

AT&T launches HBO Max as it makes a big bet on streaming

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AT&T's long-anticipated streaming service, HBO Max, officially launches Wednesday, thrusting the longtime wireless and pay TV provider into a crowded streaming market, perhaps forever changed by

the coronavirus pandemic.

The service will launch with 10,000 hours of programming, including new original titles like "Love Life," a scripted comedy starring actress Anna Kendrick, and the entire catalog of beloved sitcom "Friends." It will run new customers \$14.99 a month.

Since the advent of the telephone, AT&T has been able to get ahead of trends through strategic partnerships and acquisitions. With HBO Max, AT&T will be able to fully leverage the huge library of content it now owns—including TNT, TBS, TruTV, HBO and others—thanks to its \$108.7 billion merger with Time Warner, now WarnerMedia.

Now it's the latest entrant into the streaming wars—a fact that doesn't elude former network executive and current WarnerMedia chairman Bob Greenblatt.

Given the time it took for the merger to go through and the roughly 14 month timeline to build HBO Max, AT&T arrives ready to compete, Greenblatt said.

"The interface between AT&T and WarnerMedia has been really extraordinary," he said.

AT&T plans to invest \$4 billion in HBO Max over the next several years as it will have to create new content that retains subscribers for longer than initial promotional periods.

Just last week, WarnerMedia CTO Jeremy Legg revealed the company was hiring 200 people as it staffed up ahead of the platform's debut. Most of those hires will be engineers for the forthcoming ad-supported version of HBO Max to be launched next year, and to help launch the service internationally.

Greenblatt confirmed the company is also in the early stages of thinking about incorporating a social experience into HBO Max that would be akin to the chat functionality in streaming services like Twitch, where users can comment on content they watch together in real time.

"We like the idea of people being able to watch things together," he said.

As AT&T prepares to go toe-to-toe with entertainment behemoths like Netflix, Disney and Hulu, it's doing so during a pandemic-influenced economic downturn that's caused consumers across the U.S. to spend far more time inside their homes consuming entertainment.

But the immense loss of jobs across-the-board means economic decline may not fully recover by the end of 2020 or even 2021, according to top economists.

Additionally, the pandemic has only accelerated the cord-cutting trend that's caused companies like AT&T's DirecTV to consistently bleed subscribers as the secular decline in TV viewership that began in 2014 continues. More than 1.6 million subscribers to traditional cable and pay TV packages have jumped ship since the pandemic began—almost a 70% spike over the previous year, according to Fortune magazine.

AT&T's incoming CEO John Stankey hinted in the company's last earnings call that with a freeze on production of new content for TV, streaming and theaters, Americans may start seeing feature films debut on streaming platforms like HBO Max rather than in their neighborhood movie theater.

Greenblatt isn't concerned about the inability to produce new content, estimating that WarnerMedia won't feel the impact of the production freeze until the end of 2020.

"More and more will be added to the service over the next couple of years," Greenblatt said. "But it's not going to grow to be 20 or 30 or 40,000 hours. We're starting with 10,000 and we're going to hover in that area for the time being."

HBO Max has been presented to Wall Street as AT&T's long-awaited foothold in the new streaming reality of consumer entertainment—and its launch couldn't come any sooner for the company.

When activist investor Elliott Management came knocking on AT&T's door demanding the company take measures to increase its stock price, CEO Randall Stephenson came up with a plan to grow, pay down debt and pump up the [stock price](#). That plan included focusing on two key brands: AT&T's new over the top DirecTV replacement AT&T TV and streaming platform HBO Max.

AT&T has been saddled with heavy debt since taking on Time Warner in 2018 and DirecTV in 2015.

HBO Max may not move the dial in terms of revenue for AT&T for several years, however, according to Bloomberg analyst John Butler.

"It's more aimed at stopping the bleeding than really contributing to the top line over the next couple of years," Butler said.

The streaming service industry, as it currently exists, already has a number of contenders offering extensive content libraries to consumers at a fraction of AT&T's price in some cases. Disney+ costs \$7 a month and Apple TV+ will run subscribers just \$5.

Since HBO Max's unveiling in October, AT&T has received words of caution from credit agencies and analysts who warn the company may be making a mistake with its top-dollar price tag.

AT&T can't lower its pricing due to agreements it struck in the pay TV business. HBO is also made available to customers of other pay TV providers through deals with those providers, hampering the company's ability to undercut those clients.

But Stankey, the former head of WarnerMedia, has viewed AT&T's scale as a benefit for the forthcoming streaming service.

"There are three pillars required for success in streaming: premiere content, a technology platform and marketing and distribution," Stankey said during an investor day at Warner Bros. Studios where the company unveiled HBO Max. "Only AT&T enters this space with solid footing in all three."

AT&T's wireless and internet business are both more profitable than DirecTV and provide the company the ability to bundle the new [streaming service](#) with other products. AT&T also includes its own \$2 billion advertising company Xandr.

The company has already announced a number of bundling opportunities that will enable current customers in its pay TV and wireless businesses to get a taste of HBO Max without the friction of the \$14.99 a month price tag.

According to AT&T, tens of millions of its customers will have immediate access to HBO Max on launch, including current HBO, DirecTV Premier, U-Verse and AT&T TV Now Max subscribers as well as AT&T Internet 1000 customers. HBO Max also will be included in AT&T's unlimited elite wireless plan, with free trial periods available to other wireless subscribers.

In 2019, Stephenson said he hopes HBO Max will hit 50 million subscribers by 2025 with the help of bundling efforts through other

cable providers. It's struck partnerships with a host of pay TV and connected TV platforms, but it's missing deals with Amazon, Roku and Comcast.

Stephenson's successor Stankey, who will take the reins at the company in June, has said that the company won't reveal subscriber numbers immediately after launch.

So it may be some time before the public and investors have a sense of how HBO Max fares in the streaming market.

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