, Premiere, two years ago. HBO prepared to fight the venture, which was eventually queered by the Justice Department. Even now, various producers continue to hold discussions with HBO's rivals, Showtime and The Movie Channel, with an eye to buying into those operations.

Drexel Burnham Lambert analyst John Reidy sees those efforts as rooted in an attempt by the producers to get "a formalized pricing structure" that would trim what he calls the "volume discount" HBO has so far been able to negotiate because of the commanding lead it maintains in subscribers. But the simple equation remains that Showtime's 3.5 million and TMC's 2 million subscribers together are only half the size of HBO. A producer who refused to sell to HBO would cut itself out of revenues from two-thirds of the market.

Heyworth, for his part, says he isn't


HBO president Jim Heyworth




HBO executive vice presidents Michael Fuchs, Tony Cox, Frank Biondi