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The hidden problem with HBO Max’s service plan

It might need to go to war with its own partners

By Steven Zeitchik

For consumers, it felt like a sweet stream: Pay the same $15 you’re already paying for HBO, get all the additional content of HBO Max.

As the AT&T-owned WarnerMedia unveiled Tuesday, this is how the cord-cutting service will work. When it launches in May, HBO Max’s monthly price will entitle HBO subscribers to watch the network of not only “Succession" and “Sesame Street” but also originals such as a “Grease” spinoff, a Gina Rodriguez movie and a Ridley Scott science fiction series, not to mention hits like “South Park” and “The Big Bang Theory.” All for the same 15 bucks they’re already paying.

But there’s a catch — for HBO.

To offer such a service to its subscribers, HBO doesn’t actually have the clear field that the presentation suggested: It has an obstacle-strewn one.

Outside of AT&T’s providers and the HBO Now service, HBO relies heavily on outside companies to deliver its programming to some 30 million subscribers. Those companies, such as Comcast, Charter and Dish, all take a chunk of revenue for providing — and often promoting — HBO.

John Stankey, CEO of WarnerMedia, introduced HBO Max on Tuesday. (Presley Ann/Getty Images via Bloomberg)

And that’s where the problem comes in.

These are companies AT&T does not own. And they’re companies that decidedly have a vested interest in not shifting their consumers over to HBO Max. Why would they? They don’t stand to take in any of the dollars once it happens.

A Comcast representative and a Charter representative, the company’s two biggest cable providers, declined to comment.

Analysts, however, were plenty verbose.

“The existing [traditional] subscribers — do you need to go back and reopen their current … agreements?" John Hodulik of UBS asked executives after the presentation.

“So I sign up for HBO Max on Comcast or Charter’s Spectrum … How does that sausage all work?” queried Rich Greenfield of LightShed Partners.

The theme they’re hitting on: Sure, all these conversions are not a problem when it comes to the subscribers of DirecTV, which AT&T owns, or HBO Now. HBO will let them switch right away; the money’s going into the same corporate coffer.

But what about everyone else? How does HBO move them over, and why would those companies help them do it? An executive at one provider laughed when the question of such assistance was posed. If anything, they would have motive to stop subscribers from shifting to HBO Max — such a switch is money directly out of their pockets. And that puts HBO, which needs these companies to get aboard or at least out of the way, in a tough spot.

HBO sought to downplay these concerns.

“We are in active discussions with our distributors. The intent is indeed to get these existing 30-plus million consumers access to HBO Max as quickly as we possibly can,” said Tony Goncalves of Warner subsidiary Otter Media, who has been tasked with the effort.

An FAQ on HBO Max’s site played things equally close to the vest.

“If you subscribe to HBO through a cable or TV provider, stay tuned for more details as we get closer to our launch date,” it offered to the question of what happens if you subscribe through a non-AT&T provider.

So how would this seemingly unresolvable stalemate play out? In one scenario, HBO would have to pay a high sum for these providers to facilitate an HBO Max transition — something WarnerMedia would almost certainly not want to do for a service whose contents costs are already well over $1 billion with no timeline for profitability. The whole point of streaming is to reduce the payout to distributors and shift the dollars in-house.

In another scenario, HBO would go to war with its own distributors — that is, target people currently paying Comcast or Spectrum for HBO and woo them away. Not exactly ideal either, given that for the foreseeable future it’s still getting tens of millions of subscribers through these companies.

In yet another scenario, HBO could raise the price of Max for non-AT&T customers so there’s enough money to go around to the Charters and Comcasts of the world, too. That’s also pretty unpalatable, given that HBO Max is already priced higher than every other large streaming service.

“WarnerMedia is caught between a rock and a hard place,” veteran L.A.-based investment banker Lloyd Greif said. “It’s a highly competitive space, and it’s not called the streaming wars for nothing.”

Greif predicted greater tension between HBO and its partners as a result.

“Yes, AT&T is throwing its [providers] under the bus," he said. And "since AT&T doesn’t have their back, they will have to cover their own.”

This all points to a larger streaming wars issue for the legacy companies seeking to do battle. A firm such as WarnerMedia wants to reach consumers directly — there are, after all, numerous financial and marketing advantages, and Wall Street loves it.

But HBO still does business with traditional distributors — tens of millions of subscribers’ worth of business.

That means that a company is trying to get into distribution at the same time it still needs distributors.

“We’re optimistic and hopeful we’ll open up the deals and be able to do something proactively,” Stankey said Tuesday, speaking of the distributor relationships. Then he cautioned, “Obviously it takes two parties to [make a change].”

And one of those parties may be wondering why it should.