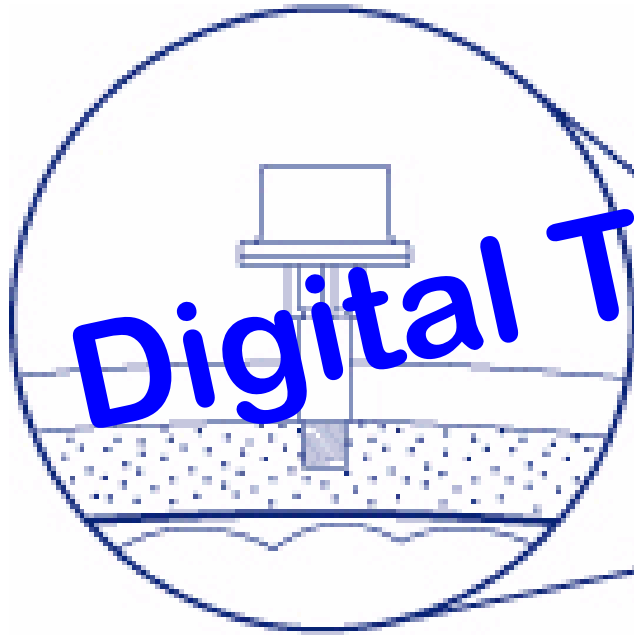


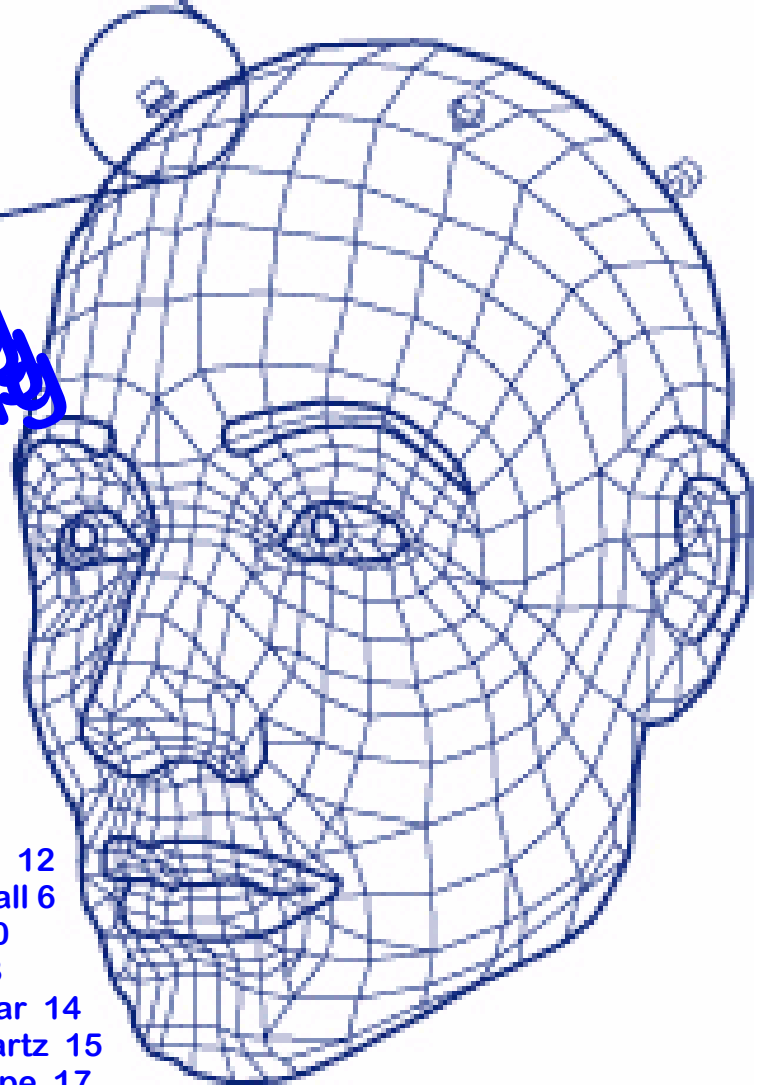
# *Fault Lines*

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## Sharing Movies on DVDs: Trades Online Cut Out Middlemen

By LISA WONG MACABASCO

Dan Robinson first came up with the idea for a DVD trading service after encountering a problem common to many DVD owners — friends borrowed his and never gave them back.

Maybe, he thought, there was a way to give out his rarely-watched DVDs, not get them back, and also get something out of the deal. "I didn't care if I never got them back," said Robinson, 31. "They're doing no good sitting on my shelf except maybe the case looks nice."

Thus Peerflix was born, an online peer-to-peer DVD trading service that improved upon the Netflix model of online DVD rentals by cutting out the middleman. Robinson created the site in June 2004, and it has slowly been generating buzz solely via blogs and word of mouth.

Today, the rapidly growing company boasts "thousands and thousands of members" with almost 100,000 DVDs traded to date, according to Robinson.

On the site (<http://www.peerflix.com>), members list the DVDs they want to sell and also the DVDs they want to acquire. Based on the idea that one's trash is another's treasure, members send their unwanted DVDs out to other members and receive credits called Peerbux, which are calculated based on the DVD's current retail value. The more movies you send out, the more Peerbux you gain and the more movies you can subsequently buy from the site.

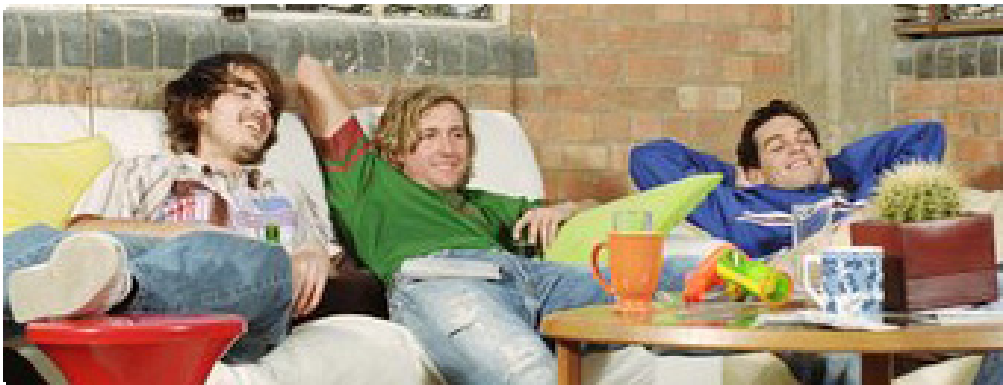
Even those with small DVD collections can be active Peerflix members. Sending out just one DVD from your collection entitles you to hundreds and hundreds of DVDs, albeit one at a time. The service also includes dependability ratings for each member and a guarantee that credits members for any lost, stolen, or damaged DVDs. And the movies you get are yours to keep.

Peerflix is actually the low-tech version of Robinson's initial vision. He envisioned a digital video-on-demand version of Peerflix, where people could share their DVDs with their friends digitally over the Internet. He ran into a small hitch — the law. Legally, people can copy but not decrypt DVDs, which is necessary to send them through the Internet. "We decided not to have the fight with the Motion Picture Association of America and just go a route that we thought would be legal," Robinson said.

Software developer Brian Behrend, 24, joined Peerflix to improve his DVD collection by adding some and taking away others.

"My goal is to get rid of movies I probably wouldn't ever want to watch again or I shouldn't have bought in the first place," Behrend said. "I'm not trying to replace them with new releases, just movies I can see myself watching multiple times or favorites that are missing from my collection."

With no membership fee and members paying only \$1 per trade and \$0.37 postage for each DVD sent, Robinson boasts that Peerflix is the cheapest way to watch movies. "Other than putting an antenna on your TV, there's no way to watch movies for cheaper." The company is developing a monthly flat-fee ser-



**PEERING:** Website photo of customers watching DVDs obtained from online service.

vice instead of requiring payment for each trade.

In fact, Robinson believes Peerflix poses a plausible threat to established DVD distributors Netflix and Blockbuster. Robinson has found that the majority of Peerflix's customers are also Blockbuster and Netflix users, as well as avid DVD buyers. "People that use our service are DVD fanatics," he said. "We're not necessarily stealing customers away from Netflix, but I know there are a number of users saying they have cancelled their Netflix account."

Robinson said the beauty of Peerflix is that members can receive hundreds of DVDs per month, unlike Netflix where members receive up to three at a time. And Peerflix's members are certainly taking advantage of the difference — the company's heaviest user sends out and receives 300 movies per month.

Does he think peer-to-peer services will be the next big trend in DVD distribution? "If we have anything to do with it," he laughs. "I'm not so bold to say that we'll put Netflix or Blockbuster out of business — there's still a market for people who want to rent DVDs, and Peerflix won't be attractive to them."

Netflix, however, sees Peerflix as nothing more than filling a niche in the market. "We don't see them as competition," said Shernaz Daver, Netflix spokesperson. "We have almost 3 million members, so it's highly likely a lot of our members are their members. But, they're a different model. Netflix is a rental business online." Daver also sees no need for Netflix to change to compete with the new peer-to-peer services. "We have a very successful business right now, a \$500 million revenue business. We don't plan to change it at all."

She also questions whether the term "peer-to-peer" should be applied to Peerflix. "You have to be careful when you define peer-to-peer services," Daver said. "Peer-to-peer was something like Napster. This is very different. Peerflix is a physical commodity moving one way and another. Napster could move music units without people having to buy them. Peerflix defines themselves as peer-to-peer, and that's fine." Blockbuster did not respond to inquiries for comment.

Software developer Behrend, for one, has slowed his Peerflix usage down to once a month after his initial period of cleaning out his collection because he wants to keep the majority of his DVDs. He uses Netflix or Blockbuster to see new releases.

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## Peerflix: Trading Movies on the Internet in a New Business Model

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Those services "are so cheap right now, that if you really want to watch a lot of new movies they're better options," he said. But Behrend believes Peerflix is complementary to the two other services.

"Being a member of both Peerflix and Netflix makes perfect sense," he said. "Netflix and Blockbuster are both excellent rental services for renting the latest movies, while Peerflix is great for cleaning up or refreshing your personal collection."

One of the biggest challenges Peerflix faced was earning trust with users and proving the service actually works.

"There were a lot of people who own DVDs and don't want to trade, but most people own about an average of 15 to 20 DVDs, and they've always got a couple they're willing to part with," Robinson said.

He also found that once people learn how easy and reliable the service is, they offer to trade movies from their collection that they like to watch, knowing they always ask for those movies back.

"After the try-out phase, they'll say, 'Let's do more!'" Robinson said. He is working on a way for members to share with friends and others in their social circle instead of with strangers.

"Hopefully if you feel comfortable trading with your friends, you'll feel comfortable trading with the network at large," he said. He also expects to add audio CDs and video games to the trading network in the future.

Jennifer Chessar is a self-described movie and TV series buff who manages a video store in Eureka, Calif. She has about 2,000 DVDs in her personal collection.

"At first I was hesitant to trade my DVD's until I realized how many DVDs I had in my collection that I had not viewed in several years," she said. Now she receives about 10 DVDs through Peerflix each month. While not a customer of Netflix or Blockbuster, she thinks Peerflix is superior to both because she has the option of keeping the DVDs, and she enjoys the peer-to-peer element of Peerflix. "It adds a bit of fun when a Peerflix customer is sweet and includes the DVD case or a nice note," she said.

Robinson, who claims he's not a heavy Peerflix user and receives only about six DVDs each month, cites himself as another example of a satisfied customer:

"At any one time, I've got 6 movies I haven't seen yet that I got off Peerflix. As soon as I do watch a DVD, I can mail it out, while I also have those other movies. Before I'm done watching those, I've already got new ones in the mail. I'm never without a movie in my house I haven't seen and I'm never without a movie I don't want to see."

Robinson hopes to break the myth DVD services like Netflix and Peerflix are less convenient. "The reality is that they're more convenient," he said. "What's more convenient, stopping at a Blockbuster on your way home or going straight home and getting something off your shelf that you know you want to watch?"

But he still has hopes for Internet DVD distribution, and when that happens, he believes it will trump Netflix, Blockbuster, and even Peerflix. "Someday all the motion picture guys and the studios will realize the Internet is a good avenue to distribute movies," he said. "And when we go digital, it'll apply to the masses. It's a much more cost efficient way to do almost any business."