HBO changes marketing plan for Festival

After year of so-so sales, cable service is getting new push aimed at viewers taking other basic, pay services

Festival has not made the impact that Home Box Office thought it would when the largest pay cable network began marketing the service one year ago (BROADCASTING, May 18, 1987), but HBO has not given up on it. In fact, the pay programer says it is pouring more marketing dollars into the family-oriented service and widening the scope of those efforts. The latest push, which began last month, encompasses homes that already have at least one other pay service. (Festival was originally aimed at homes without cable or without pay services.)

The family-oriented Festival has fewer than 50,000 subscribers and is not yet profitable. In the more than 100 systems where it is carried, penetration is less than 5%, below what most in the industry consider viable. HBO says that figure is moving upward and is hoping the new marketing effort can push it higher.

But cable operators, whose support is key to the service, are not as optimistic, both on the results so far on the service's future. Without stellar test results, Festival appears to be getting lost in the shuffle, as operators turn their attention to other areas, such as strengthening basic services, stemming pay erosion, adding pay-per-view and evaluating home shopping services.

Festival, from the outset, was unlike other pay services. A family-oriented movie service that eventually skewed toward older audiences (more than 50% of its subscribers are over 50), women young families, it was not marketed en masse. Indeed, when Festival was launched in a few test markets, it was marketed to basic-only subscribers. They were, by definition, the mostly likely subscribers to the service; viewers who were turned off by sexual or violent content in other pay services. Eventually noncable subscribers were also pitched. "We spent a year in the market," said Linda Frankenbach, vice president, new business development at HBO, and had "an opportunity to look at a lot of Nielsen data to see what our subscribers are thinking about it."

From that data, HBO learned a number of things, said Frankenbach. First, "there's no pay service that is going do any business these days if it doesn't get marketed pretty aggressively and repeatedly." Gone are the days of saturation marketing where "you hoped a lot would stick after it hit the wall," Frankenbach said.

Second, "pricing it in the lower ranges is a lot more advantageous than pricing it high." HBO is now encouraging operators to price Festival between $5 and $7, and even less, down to $3 retail, in combinations with HBO and Cinemax.

But what has encouraged HBO is "that the people who are buying this service really like it," said Frankenbach. A total of 88% of subscribers rate it excellent, very good or good, said Frankenbach, better than HBO's satisfaction levels. "As a result, the ongoing disconnect rate has been very low, probably comparable to HBO in the 4% to 5% range," she said. Those figures cause HBO to believe there still is a business there. "The biggest challenge for us is to continue to expand the numbers of people actually trying the service," Frankenbach said.

Frankenbach

The marketing to basic-only subscribers, said Frankenbach, in effect, "cut the normal market in half," since only about 50% of cable subscribers are basic-only subscribers "What we started to find was that in even saying to cable operators and customer service representatives that we don't want to sell it with other services, it found its way into a good number of households that had other pay services, apart from Disney," which HBO knew was a good fit to begin with, said Frankenbach.

"From the start, our primary target had been basic-only...our secondary target was the homes-passed universe [those without cable] and we never had a household that had a pay service in our marketing," said Frankenbach. The nonsubs, she said, were "a tough sell. Using a new pay service without a whole lot of brand identity to kind of break through the boundaries to basic cable was difficult.... Sometimes we'd do well and get 1% to 3% conversions, but it was not a terribly efficient sell unless we were going door-to-door."

Once HBO found that more than 30% of its Festival subscribers took other pay services, it expanded its marketing to that sector last month. "Rather than marketing this to nonpay households, we are now marketing it to everybody, which is a real evolution in target," said Frankenbach. "We have integrated the marketing of this into the marketing of HBO and Cinemax, which makes - ...this service a lot easier to handle," she said, from operational and efficiency standpoints. No official results are in, but HBO is encouraged by the experience in Raleigh, N.C., where Frankenbach said Festival "had a terrific conversion rate of its noncable universe to a package."

There has also been a small shift in the programing—the scheduling of more "classic" movies, those made before the early-to-mid-1960's. Frankenbach said 25% of the movies in prime time are of that genre, ranging from "Bye Bye Birdie" to "On the Waterfront." On the classic movie front, Festival would appear to be going against American Movie Classics and the Nostalgia Channel, which have close to 15 million subscribers between them. But Frankenbach said: "They don't have inventories nearly as large as ours.... Our range of titles is much broader than either of those services."

Festival was launched when pay was on the downswing and basic on the upswing. Operators, with rate deregulation, concentrated on pumping up basic service and increasing rates, while pay rates came down. The need for increased marketing of pay services to maintain market share also closed windows into which Festival could be marketed without competition. And operators feared Festival would cannibalize existing pay services, which were not that healthy. That led to "high pricing and low levels of marketing," said Frankenbach. That suspicion has not gone away. "We are really encouraging...a wholesale rate structure that allows the operator to be real flexible in his pricing of Festival," she said, where operators could deeply discount a combination sale. But she admits not too many are taking advantage of it because of conservatism against pricing it too low. An added incentive is that margins for operators reach between 55% and 60%, if penetration is 4% or higher, said Frankenbach.

How big can Festival be? Frankenbach says Festival's overall penetration is "somewhat less than 5%." A niche service such as Disney, for instance, she estimates is at 9%. "We have operated with the belief that...if the service could achieve 5% or better it becomes a very interesting economic proposition to the operator," she said, "but it is a harder prospect to sell an operator the incremental services."

Festival does have some operating efficiencies—the shelf product it can use from HBO, although it pays for the privilege; the marketing staffs in place; the transponder HBO already owns, and the fact it distributes only one satellite feed. But even with that, said Frankenbach, "it's going to take us