



## A Short History of the Divx Home Video System

Originally known as Zoom TV, Divx was a home video system originally conceived around 1994 by prominent Los Angeles entertainment law firm Ziffren, Brittenham, Branca and Fischer. They teamed up with Circuit City Stores, the largest consumer electronics retailer in the U.S. at the time, to develop the idea into a marketable product. Divx (the name was derived from the company's name of Digital Video Express L.P.) was based on DVD-V, and boasted high-quality MPEG-2 digital video and Dolby Digital surround sound. Unlike DVD, which was an effort to exploit the growing sell-through video market, Divx was a rental system, perhaps the most sophisticated ever offered to the public, that allowed near video-on-demand, with no late fees and the availability of many "hot new release" rental titles day and date with their VHS equivalents. Divx was officially announced in September 1997, about 6 months after nationwide marketing of DVD players began. Divx, however, wasn't released to test markets until June of 1998, and nationwide a few months after that.

The national rollout of Divx came just in time for the 1998 Christmas season. Divx was hampered by a scant title selection, only 2 player models (both produced by Thomson), and lack of retail distribution (many Circuit City competitors refused to carry a product that it owned two-thirds of). However, the fledgling format still managed a surprisingly strong showing during the holidays, and by June of 1999, 9 months after nationwide sales had commenced, Divx had 10% of the DVD market and a catalog of over 500 titles, with many more on their way. Just as importantly, 6 new models of player were in the works, which would triple the selection available to consumers. Things should have been looking up.

Behind the scenes, though, Divx was struggling. There was the burden of having to single-handedly build up a brand new home video format, a format which many Circuit City competitors refused to carry. The costs were a drag on Circuit City stock; financial analysts urged Circuit City to drop the operation and concentrate on its core businesses. The idea of a system designed for metered disc viewing enraged many film buffs and home theater hobbyists, and a virulent anti-Divx campaign erupted on the Internet. Warner Home Video, one of the main driving forces behind the sell through-oriented DVD format, was using everything at its disposal to derail Divx (perhaps in part because it wanted to thwart competition for its upcoming video-on-demand system). Traditional video rental firms also fiercely opposed the new competitor, especially because it threatened to disrupt one of their most lucrative revenue streams, late fees.

Despite the defiant words coming from Circuit City about a commitment to fund Divx through another Christmas season, in the spring of 1999 DVD news sites reported that Circuit City tried to sell off the Divx operation to rental giant Blockbuster; apparently this failed when two of the six participating studios vetoed the deal. Behind the scenes, tough negotiations with the film studios, at least two of which stalled at releasing promised blockbuster titles, were taking their toll. (The

intransigence stemmed from concerns that the digital image and sound of both Divx and DVD would make their products easier to pirate.) Nasty internal battles arose, as resentment at Circuit City (which funded the operation) corporate headquarters boiled over at the failure of their Hollywood law firm partners to deliver on the primary asset they brought to the partnership: the ability to convince the studios they dealt with to license popular titles to the format.

In mid-June of 1999, shortly after Divx's one-year anniversary, Circuit City chief Rick Sharp had had enough. On June 16th, he ordered the plug pulled on Divx development and marketing, with the news being broken to the Divx employees via a mass e-mail that morning. The billing system would be phased out over a two-year period, during which existing customers could play their discs and add and subtract players from their accounts. Officially, no new customers were to be registered, although some exceptions were made, and \$100 refunds were made to those who had purchased players prior to June 16, 1999; customers who had converted discs to unlimited play (DivxSilver) were given the choice of either refunds or using their unlimited play discs for the remainder of the phaseout period.

Prices on players were slashed to where they were substantially below their DVD-only equivalents, while disc prices dropped from \$4.49 to \$1.99, and then to 99 cents. Discs still unsold at Circuit City stores at the end of the summer 1999 were destroyed. By Christmas of 1999, the stocks of new Divx-compatible players were gone, although used ones would appear from time to time. Divx users were on their own, and turned to second-hand sources like eBay.

In June of 2001, two years after Divx marketing and development ceased, there was still plenty of consumer interest in Divx, but Circuit City stuck to the phaseout timetable. Six days after the official cutoff date of July 1, 2001, all Divx accounts expired, and Divx became just a fond memory its legions of users, bringing one of the most colorful eras in the history of home video to an end.

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