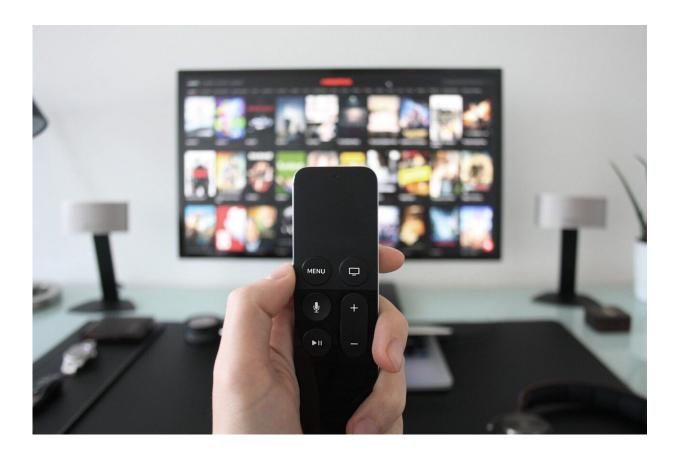


## Moody's: AT&T is making 'an error in judgment' in its HBO Max pricing

November 18 2019, by Melissa Repko



Credit: CC0 Public Domain

AT&T's streaming service, HBO Max, hasn't yet debuted, but credit agency Moody's Investors Service is already predicting customers may have sticker shock.



In a research note Thursday, Moody's questioned the pricing strategy of Dallas-based AT&T and said \$14.99 a month is "a mistake AT&T may regret in our view."

HBO Max will launch in May 2020 with about 10,000 hours of content. HBO's TV shows and movies will anchor the new streaming service.

The subscription-based service will have popular sitcoms like Friends and Big Bang Theory, kids programming from Cartoon Network and Sesame Street and classic movies from Turner. It will feature original movies and TV shows, including Sesame Street spinoffs, a home design competition with Ellen DeGeneres and a forthcoming prequel of HBO's Game of Thrones.

The streaming service is the culmination of AT&T's acquisition of Time Warner, now called WarnerMedia. AT&T CEO Randall Stephenson said the merger would help the company keep up with customers' changing entertainment habits. The streaming service could also help AT&T retain or grow its wireless customers and offset the hemorrhaging of cable and satellite TV customers.

But AT&T's streaming service will be the priciest in a crowded field. Disney+ launched this week at \$6.99 a month, and signed up more than 10 million customers on its first day. It's offering a free 7-day trial and some Verizon customers are receiving a year at no charge.

Apple TV+ launched Nov. 1 at \$4.99 a month. And Netflix's standard subscription is \$12.99 a month.

"This will make HBO Max the costliest of all the SVODs (subscription video on demand services) and may be the biggest mistake AT&T will make in our view," Moody's analysts said in the report. "We believe management is confident with this price, since it plans to add



significantly more content and therefore will offer good value, relative even to the content offered to existing cable or satellite HBO subscribers. That said, we believe this is an error in judgment because subscribers will not easily recognize the increased content."

AT&T has defended the price of HBO Max, which it touts as having higher quality content and a larger library of TV shows and movies.

AT&T was boxed in on price by its decision to anchor the streaming service with HBO. An online subscription for HBO costs \$14.99 a month. With HBO Max, AT&T is offering customers all of the HBO programming—plus more.

Moody's said HBO Max's price point will make it harder for AT&T to attract and retain a large audience. If AT&T had a <u>lower price</u>, Moody's said, it'd have an easier time building scale. That scale would translate to lower costs per viewing hour for licensed or original programming—and a higher likelihood of producers wanting to work with HBO Max.

It said AT&T is wrong to worry about a lower price for HBO Max cannibalizing existing HBO customers. With the direct-to-consumer approach, Moody's said, AT&T will be able to bring in more money from the streaming service because it won't split revenue with pay-TV distributors.

It said this model would have allowed AT&T to lower the price and not lose profitability—even if HBO customers had switched to a lower priced HBO Max.

AT&T unveiled the service's price and lineup at a late October event at the storied Warner Bros. Studios. It said it would spend \$4 billion in the next three years on HBO Max.



AT&T's chief operating officer John Stankey—who previously was WarnerMedia CEO—said the company aims to have between 75 million and 90 million global subscribers to HBO Max by 2025.

In a CNBC interview, Stankey said HBO Max costs more than other streaming services because of its "pretty impressive and unique content." He said people will choose HBO Max because of AT&T's other products and services, such as broadband and wireless, too. He pointed to how Amazon bundles its streaming <u>service</u> with expedited package delivery.

AT&T CEO Randall Stephenson said HBO Max will stand apart from rivals.

"This is not Netflix. This is not Disney. This is uniquely HBO Max," he said. "AT&T and WarnerMedia is a powerful combination. And these two companies together have an amazing financial profile."

Moody's said HBO Max has a few key advantages, too: HBO is a wellrespected brand. The <u>streaming service</u> will have a mix of content for kids, young adults and adults. And it will have helpful features, such as a "Recommended by Humans" tool that allows celebrities and others to point viewers to favorite shows.

And HBO Max's biggest edge? Its plans to feature exclusive content and invest in original programming, Moody's said. AT&T has said HBO Max will have 31 original series in 2020 and grow to 50 originals in 2021, in addition to HBO's original programming

"We believe this is the most important factor in the transition from traditional television," Moody's said. "The company does not appear to be pulling any punches and is wisely investing for success here."

©2019 The Dallas Morning News



## Distributed by Tribune Content Agency, LLC.

Citation: Moody's: AT&T is making 'an error in judgment' in its HBO Max pricing (2019, November 18) retrieved 25 April 2024 from <u>https://techxplore.com/news/2019-11-moody-att-error-judgment-hbo.html</u>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.