ON DVD

Watch it and then swap it

Peerflix gives consumers another option for their old discs — barter.

By Elaine Dutka, Times Staff Writer

Eighteen months ago, Billy McNair told his friend and business associate Dan Robinson that he was heading out to buy some "Baby Einstein" DVDs for his daughter. No need, Robinson replied. His daughter, a year older, had already moved on to "Dora the Explorer." Why not take hers instead?

"The proverbial lightbulb went off," said McNair, 32. "Everyone has a common pain point — used DVDs lying around gathering dust.... Sixty percent of all DVDs, we've been told, are viewed only once or twice. We realized this could be huge."

That was the genesis of Peerflix, described by analysts as a cross between eBay, the online marketplace, and Netflix, a pioneer in online video rentals. Like the former, it's a clearinghouse for "ownership transfers," products sold from one person to another. Like the latter, it deals in DVDs, permitting people to trade those they no longer want for others they'd like to own.

Peerflix.com opened to the general public in late 2004 and, after a trial period, was officially launched last week. Moving beyond its initial test base — 200 tech-oriented consumers in the San Francisco Bay Area and New York City — the Menlo Park-based company cofounded by McNair and Robinson recorded 10,000 trades in August. They project 35,000 to 40,000 trades a month in all 50 states and Canada by year's end.

"Consumers now have a third option — not just buy or rent but trade," said Robinson, 31, who runs the Vancouver, British Columbia, office.

Users sign onto Peerflix and begin by compiling two lists: their "haves" and their "wants." The company e-mails members when the desired DVD comes in — matching people with product. A person might send "Finding Nemo" to someone in Baltimore and receive "The Bourne Identity" from Pittsburgh. Each time they mail out a DVD, sellers earn "peerbux" — internal currency they spend when ordering a disc. Each title is assigned a value — typically, three "Peerbux" for new releases, one or two for the rest. Rather than a monthly subscriber fee, DVD recipients pay Peerflix 99 cents per transaction.

"One man's trash is another's treasure," McNair said.
Trading used DVDs isn't original, the founders concede, but the timing is right.

In 2000, WebSwap offered used DVDs on its barter-goods network, but the operation ultimately failed. (DVDs were not as well established, and inventory was limited.) Today, DVDs are a driving force in the movie world, with revenue more than double that of the box office. Amazon Marketplace and EBay sell used DVDs online, but the consumer ends up paying more on those services after shipping and transaction fees or commissions are factored in. Blockbuster also sells used DVDs, they said, but the retail outlet has a far smaller collection and concentrates on mainstream titles.

Peerflix, at present, poses no threat to established entities such as Netflix or Amazon.com, said Don Rosenberg, publisher of the Santa Ana-based Home Media Retailing.

Still, he says, the numbers are impressive for a low-overhead start-up with no inventory, and the potential is certainly there. The inventory is vast, since it consists of "everybody" — and most DVD buyers have a stack of unopened discs.

"There's a 'shrink-wrap phenomenon' when it comes to DVDs — people haven't taken them out of the wrapper," he said. "Time is of the essence and — unlike music, a passive medium — movies require a two-hour commitment."

McNair and Robinson met in 1998 at Spinway, a private label Internet service provider founded by Robinson. Two years later, they sold the company to Kmart, which generated enough cash to get Peerflix off the ground. In November 2004, they received a cash infusion from venture capitalists 3i and BV Capital. Peerflix now has 15 staff members, part and full time, and another round of financing is in the works. The greatest challenges: perfecting the "matching" technology and managing the Peerbux currency.

Studios express concern about quality control, piracy and copyright infringement — issues Robinson and McNair said they've addressed. Peerbux are credited back to a customer's account if a disc doesn't play. And anyone receiving a DVD that looks irregular is obligated to return it so the pirated copy doesn't circulate. As for copyright infringement, they said, federal law allows anyone who buys a copyrighted work to give away, lend, rent or sell it.

"People associate us with ... online peer-to-peer networks that swap digital music or movies illegally," said Robinson. "But we uphold copyright laws ... When someone shares a DVD with a friend on Napster, both end up with a copy. On Peerflix, the DVD is physically transferred from one person to another, so the quantity doesn't double."

The company could actually spur retail DVD sales, the founders suggest. "DVDs are an impulse purchase, and our company gives repeated value to the asset," McNair suggested. "People are more likely to buy at Target or Wal-Mart if they think DVDs have an afterlife."

Rentals may be another matter. Will consumers continue to pay an online rental company a monthly fee of $17.99 (the cost of Netflix's most popular DVD plan) when they can buy used but serviceable DVDs for less than $1 apiece?

Six-year-old Netflix, with 3.2 million subscribers and more than 50,000 titles, isn't worried. Others have challenged their market supremacy — so far without success.

Three weeks ago, the company announced it expects to have 5 million subscribers in 2006, a year earlier than expected. And it forecasts a subscriber base of 20 million in five to seven years.

"Netflix has seen 23 consecutive quarters of subscriber growth," said Steve Swasey, director of corporate communications for Netflix. "We know who's advancing and retreating in the marketplace."

Before long, Peerflix plans to expand into video games and CDs. Down the road, the company is aiming ambitiously for "millions" of members, trading in "platforms" as varied as baseball cards and women's handbags.

"We know we're on to something big," McNair added. "How big is the question."

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