concerned about producer investments in a cable network, but simply about "having a regular supply of high-quality programing." And he notes, HBO is currently purchasing product from all the majors.

In fact, HBO has a string of other business relationships with members of the Hollywood community—notably a multimillion-dollar investment deal with Columbia Pictures through which, in return for pre-production financing, HBO gets pay TV rights to all Columbia products into 1984, and in some cases product exclusivity. (HBO announced its first deal of that sort, called a "pre-buy," also with Columbia, back in 1976). Paramount and MCA are now partners of HBO in the advertiser-supported USA Network.

Lately, however, the pre-buy arrangements that HBO is making with independent producers are developing into another area of conflict with the major studios. They see HBO's acquisitions of pay rights, often for relatively small upfront investments, cutting into the profits they could make from distributing the independent product.

But if HBO has been an agent of change, it has also benefitted from developments not of its own devising. Perhaps most important was the appearance of the "multipay phenomenon"—the discovery that, if well-marketed, two or more pay services could be sold to a cable subscriber. Those extra pay revenues encouraged the rebuilding of 12-channel systems, and opened the way for HBO to grow into MSO subscriber bases that already had an in-house brand of pay service—such as Viacom, founder of Showtime, Warner-Amex Cable, whose sister company owns The Movie Channel, or Teleprompter (now Group W Cable) which had switched HBO out of all its systems back in 1979 when Teleprompter purchased a half-interest in Showtime. The importance of multipay has more recently been demonstrated in the switchouts accompanying the launches of the Spotlight pay service, a joint venture of five MSO's: The companies doing the switching promise to reintroduce HBO as systems are rebuilt.

Jim Heyworth notes that although HBO once aspired to 20% penetration of subscribers, and while nationally HBO averages 50% penetration, in new builds the service is being taken by up to 90% of cable subscribers. He credits in part the increased marketing proficiency of cable operators, in part the improvement he feels HBO has made in its programing since its inception. Heyworth counts legitimate theater production, sports and original productions among program improvements. Separately, he agrees that the nontheatrical product isn't what sells the service. "It doesn't have recognized value, so the salesmen can't sell on it." He says that when HBO is in the home, "viewing of original programing is greater than that of lesser movies, and satisfaction is very high—it has a more segmented appeal."

That ability to retain subscribers becomes increasingly important in the multipay environment. Heyworth says, although maintaining that HBO has gone through 1982 with its disconnect rates at an all-time low, that when operators introduce two, three and four pay services into major markets, "it's inevitable that consumers will at first take several services, and over time will select those they wish to retain." Because of competition, Heyworth says, programing his pay service has become "far more challenging and exacting a science than when HBO was the only service—the margin for error is gone."

What does the future hold in store for HBO? Insofar as the multipay situation is concerned, Heyworth says "it's clearly a situation where HBO, Showtime and others are competiting for viewing time and subscriber dollars." Heyworth even evinces some surprise at the "speed with which cable operators introduced the multipay option," though noting that 65% to 75% of HBO subscribers are in multipay markets.

Heyworth discounts competition from newer media like STV and MDS, saying that the multichannel delivery capability of cable, with its economics and marketing capabilities, insure that it will be "the most prevalent delivery system" of the future.

Just what HBO might have up its sleeve, however, he won't say. "We're certainly continuing to study other opportunities," Heyworth concedes, but right now, he claims, "we have no specific plans."

For those who would like an analytical assessment of HBO's future, John Reidy offers the following projection. Although there will be some margin erosion from the "fat margin in the mid-20's" HBO now enjoys, and although the percentage rate of subscriber growth will slacken, Reidy sees continued good subscriber growth for HBO, with the service picking up half of the four-million annual subscriber growth he estimates for pay services. That, in turn, means good revenue growth to counterbalance margin pressures."

Among some other major dates in HBO's past that should be mentioned in any review of the service are: Nov. 3, 1975—the day HBO and six MSO's filed a petition with the U.S. Court of Appeals for a review of the FCC's new pay cable rules; March 29, 1977, the day the court set aside those commission rules; Dec. 28, 1981, when HBO went to 24-hour service, and May 5, 1982, when HBO won the first Peabody award presented to a pay-television network, for the hour-long documentary, *She's Nobody's Baby: American Women in the Twentieth Century*, a production of *Ms. Magazine*.

Reviewing HBO's record, David Londoner calls it "enormously innovative ... They had the guts to stick with it .... It was well conceived and well done." □