

# GROWTH SLOWS FOR PAY CABLE SERVICES

*Economy not expected to affect churn*

**A**lthough premium cable services have often characterized rumors of their slowdown as greatly exaggerated, there is no denying that 1990 growth is moving along at a tortoise-like pace.

Through the third quarter of 1990, Showtime Networks, which includes Showtime and The Movie Channel, have gained only 73,000 subscribers, for a total of 10.5 million. Through the end of 1989, Showtime Networks gained 735,000 subscribers over the previous year for a total of more than 10.4 million subscribers.

HBO networks (HBO and Cinemax) will be up "a couple of hundred thou-

sand" subscribers at the end of 1990 over 1989, according to John Billock, executive vice president, marketing. That is dramatically down from nearly three quarters of a million in growth in 1989. HBO, at the end of 1989, served 23.7 million subscribers, a gain of 700,000 over 1988. Individually, HBO, with 17.3 million subscribers, gained 300,000 subscribers while Cinemax went from six million to 6.4 million subscribers.

HBO continues to make money for its parent, Time Warner, and according to Billock, will pick up market share in 1991. Both revenue and cash flow were up from 1989, when HBO networks had

revenues of \$286 million and \$42 million, despite the fact that The Comedy Channel's losses are calculated into those figures. For the third quarter of 1990, the premium service's revenue was \$318 million and operating cash flow was at \$45 million. Showtime, for third quarter 1989, had \$119 million in revenues, \$10 million in operating cash flow and \$8 million in earnings. For the third quarter of 1990, Showtime Networks increased to \$125 million in revenue but dipped to \$5 million in cash flow, and \$3 million in earnings.

Both the financial makeup and the philosophies of the two premium service groups are reflected in how much they will spend on advertising and marketing next year. In 1991, HBO plans to spend \$150 million on marketing with \$50 million allocated for image advertising alone, up from \$38 million this year. Matthew Blank, executive vice president, marketing, Showtime, would say only that industry-wide expenditures (including HBO, Showtime and Disney) exceed \$200 million. According to Blank, "Marketing can only do so much." Showtime's marketing budget reflects that, with no plans to increase marketing and advertising expenditures next year. "We already spend too much on advertising," said Blank, who stressed Showtime's interest in changing the structure of the premium category, so consumers "don't need to buy through \$40 of basic to get to Showtime." Reflecting yet another disparity between the two services, HBO's Larry Carlson, executive vice president, affiliate sales operations, referred to structural change as "intellectual hyjinks."

Timelock campaigns, the premium services' primary form of marketing, could be an endangered species as some operators mutiny from a marketing tactic they feel is ineffective and results in heavy churn from one service to the other. For HBO's timelock campaign scheduled for January, Billock said participation is down 5% versus a year ago, but stressed that "more than half the national potential are still reached by timelocks." Billock is a fan of timelock campaigns, citing the economies of scale they provide. "We didn't get into timelocks because of egos," said Billock. HBO also is willing to participate in multipay campaigns, he said, but wants operators to promote HBO in independent timelocks, which would

## NBC PPV OLYMPICS SIGNS GRAFF, UA ENTERTAINMENT



**N**BC's PPV Olympics picked up two major endorsements last week, signing its first cable affiliate, United Artists Entertainment, and its second PPV service, Graff PPV.

Pictured above signing the letter of intent in the UA deal are: (l-r) David Meyer, vice president, business affairs, PPV Olympics; Jerry Maglio, senior vice president, marketing and programming, United Artists, and Alan McDonald, vice president, affiliate services, PPV Olympics.

The UA deal is significant in that UA represents about 10% of the addressable subscriber base in the U.S., or 1,325,000 subscribers.

Graff said it would be pre-empting its three services, Spice, Drive-In Cinema and Cable Video Store, for the Olympics. The three serve a combined 5 million subscribers and Mark Graff, president of Graff PPV, estimated that figure will reach seven million by 1992.