

allowed a certain adversarial relationship to develop between the operators and programmers over the years. Some of the cable operators have been a little penny wise and pound foolish, but that is turning around too. I believe we are going to see a new cooperation between programmers and operators because that's the way we are going to get to 70% penetration by end of 1991." Turner believes 70% penetration is needed to induce advertisers to begin pouring dollars into the medium.

Said Michael Fuchs, chairman of Home Box Office: "It's nice that the operators are saying that programming is our future. The operators have to support the programming side of this business more strongly if we are going to grow to 70% penetration. That doesn't happen with speeches. It happens with programming which is an expensive commodity."

"We happen to be in a condition where everything is looking terrific," said Mooney as the convention wound to its conclusion. "There will be lots of ups and downs in the future of this industry. We will have conventions where there is some industry problem that will have everybody concerned, but this ain't it."

Cable, PPV and VCR's fight it out on the movie battlefield

Home Box Office, the pay-per-channel programming service that revolutionized the cable industry in the mid-1970's and came to dominate it in the early 1980's, is not about to concede pre-eminence in home entertainment to such up-and-comers as home video or pay-per-view television.

PPV is far from unseating HBO as the home entertainment "champ," said HBO Chairman Michael Fuchs at a jam-packed general session on the last day of the NCTA convention. "In the boxing business, you have to win some matches before you are the champ," he said. HBO has not been hurt in systems where it has squared off against PPV, he said. PPV "will be a business. We just think it is a little bit premature."

HBO has already taken steps to counter another form of PPV, home video, Fuchs said. Before home video, "we used to be the only place where you could get first-run movies in the home," he said. "What we give the customer now is an awful lot of volume. We had 140 titles on in March. That breaks down to a dime a title."

Because Hollywood movies no longer pull the audience they once did during their first run on HBO, Fuchs said, HBO has turned to producing its own movies and found they do better in the ratings than "the average Hollywood movie." Producing a program or movie is one way to control its distribution, he said. "We have to make programming so we can control its destiny."

The panel session was kept on subject and enlivened by interviewer Larry King, host of talk shows on CNN and the Mutual Broadcasting System. Fuchs was joined on the panel by Ted Turner, chairman and president of the Turner Broadcasting System; John

Malone, president, Tele-Communications Inc.; Jonathan Dolgen, senior executive vice president, 20th Century Fox Films, and Austin Furst, chairman, Vestron Video, the nation's second largest home video producer-distributor.

"Home video is giving the consumer a better deal than cable," said Furst. "Our industry provides \$2 rentals on hit movies and now provides \$20 and \$25 purchases... on other types of programming," he said. "That's a terrific deal for consumers."

And home video is big and getting bigger, he said. The industry estimated retail tape sales and rentals at \$4.5 billion in 1985, putting it ahead of "box offices," other forms of pay television, the recording industry and bookstores. Penetration of VCR's in American homes should rise from 30% at the end of 1985 to at least 60% by 1990, he said. Penetration could go as high as 80% if the price of VCR's comes down significantly, he said.

Furst said home video is a "wide open

field" partly because "Congress has had the wisdom to preserve the first-sale doctrine which keeps it an open democratic market and frees the industry from a lot of cost pressures [associated with]... record keeping."

"The VCR does not threaten cable, but it is going to take some money away because it costs money to buy a VCR and to rent those movies," said Turner. "They are a competitor, but... if the cable industry plays its cards intelligently, it will be the big winner."

Malone said home video has at least one inherent flaw. "In delivering hits... the videocassette rental is not a very cost-effective method because there is a peak in demand that videocassettes cannot satisfy," he said. "It doesn't make sense to print enough tapes to take care of the peak and then have them waste away in inventory."

"Ultimately, electronic distribution of the hits by cable is probably in the cards," Malone said. That will be done by PPV services or "some kind of hits subscription service," he said. "The videocassette business, in the

TCI raises programming interests, buys into AMC

Tele-Communications Inc., the largest cable MSO, has made its biggest move to date into the program business by purchasing a stake in American Movie Classics, owned jointly by CBS and Rainbow Programming Services. Under the new ownership, said Rainbow founder Charles Dolan, the three companies will own equally the classic movie channel, sold for the most part as a mini-pay service. The deal does not involve Bravo, the pay cultural service also owned equally by Rainbow and CBS.

AMC currently claims about 300,000 subscribers. TCI, which has about 3.9 million basic subscribers, said AMC would eventually be rolled out to all or most of its systems.

According to TCI President John Malone, the company will continue to look for other investment opportunities in cable programming businesses. Such investments, he said, including the AMC deal, will help the companies involved develop more programming, which most in the industry agree cable must do if it expects to thrive in the long term. "I hope it encourages others [cable operators] to make other investments," said Malone of the AMC deal. TCI is part owner of three other program ventures, including Black Entertainment Television and EventTelevision, a proposed pay-per-view service. Two weeks ago, TCI announced it was buying a 10% stake in a company called Close-Out Merchandise Buyers Inc. (COMB) which plans to launch a cable service this year to compete with The Home Shopping Network (see "Cable-castings," page 10).

The AMC deal came after a year when TCI tested the service in five small systems with 12 channels. The service produced buy rates of between 37% and 50%, said Malone. The price varied between \$1 and \$4.95 a month. Penetration was highest when the service was priced lower, Malone said. But the service tested exceptionally well in those small markets, which Malone described as "the toughest markets for pay."

According to Marc Lustgarten, president of Rainbow, AMC is being marketed nationally primarily as a "bonus to basic," which means that it is being priced low enough to attract subscribers that have resisted paying the \$10 or more a month that the typical premium services, such as HBO or Showtime, cost. He said that as part of Rainbow's settlement last year with Ted Turner and MGM concerning the use of the MGM film library, it was agreed AMC would not use the films on basic service for a short period of time. But that period has run its course, he said, and AMC could now be sold as a basic service. But Lustgarten stressed that Rainbow had decided the service was better sold as a mini-pay offering.

The TCI investment was described as "passive"—the company would not be involved in the management of the pay service. "We don't intend to become experts at picking movies," said Malone. But the company has indicated it does want to become a programmer on the local level, perhaps using movies, sports and other shows to program local origination channels. For example, it is negotiating for the cable rights for the Pittsburgh Pirates baseball games for airing on its Pittsburgh system.