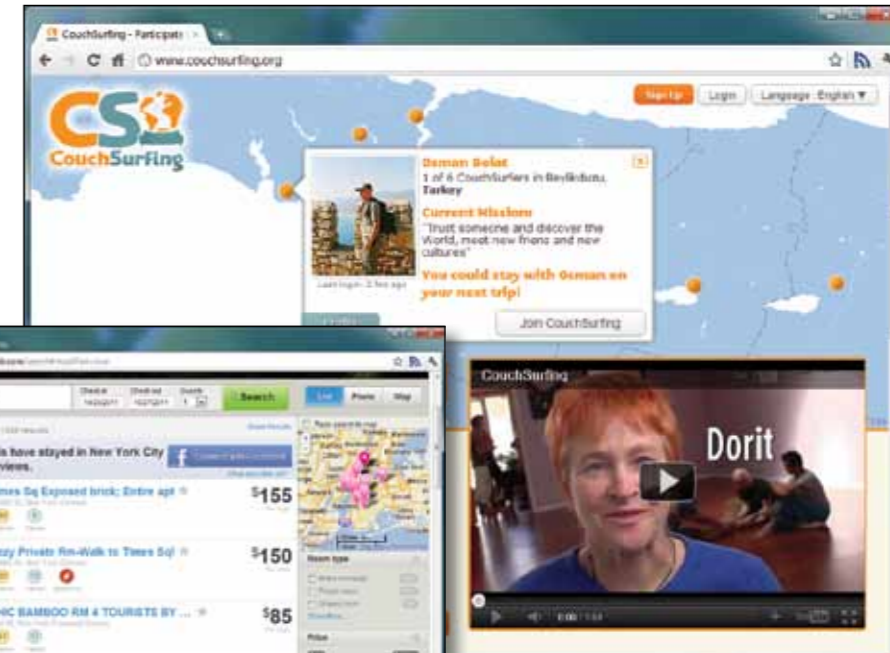
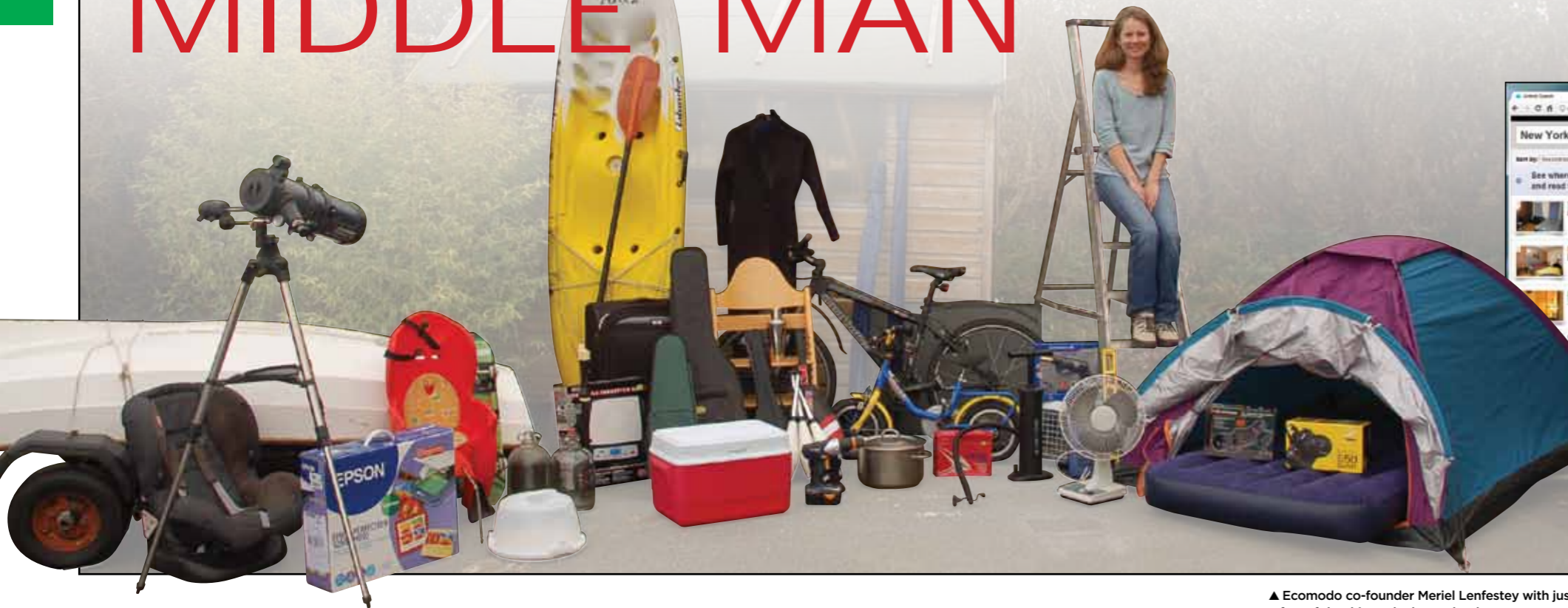


# CUT OUT THE MIDDLE MAN



## Peer-to-peer isn't just about dodgy file-sharing. Ben Pitt explores a new breed of companies that are using the web to let people trade goods and services directly

The internet has transformed many aspects of our lives, including how we communicate, learn, have fun and shop. But while Amazon and iTunes Store have replaced high street shops such as Woolworths and Virgin Megastore, there's a pervading culture of large companies providing products and services for individual consumers. Further change is on the horizon, though. Wikipedia and eBay have demonstrated people's willingness to work or trade directly with each other. These organisations act as facilitators, providing automated systems that let people buy, sell exchange or give away products, services and information. It needn't stop at second-hand goods and encyclopedia articles, though. A new generation of entrepreneurs is bringing this peer-to-peer model to everything from hotel rooms to product design to banking.

### WHERE THERE'S A WILL...

There are strong incentives for dealing directly with individuals. The most obvious one is financial: if you cut out – or at least pare back – the middleman, everyone else should get a better deal. There are more personal incentives, too. It's gratifying to know that your money is going straight to the person who provided the product or service, and by talking to him or her, you can ask for exactly what you want.

The desire is there, but forging these peer-to-peer connections can be tricky. There are directories such as Yell.com, but they still involve trawling through listings, getting quotes, comparing options and often taking a punt on the quality of a product or service. Meanwhile, big businesses make it incredibly easy for us to spend our money with them. Online stores are easy to use, and can have huge economies of scale, at least on standardised products such as books, gadgets and mass-produced clothing.

Similar incentives and obstacles apply to borrowing versus buying. If you needed a barbeque one weekend, you'd probably be able to borrow one by asking friends. Many of us would prefer to nip to B&Q, though. It's quicker and not very expensive, and many people are reluctant to ask even small favours of others we know. What if they are not too keen to lend it? It might not be worth the embarrassment of asking.

### ...THERE'S A WAY

In the past two years, numerous web start-ups have launched with the purpose of breaking down these barriers. Just as eBay helps buyers and sellers of new and second-hand goods to find each other, CouchSurfing ([www.couchsurfing.org](http://www.couchsurfing.org)) connects people who want somewhere to stay with those willing to put them up. No money changes hands, but the

benefit to both parties is a cultural exchange, and often, a new friendship.

These peer-to-peer connections needn't be driven purely by social motivations. Airbnb ([www.airbnb.com](http://www.airbnb.com)) takes the same principle as CouchSurfing but is for people who want to make some money from letting a spare room or even their entire home while they're away.

Threadless ([www.threadless.com](http://www.threadless.com)) is all about peer-to-peer product design. Its T-shirts are designed by its users, who also rate each other's designs to help the company choose which to produce. After all, it's the users who'll be buying them. Successful designers earn \$2,000 (around £1,200) cash plus \$500 (£300) credit on the site.

The key to helping buyers and sellers, users and providers find each other is technology. The web enables communities to reach critical mass so that there are enough people in the system to match offers with requests. Smart search facilities also help these people find each other.

GaBoom ([www.gaboom.co.uk](http://www.gaboom.co.uk)) is an online game-swapping website. Visit the site, type in the name of the game you want to swap and a list of search results will appear. As you build up your lists of offered and wanted games, the website matches you with other users whose needs mirror yours. GaBoom can synchronise automatically with Facebook and Twitter, so friends can easily see which games you have

▲ Ecomodo co-founder Meriel Lenfestey with just a few of the things she has to lend

available, what's on your wish list and what you've swapped recently.

### GETTING ONLINE WITH IT

YourJobDone ([www.yourjobdone.com](http://www.yourjobdone.com)) is the modern equivalent of a concierge service, connecting people who want small jobs done with those who are willing to do them. It currently operates only in London but the

intention is to expand the service to other major UK cities in early 2012.

Typical jobs might include gardening, moving furniture, washing a car or walking a dog, but anything is potentially possible. Posting a job is a simple matter of visiting the website (there's also an Android app in beta) and describing the work involved, a time, location and the maximum you're willing to pay.

Anyone can register to do jobs. You specify which types of work you're interested in by ticking categories and subcategories from a list that ranges from plumbing to shopping. When a job comes in, YourJobDone automatically selects anything from five to 30 suitable candidates and texts them the basic details of the job. They reply to say how much they'd be willing to do it for, and after an allotted time, the lowest bidder receives the full details, including the poster's phone number.

▲ Visiting a new city can be so much more rewarding if you stay with a local. CouchSurfing and AirBnB make this possible

As its co-founder David Caldwell explains, "At the moment the amount of hassle you have to go through to find someone to do some jobs of work is greater than the value of the job itself". With YourJobDone, jobs and workers are matched geographically and by skill, and it all happens quickly, with the minimum of effort and for a price that works for both parties.

### REPUTATION AND TRUST

A key element to any peer-to-peer service is developing and maintaining trust between users. Large businesses have a vested interest in fostering a good reputation, but the reputation of YourJobDone depends on the honesty and goodwill of its users.

That might seem like a gamble, but eBay has shown that, with the right systems in place, online peer-to-peer communities are able to police themselves. eBay traders will go out of their way to provide each other with positive buying and selling experiences. Their motivation is often altruistic, but it must also have a lot to do with eBay's reputation system, where users are keen to receive positive feedback that will let them continue to trade on the site.

The same principles apply to YourJobDone, but the motivation for workers to receive positive feedback is even more explicit and direct. When jobs are put out to tender, the people they're offered to are filtered by skill and location but also by reputation. As such, it's in their interests to do jobs well in order to receive further offers of work.

Caldwell points out that, with traditional trade directories, "There's no reputation information, or if there is, it could have been put there by anyone. When a new user joins YourJobDone, their email address and mobile number are confirmed as part of the registration process. While it is possible for people [who have built up a bad reputation] to get a new phone number and email address and re-join, the chances are they'll see that as too much effort."

Most peer-to-peer marketplaces handle specific types of transactions, but Ecomodo



▲ At Threadless, T-shirts are designed, selected and bought by the online community



▲ GaBoom lets people across the UK swap games for a small fee

(www.ecomodo.com) has a much broader remit. Its strapline is: 'Lend and borrow each other's everyday objects, skills and spaces with confidence.' In practice this means a dizzying array of listed items: games consoles, clothes, inflatable mattresses, use of a house once owned by Ronnie Corbett, IT advice, instruction on how to cook a fish stew, and so on. Many people list their possessions and time for free – in a local search, we found people offering a power drill, a

djembe drum, a 27in TV, gardening services, hypnotherapy and a tuxedo at no cost. With such a wide range of services, we asked Ecomodo's co-founder, Tracy Currer, how the company goes about maintaining trust between its users. "On joining, people get a friends circle, so when they invite friends, they'll automatically join their friends circle," said Currer. "Then they can join other circles or create their own. These can be based around a neighbourhood, school,

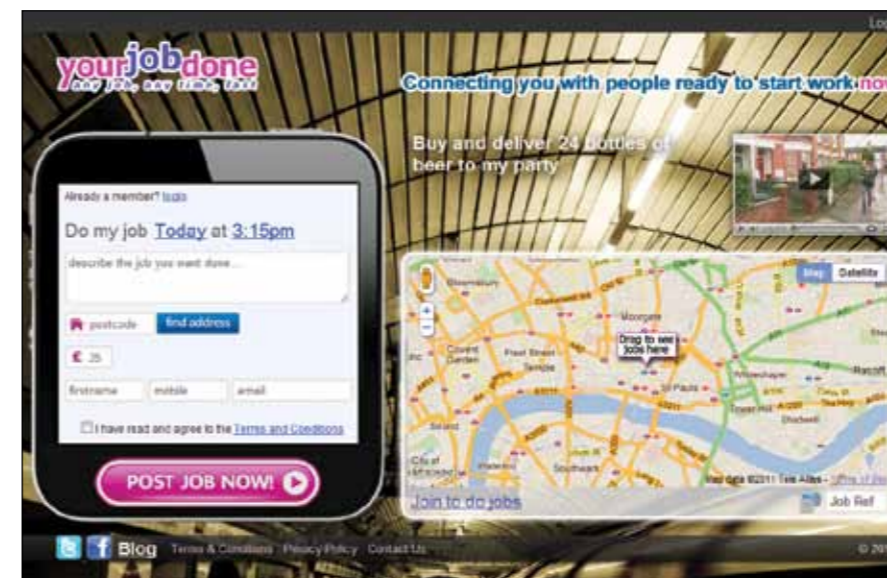
workplace or any kind of community group. Users can choose to borrow from or lend to anybody on the site, only people in their circles or just a specific circle."

This helps people feel more confident about lending, either because they know the other person, or because they know they're the sort of person who will use the item responsibly. For example, someone might choose to lend photography equipment only to a photography circle so he or she knows that the borrowers will be proficient in using it.

A circle is moderated by the person who set it up, and there are three types. Completely open circles are great for neighbourhoods, because most people don't know their neighbours' email addresses. Semi-private circles are for when someone wants a little more control, such as for a photographers' circle or one associated with a school. People can only request to join these, and the moderator controls admission. Completely private lending circles are by invitation only, and may be for a couple of schools or businesses who just want to share resources between each other.

"We wanted to put out a very flexible tool, see any patterns and understand how people want to use it," explains Currer. "Recently, we had a lending circle for council staff for stuff that's lying around the offices, to make sure it's being used and not needlessly being bought in by another department."

There are also comprehensive mechanisms in place to avoid and resolve problems. When a lender adds an item, he or she can opt to have a deposit taken, which Ecomodo holds until both parties have left feedback to say they're happy. The lender can opt for insurance, paid for by the



▲ YourJobDone makes it quick and easy to find people to do small jobs

borrower, which covers theft and damage for objects worth £50 to £1,500. There's also a pro forma contract between the lender and the borrower, which helps negate liability from the lender in the event of personal injury.

These systems for encouraging and enforcing good behaviour are sophisticated and elegant, but there's always a possibility that people will deliberately play the system. Could there be an even better means to ensure good behaviour?

In their book, *What's Mine Is Yours*, Rachel Botsman and Roo Rogers discuss peer-to-peer marketplaces and the systems of trust upon which they depend. They envisage a future where people's reputations across multiple services are aggregated to present a detailed insight of their online transaction history. "We'll be able to perform a Google-like search to see a complete picture of how people behave and the degree to which they can be trusted."

It's an idea that Caldwell of YourJobDone embraces. "Peer-to-peer marketplaces today are in a similar position to where retail banks were 80 years ago before they exchanged credit ratings with each other. You have a big company such as eBay, which has a massive amount of reputation information locked up in it. At the

moment it would see that as its own high-value property, but as other businesses grow it will be in eBay's interest to exchange its reputation information with other peer-to-peer companies. I believe that, within 10 years, exchange of an individual's reputation as a trader will be as commonplace as an exchanged credit score."

**A GOOD DEAL FOR EVERYONE**

The benefits that peer-to-peer marketplaces bring to their users are clear, but few of these organisations are charities or government bodies. They too need to make something from the deal.

YourJobDone launched a beta service in February 2011, and officially launched in July. The company's overheads are pretty low, but there are still the costs of sending text messages, office and server space, and wages. We asked Caldwell how YourJobDone covers its expenses.

"We've been experimenting with a few different things. During the beta we tried a flat posting fee, which went down like a lead balloon. We went over to commissions, which is a pretty well-established way of collecting revenue. But at the moment we aren't collecting any fees at all, simply because we're pushing for adoption. There's some mental barrier between

free and even a small charge until you get a certain level of adoption."

Because WhipCar (see the 'Sharing the road' box opposite) provides insurance, it's relatively easy for it to place itself in the middle of financial transactions and charge 15 per cent commission plus VAT. Car owners are paid in monthly instalments. At Ecomodo, all money passes through the company via PayPal, and it adds a commission of seven per cent, with a £1 minimum.

When we spoke to Jessica Ratcliffe of GaBoom in September, the site offered three options for swapping. Secure Swap involves posting the games to a PO box so that GaBoom can inspect them before posting them on and taking a £4.40 commission. In GaBoom Escrow, each user places a £20 deposit with GaBoom, which it releases (minus £2 commission) when the games arrive safely. It's also possible to arrange a private swap through the forum, which costs nothing but still benefits from GaBoom's customer-matching technology. However, Ratcliffe described plans for a change to the business model.

"We're coming in with a whole new swapping system. Members will be matched together exactly as they are now. They'll send each other a swap request and then pay a nominal transaction fee, which we're looking to set at about £1. After that, they're given each other's addresses, they send their games to each other and, once received, they can leave detailed feedback about each other. At the moment, the feedback people can leave is really just a comment, but what we're moving towards is allowing them to rate each part of the swap."

Ratcliffe appeared on Dragon's Den in 2010; visit <http://tinyurl.com/gaboomdragon> to see her pitch. While she made a great impression on the dragons, they doubted her existing business model, seeing physical checks of games as an essential part of the service but one that would be prohibitively expensive to administer. While Ratcliffe has taken these points on board, she doesn't share the dragons' pessimism that GaBoom's users can't be trusted to treat each other fairly. After all, it's a model that has been proven to work at eBay with much higher-value items. What's more, gamers are probably as predisposed as any group to interacting socially – and socially – as part of an online community.

**Sharing the road** WhipCar in action

It's one thing to design a trust system that lets people swap games or borrow ladders, but can people be trusted to borrow goods that are worth thousands of pounds?

WhipCar ([www.whipcar.com](http://www.whipcar.com)) is demonstrating that they can. It's a peer-to-peer marketplace for cars, where ordinary owners lease their cars on an hourly, daily, weekly or monthly basis to people in their neighbourhood. Owners set their price, and can accept or reject booking requests as they arrive by email and text.

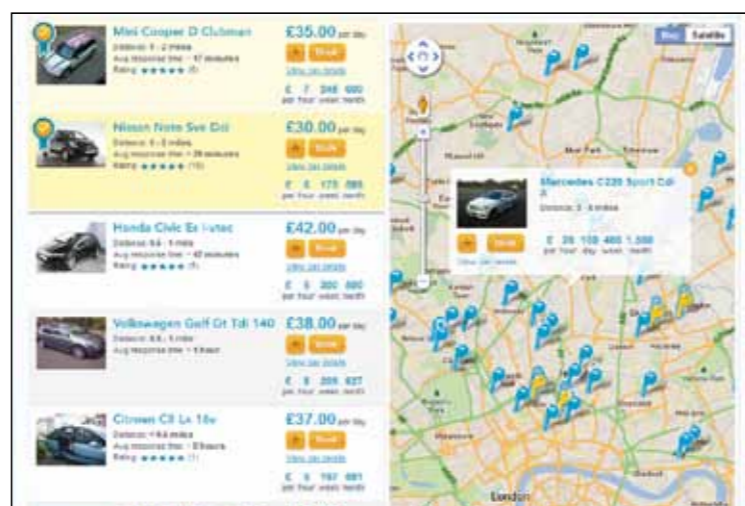
We asked WhipCar's co-founder, Vinay Gupta, how it gives its users the confidence to lease something as valuable as a car.

"We have a cancellation and fines policy plus a code of conduct, and there's fully comprehensive insurance and breakdown cover provided by WhipCar if there's a serious incident," he said. "We also have a feedback system to increase security and trust in the market. When owners get a booking request from a driver, alongside that request they'll see their profile photo, how old they are and what previous car owners said about them, with ratings for car care, punctuality and cleanliness."

"For people who use the service, a WhipCar is not necessarily the same as a normal rental car because there's a person associated with the transaction. We have many more positive than negative stories, where people return a car and get it cleaned for the other person, or put more petrol in the car than they received it with."

The service is also limited to 21-70-year-olds with no more than six penalty points on their licence, no car-related convictions and no more than two accidents in the last three years.

Trust goes both ways, of course. Those renting can also leave feedback, with ratings for car suitability, punctuality and cleanliness, which is visible to other potential renters. Background checks are made for all cars to make sure that they're not on any police database and that they meet WhipCar's insurance criteria. The service is limited to cars no older than eight years to minimise the risk of mechanical problems.



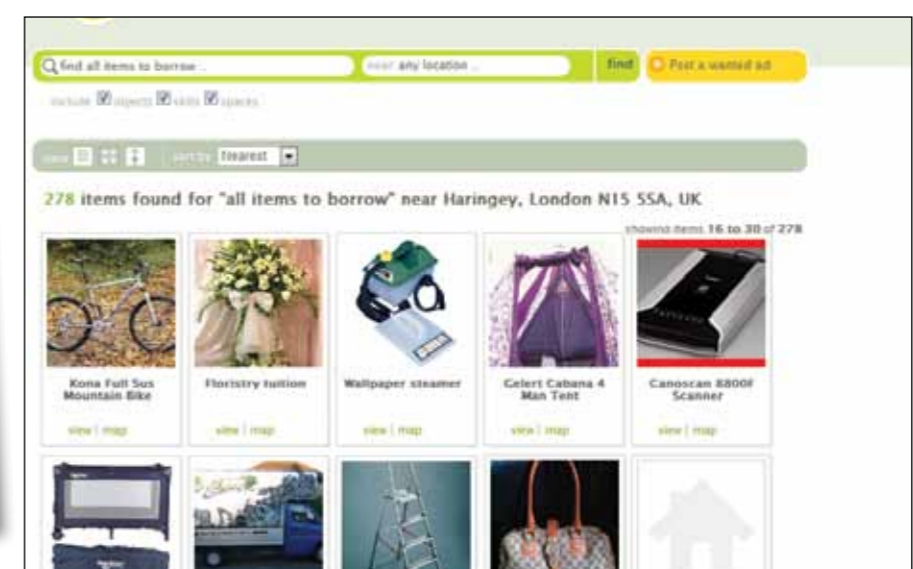
▲ Renting your neighbour's car – or leasing your car to neighbours – might seem strange but, financially, the figures speak for themselves

WhipCar only launched in April 2010 but is already beginning to reach critical mass. It has 3,000 registered cars across the UK, and one within walking distance of most addresses in London. Unlike centrally owned car clubs such as StreetCar where expansion is costly and risky, with WhipCar it's a natural process that simply involves getting the word out.

Rental prices are very competitive, with most cars available for £20 to £40 a day, or £5 to £10 an hour. Being able to drive a Mini Cooper one day and a Land Rover Discovery the next – and not having to worry about MOT and insurance – make it even more attractive. For owners, renting out their car for a couple of hours a week could bring in £1,000 a year. They might feel a little uneasy at first but, ultimately, it's easy money.



▲ Tracy Currer and Meriel Lenfestey, co-founders of Ecomodo



▲ Ecomodo lets users lend anything, from designer handbags to parking space outside Arsenal's stadium

**A NEW WORLD ORDER?**

It's easy to imagine a world where peer-to-peer trading is common. The incentive of better deals for consumers is easy to grasp, and its delivery methods – online peer-to-peer networks – are not only possible but booming. If it catches on, the ramifications could be enormous.

On a basic level, it could change the way people interact with neighbours, and foster a sense of social cohesion that many say has been lost in the past 50 years. It could even change people's perspective of 'access versus ownership'. As Botsman puts it in her TED Talk ([tinyurl.com/BotsmanTED](http://tinyurl.com/BotsmanTED)), a "power drill will be used for around 12 to 13 minutes in its entire lifetime... what you need is the hole, not the drill."

Ownership is often seen as a desirable luxury, but it doesn't take a huge conceptual leap to see it as a burden. Using a car or a ladder is great, but maintaining that car or finding somewhere to store that ladder can be a pain.

The wider implications are just as significant. Finding ways to save money may be popular with individuals but in the current economic climate it's the last thing we need to get us back to growth. However, if peer-to-peer trading and lending were to catch on, it would challenge the assumption that economic success is defined by economic growth, or the value of the sellable

goods a nation produces. By shifting the focus from buying to using, peer-to-peer trading challenges the idea that quality of life is defined by the ability to earn and spend money. It could prompt politicians to find new models to measure economic success and citizens' wellbeing.

Perhaps most importantly, if peer-to-peer trading leads to less manufacture, it could bring about the environmental revolution that has proved so elusive. Unlike previous campaigns to 'go green', changes in behaviour would be motivated by people's own interests to save money and make advantageous social connections rather than their guilt-laden sense of obligation to do the right thing.

We'll always need big businesses to develop products, as economies of scale are essential for research, development and manufacture. However, companies will need to respond to shifting customer demands. We'll need products



▲ Lending schemes could revolutionise our attitudes to ownership

that are simple and durable enough to be used by lots of people rather than designed for a couple of years' light use.

It might seem far-fetched to suggest that peer-to-peer trading can improve product design, save the world's financial systems, bring about social cohesion and reverse climate change. However, it may have a significant contribution to make on all these issues. ☐

**Cold, hard cash** The story of Zopa

Zopa ([www.zopa.com](http://www.zopa.com)) is a peer-to-peer banking service. In essence, it turns each lender into a banker. A lender's money is ascribed to specific borrowers, and is at risk if the borrowers default on loans. While it's not possible to rely purely on goodwill to avoid this, Zopa has found a system that minimises the risk, as its co-founder and CEO Giles Andrews explains.

"We'd observed that big companies tended to get a much better deal out of financial services than individuals did because of the bond market [which connects big investors and borrowers directly]. One of the requirements for such a marketplace to function is trusted third-party data. Rating agencies provided really good-quality information on companies. They haven't done quite so well in rating mortgage securities but they've always done quite well on companies.

"So we asked ourselves: could you imagine a scenario where there was a similar marketplace where consumers went to get a loan, and is there any data that's useful? And the answer was yes. It's quite different data – the credit bureau data on individuals isn't as predictive on an individual basis as Moody's rating of General Electric, but... as long as you're lending to lots of different people, the data works just fine – it's highly predictive."

So while lending £10,000 to an individual might be a gamble, lending £10 to 1,000 individuals makes the risk far more quantifiable. As Zopa connects its borrowers and lenders directly, it can offer both parties some



◀ Zopa CEO Giles Andrews says eBay was an inspiration for the peer-to-peer banking service

excellent interest rates, typically at around eight per cent APR for a £5,000 loan or investment over three years. Borrowers pay a one-off £100 fee to Zopa, while lenders pay a one per cent annual service fee. Some people will always struggle to repay loans, but as each lender usually lends only £10 to each individual borrower, the risk is spread across multiple lenders.

Zopa minimises defaults by offering loans only to people with excellent credit ratings. "We've had bad debts of less than 0.9 per cent in the six years since we launched, which is way less than any other lender," says Andrews. "Part of it is because I think we built a better system, but another part of it is that people know they're borrowing money from real people and don't want to let them down."

Of course, that could change in future, and it's also possible that Zopa could cease trading. However, loan repayments would still be payable as the contracts are with lenders and borrowers directly. An FAQ page (<http://tinyurl.com/zopafail>) explains how this would work in practice.

Andrews says that eBay was an early inspiration for Zopa. "There was something slightly anti-establishment about it, bypassing big institutions or big retailers – something about people power, and something about the power of trust. However, we couldn't replicate an eBay behaviour model because, actually, it's not a great idea to lend money to borrowers on a regular basis; it tends to suggest that they can't afford it.

"We did run [a system where lenders picked individual borrowers] for a little while – a sort of eBay-type listing model where people put up their picture and said what they wanted the money for. It provided a bit of colour for the website, but we found that adding emotional cues tended to reduce the efficiency of the transaction. While they might quite like the process, they ended up making worse decisions than if they didn't know that stuff. That was particularly the case [for other peer-to-peer lending services] in the United States where you have lots of pictures of attractive young women looking for loans for really worthy family purposes, a disproportionate number of whom unfortunately went on to default."



▲ Zopa makes direct connections between borrowers and investors, but it has learnt that it's best to keep financial and social interactions separate