TECHNOLOGY JOURNAL.

Hotel-Room TV Tries to Freshen Itself Up

LodgeNet Aims to Fight The New Competition From Portable Media

By Mariam Fam

Many travelers these days often carry their entertainment with them, with iPods, portable DVD players and laptop computers. That is putting pressure on companies that provide on-demand video for hotel rooms, a business that is both consolidating and striving to innovate.

Now, two leading U.S. providers of paid-for movies and other entertainment for hotel rooms have merged. **LodgeNet Entertainment** Corp. announced yesterday that it completed the acquisition of Ascent Entertainment Group Inc., the owner of On Command Corp. for $380 million in cash and stock. The deal will expand LodgeNet's footprint to more than 1.8 million hotel rooms from about one million, mostly in the U.S. and Canada. LodgeNet, which says their combined revenue for 2006 totaled $550 million, boasts clients including **Hilton Hotels** Corp.

Leverage to Negotiate

LodgeNet says the acquisition will allow it to seek new revenue-growth opportunities. The Sioux Falls, S.D., company hopes to use its larger presence to negotiate better deals with content providers. For one, it aims to acquire rights to offer hotel guests on-demand, current-season episodes of shows such as "Desperate Housewives"—rather than last season's episodes, which is generally the case now.

It hopes that as more hotels upgrade to large-screen, high-definition televisions—a visual quality that travelers' laptops and hand-held devices can't match—guests will be tempted by on-demand offerings.

"Consumers have more and more options for entertainment in their normal lives, and they either expect or want the same when they travel," says Scott C. Petersen, LodgeNet's president and chief executive. "As consumer devices...have proliferated over the past three to five years, we have continued to expand the types of content that we offer through our systems and also the quality of content."

Before the On Command acquisition, LodgeNet was already taking steps to respond to the ubiquity of laptops and other devices. Earlier this year, it began offering hotel chains a device to enable hotel guests to link their electronic equipment to in-room TV sets.

Video and other electronic entertainment for hotel guests has ballooned in the past two decades. In 1986, LodgeNet offered its clients just eight movies to watch, and only at predetermined times. Today, the company has as many as 120 movie titles in some rooms that can be watched anytime.

Upgrading to Digital

The company also has upgraded most of its rooms from analog to digital technology, which allows for more content and faster updates of lineups as new titles become available. In addition to movies, LodgeNet has been adding games, TV shows, music and, more recently, subscription sports programming to its offerings. Earlier this year, it completed its acquisition of StayOnline Inc., which provides broadband access to hotels in the U.S.

Generally, LodgeNet has agreements with studios, whereby a percentage of each movie purchase price goes to the studio. The hotel collects the price from the guest and keeps a commission before paying LodgeNet. LodgeNet then pays the studio its share. In the case of adult movies, LodgeNet pays a flat access fee. Hotels usually own their own TV sets, while LodgeNet installs the equipment and systems needed to deliver the content to the TV.

Advertising is another possible source of diversifying revenue streams. With its latest acquisition, LodgeNet has the potential to be more attractive to marketers, analysts say. It has already rolled out an advertising service in 100,000 of its rooms.

Advertising models in the industry might include channels featuring infomercial-style programming with commercials for attractions and businesses in the hotel's vicinity or ads that guests can click through based on their interests.

"I think advertising is probably the biggest wild card in the whole mix as far as their potential long-term growth," says Murray J. Arenson, an equity analyst with Ferris, Baker Watts Inc.

New Threats Loom

But new technology continues to pose threats. Web access, laptops, DVD players and iPods are no longer the only source of competition: the Slingbox from **Sling Media** Inc., for example, lets owners remotely watch content of their home TVs from anywhere using computers or mobile devices. Users can even remotely watch content they recorded on their home digital-video recorders. Some wireless and cable providers are making some video content available for viewing on cellphones.

Another threat is that movies are released to video stores faster than they once were. Having the right to display popular movies before they are available for home use is a major ingredient to the appeal of the offerings of companies like LodgeNet.

To diversify its sources beyond the hotel industry, LodgeNet is making inroads in markets such as health care—where it provides on-demand patient education and entertainment to hospitals—and travel centers that allow resting truck drivers to plug their own TVs into the company's offerings.

Time-Warner Cable to Carry Disney HDTV

Reuters News Service

Walt Disney Co. and **Time Warner Cable** Inc. reached distribution agreements that will include the launch of new Disney high-definition channels on Time Warner Cable's system.

The companies said the Stamford, Conn., cable-television company, which was recently spun off from media conglomerate Time Warner Inc., will carry sports channels ESPN2 HD and ESPNU later this year. Some systems will also offer Disney Channel on Demand and ESPN Desportes.

Time Warner Cable, which has 13.4 million subscribers, also agreed to carry three new high-definition channels—ABC Family HD, Disney Channel HD and ESPNEWS HD—in 2008.

The companies also extended a retransmission pact for Disney's ABC-owned broadcast television station on Time Warner Cable systems. Retransmission discussions between cable operators and broadcasters have become strained in recent months as broadcasters started to demand that cable operators pay for the right to carry the 'free-to-air' stations. Financial terms of the agreements weren't disclosed.