

The Future of Work podcast is a weekly show where Jacob has in-depth conversations with senior level executives, business leaders, and bestselling authors around the world on the future of work and the future in general. Topics cover everything from AI and automation to the gig economy to big data to the future of learning and everything in between. Each episode explores a new topic and features a special guest.

You can listen to past episodes at www.TheFutureOrganization.com/future-work-podcast/. To learn more about Jacob and the work he is doing please visit www.TheFutureOrganization.com. You can also subscribe to Jacob's [YouTube](#) channel, follow him on [Twitter](#), or visit him on [Facebook](#).

Jacob 03:00

Hello everyone, thank you for joining me for another episode of the future work with Jacob Morgan and my very special guest today. Marc Randolph, the co founder and the first CEO of a very tiny company that some of you out there may be familiar with, called Netflix. Marc, thank you so much for joining me.

Marc 03:21

Pleasure to be with you. And believe me, it was a small, tiny little company no one had heard of back when I was doing it.

Jacob 03:28

Oh, I know. And I'm very, very excited to ask you about that too. Because I'm so fascinated with these journeys and how companies go from small handful of people to basically changing the world. But before we get into that, I'm really curious to learn just more about you. How did you grow up? What were you like as a kid? I mean, how did your path in life take you to becoming the co founder and first CEO of Netflix?

Marc 03:55

Well, you know, of course, these things are never you don't live things in a linear way. And you certainly certainly didn't grow up aspiring to one day do a giant streaming company, you know, who could have thought but looking backwards, you could see there were certain patterns, you know, I was always kind of entrepreneurial. I mean, it's almost stereotypical now you know, when someone grows up doing candy arbitrage you know, or, I sold seeds door to door.

Marc 04:27

I was always doing things and trying to make them a little bit better or trying to find some interesting problem I could solve. I had a little notebook even when I was a little kid that I wrote down my inventions in it. But I actually think it's one of the keys to being an entrepreneur is practice, practice, practice. And even then all the little things I was doing, you know, I was always starting things in high school and in college. But those all preparation for the time you begin doing it at a larger scale. I mean, even it's picking something you know, at college even to starting a club or starting a magazine. Both of them involve things like trying to convince people to help you, when you can't pay them, they just need to work for some amorphous benefit. And then you have to go to the student council and convince them to give you money. And then you have to go to the university and convince them to give you space.

Marc 05:23

But all of those acts of trying to convince someone to believe in you to try and paint a picture what you're trying to create. That's the exact same process you would go through trying to create anything, whether it's a tiny little club, or whether it's gonna ultimately be a multibillion dollar company.

Jacob 05:41

Do you remember any of the inventions that you wrote down in your notebook?

Marc 05:50

No, well yes, but they're ridiculous. I mean, these are the ideas of a, you know, eight year old kind of thing. But I have a friend who we tease each other because we used to talk about inventions. And I think one of mine was a hairbrush that rotated. So you could just hold it in one place, it would brush your hair, we used to tease that which you can see I experimented that on myself, and this is the result.

Jacob 06:16

A hairbrush that rotates, I like it. And then candy arbitrage man. So you you were doing all sorts of things, even when you were a little kid. So perhaps it shouldn't be surprising that you got involved with Netflix. Um, so when you got older, I mean, how did your introduction to Netflix begin? How did you end up connecting with Reed? What was the whole story of where this began?

Marc 06:38

Well, it began that way, a lot of things begin with unemployment. You know, I had a, I had a small startup that I was helping run, and we ended up being sold which is a great outcome. Because the investors made money in our stock options, there were something we ended up going to work at this big new startup. And as luck would have it, it was a company that had been started and was currently being run by a gentleman named Reed Hastings.

Marc 07:06

And the second bonus is that Reed and I lived in the same town. And so we began carpooling to work together. And I got to know Reed pretty well. So that when lightning struck again, and our larger company was being acquired, and we both realized we're going to be losing our jobs in this merger, it was a natural to say what next. And for me the what next was starting another company, because Netflix was my sixth. So I had done a bunch before.

Marc 07:35

And I saw some things I wanted to try and Reed did not want to start another company. He actually at that time, wanted to be an educational philanthropist, he was going to go back to school, he was going to try and change the world, which he's made a lot of progress on, actually. But you know, once you're entrepreneur, you're always an entrepreneur. And he wanted to kind of keep a hand in. And so we came to agreement that he'd be my angel investor, he would share my board, I would start and run the company, hire the people, etc. But what what's the company, and we needed the idea.

Marc 08:12

And so the way this worked is for months, literally for months on our carpools Reed would pick me up and we'd spend the entire drive, you know, an hour or so, brainstorming ideas, I get in, and I'd pitch him. And then he would surgically dissect the idea. And just to give you an example of the kind of crazy stuff going on in the car.

Jacob 08:34

Yeah, I want to hear about these.

Marc 08:35

Okay, here's one personalized dog food. We're gonna formulate a blend exactly for your pet, for its breed for its age, for its gender, its activity level, the climate, whatever, and then you're going to subscribe to it. And Reed didn't think that was so good. Found all kinds of flaws. So okay, here's another one. Custom shampoo. Cut off a lock your hair, you mail it to us, my team of crack hair scientists formulate the custom blend just for you. And again, you subscribe to it. And he didn't like that.

Marc 09:10

So another one, video rental by mail. And that one I really like cuz that was like an \$8 billion category. And, you know, Blockbuster was a disappointing experience. But the flaw was that this was 1997. Just put it in perspective. And so let's see looking at you. Yeah, maybe you were around. Maybe you watched Lion King a couple hundred times on a VHS cassette.

Jacob 09:36

Simba

Marc 09:37

But no, it was, it didn't work. You know, they're too heavy. They were expensive. They were fragile. And so that idea ended up in the same heap on the side of the road along with the shampoo and the dog food. And then came one of those fortuitous startup breaks. Reed read about this technology called the DVD. And it was entering test market in a handful of cities and I think if we had just randomly heard about DVDs, we never would have made the leap to video rental by mail. But it ended up it was that kind of an experience that probably all of us have had where you're cleaning up and you underneath the couch, you find a missing jigsaw puzzle piece. And you have what? Oh, that's the missing piece from that puzzle that I was doing two months ago.

Marc 10:26

And so it was that this was the missing piece to that video rental by mail puzzle. And so rather than rushing to do a business plan, or do a pitch deck or any kind of BS like that, we turned the car around right away and drove back to Santa Cruz to see if we could validate this idea. And looked for a DVD. But of course, it was not available. So we settled on a used music CD. And then what a few doors down and what a little pink gift envelope like he put a greeting card in, then took it to the Santa Cruz post office, put the DVD in, address it to Reed, stamped it, dropped it in the slot and went to work.

Marc 11:05

And next day, a Reed picked me up and didn't even say anything, just held up his little envelope with an unbroken CD that had gotten to his house in less than 24 hours for the price of a stamp. And if there was ever a, as they say in screenwriter speak, if there was a inciting event, this was it. This was probably the point where we said this, this actually might work.

Jacob 11:33

Yeah, so what happened next? So you you tested that out? Well, first, um, even before we get to that, you've had lots of ideas. How did you guys decide that the Netflix idea would work? Whereas the shampoo idea wouldn't and the dog food wouldn't. Was it just kind of like, Reed's just personal feeling? Or did you, did you do market tests? And all this analysis competitors? Looking at all that sort of stuff in the space?

Marc 12:02

Yes, yeah. Maybe you're making it sound a bit more glamorous than it is? Because Don't forget, I knew nothing about video rental, either to Reed, we had zero experience in the video business. And it wasn't like we were film people either, you know, aren't we It was not like those car rides, we were debating who the best French film directors were something like that. We knew nothing. And so it did occur to us that it just might make a little sense to figure out some things about video rental before we did this.

Marc 12:33

And so I did a lot of sniffing around. And I and you know, I mentioned that I had done a handful of startups before Netflix, and several of the, well, a few of those were actually, you know, mail order companies, direct response companies. And so I did know what questions to ask. I had relationships with all the carriers from having shipped with Federal Express and ups and DHL. I knew how to do that. I knew what packaging costs. I knew all a lot of that stuff. So I could begin doing the research into it.

Marc 13:08

But it turned out it was one of those problems where normally, when you're doing research on an idea, you're going this is great, this is great. And then you turn over yet one more rock and there's a big ugly, something underneath it. And you go, oh, okay, I knew I'd bump into something like that, or you find out Oh, it exists. And it's been proven that it's a terrible idea. But this idea, went through this point where all of a sudden, the more we learned, the more we liked it. And it gave it some velocity, you know, but fundamentally, and this is true, not just of Netflix, but I think of any startup, you can never know, you are doing something that's never been done before. This was not like we could look at some other DVD rental by mail startup and see how they did. The only way sometimes to figure something out is to do it.

Marc 13:58

And the lack of the non entrepreneur is that standing on the edge of the cliff and they're looking and they're going there must be a way around. And they spend weeks trying to figure out how to avoid the void, hah I like that. How to avoid the void. But what we have to do is go the only way we're going to find out is by trying it and so you step off the edge and see what you find. And so, you know, Reed wrote a check for \$2 million. I leased an office, I hired a dozen people, and we set about building an e-

commerce website, acquiring copy of every DVD in existence, trying to find some way to promote it to this tiny audience of DVD owners and on April 14 of 1998 off we went

Jacob 14:44

That must have been quite an experience because obviously there's there's like 24 to 30 of you. You know there's many millions of people out there and I'm sure DVDs they were just starting to grow I mean, how did you scale to keep up with that? You know, what happens if you had like 200 DVDs in a day? You know, obviously, it's not easy to sort and again, acquire and ship. I mean, how did you deal with all that?

Marc 15:12

I wish we had that problem, you know that my book is called, that'll never work, because that is what every single person told me when I pitched that idea, including my wife. And so, and they had a bunch of reasons. But once we launched we go, we're, we're doing going to do great. But it turned out that they were right, that this was a terrible idea. And that we could not get anyone to rent from us. It was, we could convince someone to rent once, and they would never rent again. And I guess in retrospect, isn't that surprising, there was not a tremendous amount of business model innovation, there was due dates, and there was late fees. And of course, there was Blockbuster with their 9000 stores.

Marc 16:03

So the idea of someone coming to our website with a better selection, and it's easier way to pick a movie. But then waiting three days for the movie to arrive was probably not too compelling an offer. So we had the opposite problem. We were desperately in search of something that we could do, to try and unlock this to try and figure out some way to get DVD rental to work. And it was even worse, was that at the time as a sideline or so we thought we also sold DVDs, we figured since we have gone to all the trouble to acquire to find a source for every single DVD out there, we'll sell them.

Marc 16:43

And that part of the business was doing incredibly well. That was like 98% of our revenue. But it was a false signal. Because we knew that it's just a matter of time before Amazon began selling DVDs, and then Walmart and Kmart. And I don't know PetSmart. And then pretty soon the margins go to zero. And we're out of business. And the worst of all, is that doing both of them at the same time was brutal, was confusing. And designing the checkout was tricky in the inventory management and the arguing about the metrics all the time.

Marc 17:17

And so we knew not only was rental not working, but we couldn't continue to let sales subsidize rental because ironically, anytime we focused on sales is making it less likely to get rental right. And so then we had to make this brutal decision to walk away entirely from the rental for the sales and focus it all on rental. And that just added to the pressure. So that's a long way of saying I wish this thing had just taken off right out of the box and I had a scramble. Instead it was the opposite.

Jacob 17:49

It's so that's crazy. So you walked away from what was generating 90% of the revenue for the company. And it moves to something that was barely making any money for the business. I mean, that's a pretty big, bold, strategic change for the business. How did you guys even decide that? Because most companies today, if you say walk away from what makes almost every dollar for the company to do this other thing? They'd be like, what are you nuts? How did you how did you get to that decision?

Marc 18:19

So looking back, again, I'm not patting myself on the back here. I agree it was a tremendously brave thing to do. But I did have Reed as a sounding board, he was chair of my my board of directors. And we both almost intuitively said to ourselves, we would rather have the extremely unlikely case that we can make a big success, then the almost sure choice of having a decent sized company that little by little faded away into oblivion.

Marc 18:57

We, you know, we symbolically just wanted to go for the bigger prize, even though the odds were longer. But the real decision was the realization of how important focus was that even though it seemed like why can't we keep selling DVDs to at least pay the bills. It was the realization that doing one wasn't just a sideline, it actually subtracted from our ability to do the other, that the focusing on the singular thing you wanted to happen was the critical ingredient.

Marc 19:28

But you're the point you made the big one, which is that right now, so many companies can see what they should do. But they lack the ability or even worse lack the courage to do it. And it's even worse, of course, if it's a public company, and walking away from 98% of your revenue is reflected in the public markets and your valuation crashes and everyone hates you and everyone's living quarter to quarter. I mean it's just it's it's always always, always a really hard decision but fundamentally the customer doesn't care about any of that. They don't care about your stock price. They don't care about your, you know, your all those things.

Marc 20:08

They just want a certain way of doing business with you. And if you're unwilling to do that, because you're going to hold on desperately to the old way, well, someone else will gladly put their hand up and go I'll serve the customer for you.

Jacob 20:19

Yeah, no, very true. And so you had no customers at the beginning? Nobody was was renting from you. How did you how did you change that you walked away from the the sales side of the business? And what is it that finally got the Netflix engine revving up.

Marc 20:35

So we went on for a year and a half, I mean, no exaggeration, 18 months of struggling to figure out a model. And it's not like every single test was a failure. Because you learn a little bit each time you get

closer and closer. But we were simultaneously tweaking, but also trying bold strokes. And we had one big bold stroke left in the can. And it came from this one day when Reed and I happened to be in the warehouse together. And at that point, we probably had several hundred thousand DVDs, all neatly shelved all around us. And we were talking about how much money was just sitting there. And the realization came, why are we storing all these movies here? Where they do no one any good?

Marc 21:24

Wonder if there's a way to store them at the customer's houses. And we first were talking about it, we do a peer to peer thing. But we eventually said Why can't we just let people keep the movies? let them pick as long as they need to watch it. And when they're done. They'll mail it back and we'll replace it. And then we have the discussion. Well listen, if they mail it in, no one is ever going to come to the website and pick the next one. We know how hard that is get someone to do. So let's have them make a list of all the movies they want to see. So when one comes in, we automatically do the next one to send them.

Marc 21:58

And then we also said why don't we make it a subscription business? Why charge them each time they swap? And we said great, what a subscription. And then we had this big argument. Because the first half of my career, I was a direct marketer, direct response guy. So my, one of my mantras is you can't test multiple variables at the same time. You can't tell result. And Reed was going we don't have time for that this put all three of these things together. And let's just do it. And we said, okay, and we rolled all three of those things together into one program. We tested it and boom, unbelievable success.

Marc 22:35

I actually was doing I am I did someone emailed me for a piece they were doing and they said, Tell us about product market fit. What do you how do you define product market fit? And all I could say is I go it's not unlike, I guess it's just a steward who said that. It's like pornography, which is really hard to define it. But you know it when you see it. And product market fit, it's like that is like boom, your press back in your seat, you can't keep up. And that was the moment where Netflix kind of stopped being a startup and in some ways became a real company.

Jacob 23:11

So it's kind of crazy to me, because you hear so many stories from entrepreneurs where they say, you know, before you do something, you got a test, you got to do like all this crazy stuff before you roll something out. But it seems like when you guys decided to pivot to that subscription model, you didn't do that. You just kind of knew so to speak, that it was gonna work and you did it. So kind of goes against the conventional entrepreneurial grain of start small test, go gradually, you kind of just went all into this.

Marc 23:40

No, that's not correct. In fact, because it was a test, okay, and all of a sudden walk away from the business as a boom, we're gonna do this thing. This was test number 1637 out of after 600, whatever, they came into the count of failed tests. This was just one more thing we were trying it was done to a small group. And in fact, it wasn't even an acquisition test. It was going to existing customers and

saying, how would you feel if we offered you a program like this? And so and they everyone said, we'd love that.

Marc 24:16

But the big thing was, we then said acquisition test, we said we're gonna try it, we're gonna give you 30 days free. That was the test. And so what was terrifying is, we had these stats that said, everyone loved it. And then when we offered the 30 day free trial, the subscription rate was huge. But for 30 days, it was pins and needles waiting to see who would cancel. And I knew, some would cancel in the first two or three days, but then almost no one did. And then a week goes by two weeks and three weeks, and then we had set it up to automatically hit their credit cards on day 31. And as that day got closer, I kept waiting because I, again direct marketing background, including two magazines that I had helped launch, I knew how free trials work. And I was just waiting. And it didn't happen.

Marc 25:11

And that's the moment. We said, This is incredible. There's no, almost no churn, we have got a winner. And that was point where we begin unraveling everything for the exact same reasons that we walked away from selling it. We had it, we did have a reasonably good business of people who were doing the ala carte rental that, you know, due dates and late fees one at a time. But we said it's so complicated trying to offer both of these programs. Forget that old stuff from now on. Netflix is unlimited DVDs, no due dates, no late fees, and no due dates, late fees is Netflix, and never looked back.

Jacob 25:51

So I'm assuming at that point, that's when things really started to kind of take off and grow exponentially. And curious about kind of the, the scaling the growth the culture piece, because at that point, you know, I would imagine you were, you know, scrappy, two dozen or so people you know, correct me if I'm wrong, but maybe you weren't thinking as much about like, culture and all that sort of stuff. It was just kind of, you know, getting stuff going. But then as you grew and you brought in more people, you really started to have to think about hiring process, culture. So how did you start having those conversations to develop Netflix into what it is now.

Marc 26:31

So no, doesn't work like that. Culture is not what you say. Culture is not what you put in a culture deck. Culture is not what you carve in your headstone. Culture is not something you sit around a table and brainstorm things like what should our culture be? Culture is how you act. It's how you are, its the things you do. And even more importantly, culture springs from how the founders and the early employees act with each other, with their employees, with their customers.

Marc 27:07

And so, huge amounts of the Netflix cultures arised organically, from the way that Reed and I behaved the way that I treat people the way I worked with people before. When we did Netflix, and I glossed over I said, you know, we raised the money, we got to office, we had a dozen people, I didn't put ads for hiring people. This was more like that scene from The Blues Brothers movie where I'm driving around getting the band back together. So I'm going to these people who I've worked with before, who I know well enough to know how they work. And you're finding these people who I know can work

autonomously, who I know enjoy that, who I know, enjoy the fact that they come to work, not knowing what they're going to face, but will rise to the challenge of whatever happens.

Marc 27:52

So I'm laying that out because you have to understand that what was there was there, that culture was just organically part of who we were. But you make a really good point is that those attributes I was just describing about people having a tremendous amounts of responsibility for the things but wanting the autonomy, to work by themselves, to really love having their job be different. That's an easy culture to maintain when you have a dozen people. But what happens is, as companies get larger, it's very easy to lose that.

Marc 28:28

At the beginning, and pardon me if I digress a little bit, but this is all about how you work with people. At the beginning, it's really easy to tell one of these chosen few and go, Christina, you see that mountain two miles away, I'll meet you there. And you know that here's things you need to get accomplished. She goes, got it. And then I don't even think about it again. Because I know that two weeks from now, I will find Christina on top of the mountain, maybe bruised and bloodied. But she'll be there on time with everything she's responsible for, that she'll have solved every problem that came her way on her own without input from me. That's a great way of working.

Marc 29:08

But what happens is when you get bigger, something happens where someone shows up late, or they show up, you know, don't have everything done. And a lot of managers would say, Oh, this isn't good. Okay, we can't have that happen. Again, everybody, I want status reports. I need to know if there's gonna be a problem in advance. So everyone's status reports. And everyone goes, Oh, status reports. And then someone else shows up and they're there on time with it all done, but they spent too much. And many managers will go like, Oh, I can't let that happen. Okay, I need everyone who spends more than I need to pre approve anything over \$100 to make sure you don't make a spending mistake. And then everyone goes, oh, god expense reports.

Marc 29:53

And little by little, what you're doing is you're building a company to protect yourself from people with bad judgment. But what you're also doing is driving the people who have good judgment crazy. And so we kind of decided, what would happen if we built a company that was for people with good judgment. People who loved having that freedom, to make their own decisions to be close to the action to decide for themselves, what the appropriate thing to do was, but had the responsibility of knowing that we counted on them to get those things done.

Marc 30:29

And I will confess, we almost lost it. Because as we got bigger, as hiring became, we got to a point where I didn't know everybody anymore. They didn't all have contact with myself or with Reed, you began to lose some of that, inadvertently. And then we kind of had some problems, which I'm sure we could talk about a little bit that required us to have a layoff. And we needed to lay off nearly 40% of our

company. And there was that classic managerial problem of saying we're going to have to do everything we did before with 40%, less people, this is going to be really hard.

Marc 31:08

But instead now, as we moved into that period, it was the opposite. It was fun. It was exciting. It felt like we were a start up again. Because there was no time for the command and control, we were back to see you on the mountain in two weeks. And we had gotten the staff back down to the place where the only people there were the people with good judgment that we could trust that wanted to work that way. And that I think is the point where we said we have to be actively trying to maintain this culture.

Marc 31:44

We call each other on it, when we're not doing this, and then began that longer process led by Patty McCord, who was our head of human resources or at the time to say, how do you scale this beyond 200? How do you scale it to 2000? How do you scale it to 7000 where they are now? And that I think is part of the ongoing Netflix culture experiment, which is how do you create this freedom, this culture of freedom and responsibility, this culture of radical honesty, but not just in a small company, but in fact, in a very, very large one.

Jacob 32:20

And Patty actually was a guest on this show. Two years ago, I think, so a little while ago, and we talked about some of that stuff, as well. But you mentioned something that I wanted to touch on, which is you did go through some tough times, letting go 40% of the workforce, which for most companies would be, you know, completely disastrous. So can you share a little bit about what happened during that time period? Why did you have to let go 40% of the workforce, and even just how you got to that decision, because that's not an easy choice to make, especially for for a leader of the company. So how did you kind of go through that process and deal with it.

Marc 33:00

So it's actually picks up right after the huge success of the no due dates, no late fees program. And it was a subscription, as I've pointed out, and as you probably are aware, in a subscription business, you pay a lot of money to acquire that customer. And especially if it's the first month free, that acquisition cost is substantial, but it's okay. Because in a subscription program, that customer now pays you a little bit month after month after month, hopefully for two or three, four years. And you acquire, get back the acquisition cost and much more. But what it means is, you are losing money, there is a cashflow big issue for each new customer that comes in. So when all of a sudden, no due dates, no late fees takes off. It's fantastic. New customers are flooding in. But of course there is a commensurate flooding out of cash.

Marc 33:56

And this wasn't a problem. Because this was a lull what's the problem is fall of 1999 spring of 2000 money's easy. We just kind of go outside and highway 17 we hold up the green flag and the big money truck pulls off and backs up and dumps it on the driveway. And we just come out with the wheelbarrows and bring in the money. Easy, we can subsidize this forever. Until the .com bubble bursts. And all of a sudden those drivers of the money trucks are now shielding their face from us and accelerating past the

exit. So no money. And ironically, we're going to go broke, being successful. So we did the thing that a prudent entrepreneur does, which is we decided to pursue the strategic alternatives everyone's always so fond of, which means we got to sell the company or at least find someone to absorb these losses,

Jacob 34:49

So you're actually exploring selling Netflix.

Marc 34:52

Absolutely. We were aggressively trying to sell it. But there was one strategic alternative Which was the obvious one, and that was Blockbuster. And we decided that is the perfect person. Because we'll do the online business, they'll do the stores. Even better. We'll make a blended model, and we will rule the world. But they wouldn't answer our phone calls. They wouldn't answer the emails. We couldn't get a meeting, took us months, until finally they did say, come meet us, we'll see you in Dallas tomorrow morning. And then we go Okay, tomorrow morning, I guess.

Marc 35:34

And so we actually chartered a jet being \$50 million in debt and we chartered a jet we had to get there. So we go what the hell this point, all or nothing, and pitch to Blockbuster. And we thought it was going great. And then Reed told them, we want \$50 million. And they laughed at us, essentially. And went downhill pretty quickly after that you can imagine.

Marc 36:02

But that's what came next is, we had thought that once we got the meeting, done solved, that this was the you know, the deus ex machina the hand of God that plucks, that rescues our plucky heroes from the face of impending doom. And instead, not only were they not going to save us now, Blockbuster was going to compete with us. So flying home was a very, very depressing flight. Because we realized there was no easy way out now. And that the if we were going to make it happen, if we used to, we would have to as my dad often said that sometimes the only way out is through. And that we would have to solve this without anyone's help, that we would have to get from where we were to cash flow breakeven on our own.

Marc 36:53

And there was no way we were going to do that, at the rate we were bleeding at the rate, we had hired people at the current business model. And the only alternative was to dramatically trim the sales. And that led to unfortunately, having to say we've got to say goodbye to people. And, you know, I'm sure you've had guests who've talked about this experience before, but that is the absolute worst, especially for a startup leader, where almost every single one of these people I had convinced to come join us. I had had them, you know, leave great jobs with security and great benefits to join us on this, this journey, you know, almost impossible quest. And they had, and they put everything they had into it. They've worked so hard. And now we're having to say goodbye. And that is that is the most painful thing. You know, you could almost ever do.

Jacob 37:51

Yeah, I can't imagine. So after you got through that process, how did you steer the Netflix ship back on track? And so what did you fix that then allowed the company to keep growing again?

Marc 38:08

What so the first thing I need to mention is that this is way beyond me at this point. I mean, now we have built a reasonably good team. So we are all its singularly focused on making that successful. So part of that is working on a lot of things like unit economics, it's working on how-- boring things not to me, I think it's incredibly fascinating--but you know, working in your unit economics working on bringing your acquisition cost down, bringing on lowering your churn, working on your increasing the conversion rate by which people will arrive at the site actually turned into subscribers

Jacob 38:43

Your nitty gritty stuff for business

Marc 38:45

Unfortunately so, but with a fresh eye toward this is no longer just optimization. This is survival, that if we can't figure this out, and you know, even things like how to get content, less expensively, all kinds of really, really nitty gritty, we've got to get ourselves onto an even keel. And we had some huge lucky breaks and some big breakthroughs, that I'm pretty sure we wouldn't have either found without this focus. But more importantly, if we hadn't had them, we wouldn't have made it out.

Marc 39:25

And, and a lot of those things are what contributed further to the acceleration of the company. And that acceleration lead allowed us to address the public markets, you know, not too long after the collapse. So, you know, success at a company is, you know, one small part hard work, but wow, there's a huge amount of luck involved. And we certainly had our share of it.

Jacob 39:52

Um, one of the things that I find completely fascinating is you actually went to Blockbuster and I actually had the former CEO of Blockbuster as a podcast guest, Nigel Travis, which I don't, I don't know, if he was the CEO, I have to look at the dates. I don't know if he was the CEO when when, when you guys were pitching them. But what fascinates me is that Blockbuster knew about you because you wanted to sell to them. And I just blows my mind. Did they not take you seriously did they not think that Netflix was like, gonna be a real thing? Because essentially you put them out of business. You know, you were the company wanting money from them. How did that happen?

Marc 40:37

So it's complicated, but in a nutshell, yes, they absolutely knew about us. But there were several things that they miscalculated about. The first one is, we met them after the .com bubble had burst. When .com was almost a joke, when it was almost proving rice, all the people who said, Oh, this internet thing, flash in the pan. And so here, they were saying, it's all a bunch of smoke and mirrors this whole internet thing. So they were prone to discount that this was a viable business for the future. That's one big thing.

Marc 41:25

The second thing, and this needs to go back a bit, I referred to the fact about, you know, the book being called, That'll Never Work, because everyone said that. And they said it for one reason is because of the 9000 Blockbuster stores. The other reason is because they were all seeing that eventually, video would be digital and video would be streamed or downloaded. And they were right. But they were wrong about the timing.

Marc 41:50

So at the time, that we were talking to blockbuster, and they were looking at our DVD by mail business through the internet, they were also talking to another big successful company about doing a joint streaming venture. And that company was Enron, if you are familiar with them,

Jacob 42:09

oh my god.

Marc 42:10

So they were thinking, why waste our time with this stupid little DVDs in an envelope business? We all know the future is this and Blockbuster can lead that charge. So that was number two. But the fundamental big one, and this in my opinion, it really took it down. It's because they didn't take us seriously. They didn't invest sufficiently in making it happen. And they didn't invest efficiently in a number of dimensions. First of all, they didn't put their A team on it, which I can totally understand that. Why would they take their very best engineers, and pull them away from the business, which is doing 98% of the revenue or more in their case, and shift over to something which was going to be tiny, at least for the foreseeable future.

Marc 42:56

And as a result, their efforts to compete were very lame for 2, 3, 4 tries. And finally, on the fourth or fifth try, they did to their credit, get it right, they said they took a team, they funded it adequately, they moved it out of their building, and gave them complete autonomy and said, You've got to get us in that business. And they would have taken us down in my opinion, they would have done the blended model that we were pitching. And the blended model would have beaten us. However, at the time, they had some boardroom intrigue, and decided that the cash flow that was coming from all those Blockbuster stores was better off being allocated out to investors rather than being put back into the business to fund a transformation into a different business into the future. And that's what sunk them.

Jacob 43:52

So you think if they would have gone all in to compete with you head to head, they would have crushed you guys.

Marc 44:00

I think so. Uh, crushed us is probably too strong, I think they would have beaten us, because they would have been offering everything we offered. Plus they would have been able to say but if you would, rather than mailing your movies back, just drop them off at a Blockbuster store, and then pick up

another one or pick it up and then mail it back or we'll mail it to you and that blended model would have been very powerful. And we knew this because we of course had done a fair amount of research into what customers wanted and how they respond. And we were actually very scared that they would do that.

Marc 44:33

And so when they did, and when they dropped prices. They took a very aggressive competitive stance against us and were making serious headwinds into taking away our growth taking away our customers. It's actually really interesting, and that this is not something that I just talked about briefly in the book, but really interesting story about how close we came to actually being beaten.

Jacob 45:04

Yeah, I mean, it's crazy. Because it's, you know, there's a lot obviously a lot of smart people there, MBAs, very, very smart people who made a very, very big mistake and ended up costing the business. But would you say in this case, it was more like Netflix beat blockbuster, or blockbuster beat themselves?

Marc 45:24

I think Blockbuster beat themselves. I fundamentally believe that. But partly, this is a transformation that would have changed one way or the other. Whether Netflix was there or not, we certainly weakened them. The fact that they had a bricks and mortar business model, meant that you didn't need to take away half their customers, you just need to take away 10% of their customers. Because their fixed costs were such that they couldn't drop their costs by 10%. They had buildings, they had employees, and worse the 10% that we took their best.

Jacob 46:04

I used to work at Blockbuster

Marc 46:06

Did you Oh, there you go. Sorry.

Jacob 46:08

Yeah, that was one of my first jobs. And I, I was I mean, to me, it's still mind blowing, because I remember, in Southern California, like Blockbuster was like Starbucks. I mean, they were on every corner. And I remember when I worked there something you would have a line, like almost out the door of people who were coming in to rent. And I just thought, Oh, man, this is amazing, you know, that it's nothing is going to take out Blockbuster. And then here comes along Netflix, and slowly, you know, it just vanished.

Jacob 46:38

And it's, you know, Circuit City good. So many of these companies who could not adapt. I mean, it's, it still blows my mind that so many smart people who studied business and got MBA degrees, you know, some of the world's smartest business leaders work that these companies and just could not see coming could not adapt. So it just goes to show that sometimes smart people make big mistakes.

Marc 47:04

It's happening now. I mean, it's happening, and I don't mean with COVID. I mean, it was happening now, even prior to these disruptions. I mean, I did this I did this work with, I won't talk about who it is specifically, but it was a company who sold multi level, they sold to distributors, distributors sold to retail stores and retail stores sold to customers. So you know, and it gets marked up each time through that process. And so it's expensive. And of course, people were starting to buy direct, and they felt trapped.

Marc 47:36

Because if they went direct, all of a sudden, the CEO is getting calls from the distributor saying, I represent 20% of your business, and you're going to compete with me. If you keep doing that I'm out of here. And they Okay, oh, no. And then the next person in the door is their VP of sales, who's making \$400,000 a year or half million dollars a year, and saying, You're making my job harder, not easier. If you're gonna keep doing this, while it's good, I'm gonna go work somewhere else. It was Oh, no. I mean, it takes tremendous courage to say, I see where the world is going it is going direct, we have no choice but to go there. And we have to absorb that pain. Or we're toast.

Marc 48:16

So Blockbuster it's not that they were foolish or stupid. There were very smart people there, but they were trapped. They had all these stores, they had all this revenue coming in, it was extremely hard for them to say, we'll walk away from all that and bet it all on building this business, which is also going to go away, which it was we're gonna enter the DVD by mail business knowing we're gonna have to transition again, once there finally is a streaming business, which of course, we all knew, from the very beginning, including Netflix.

Jacob 48:50

So I want to talk about your Randolph's rules for success, because I thought those were fascinating. But before we jump into that, just maybe one final question about Netflix. And that is, from your time in Netflix from taking a company from, you know, two, three people to many, many thousands. What do you think the greatest lesson learned is for leaders who are listening to this podcast? who want to learn from what you did? I mean, do you have any advice to leaders out there who are looking to create, you know, better company where people want to show up?

Marc 49:21

The thing that I've learned over and over and over again, is that there's no such thing as a good idea that too many companies believe that there are good ideas and the people who have them, that the proportion of good ideas is commensurate with how high you are in the company. And I learned that's just ridiculous, and that the only way to find out whether ideas are good or bad is to try them. And so the trick is not building an organization just good at coming up with ideas, but building an organization which is tremendously good at trying thousands of bad ideas.

Marc 49:58

And that means empowering people to make mistakes, it means pushing the decision making down to the people closest to the places those decisions need to get made. These are easy things to say. And

anyone who's been in that position knows how incredibly hard it is to do. But that doesn't change the importance of doing it. And all these journeys have to start with a single step that just comes from, like I said, culture stems not from what you say from what you do. And the most effective way to build a culture of innovation and risk taking is to demonstrate it at the top.

Jacob 50:30

I love that. I love that. I think that's great advice. So I want to wrap up with the Randolph's rules for success, because these are things that I think anybody can apply in their life in their career, whether you're a leader or an entry level employee, did these rules come from things that you yourself did or from things that you looked for in others when you were hiring them a combination of both,

Marc 50:50

Actually, none of the above. In fact, when I was in my mid early 20s, and about to start my very first job, my father called me in to the den where he was sitting, and tore a piece of paper off a yellow pad and handed it to me, where he had on in longhand, and pen, written out his Randolph's rules for success, which he wanted to give to me, on the eve of me starting my first job.

Marc 51:22

And these now, that actual piece of paper, now I've framed and hangs in my bathroom next to my sink, so I can see it every morning. And I've given it to my kids. And of course, it's it's now in the book too. But the interesting thing about the ideas, and my dad was an investment banker, you know, my dad worked on Wall Street his entire life. So it could very easily have been that the rules for success were things like you know, buy low and sell high or happiness is positive cash flow, or some such bullshit like that. But instead, what these really were are how to be a decent person and that being a decent person works.

Marc 51:59

You know, it was things like don't knock, don't complain, be considerate up and down. Be open minded but skeptical, quantify when possible. Never, ever to anybody present as fact, things about which you do not know are true. I mean, be prompt. These are not like earth shattering ones, but they're a reminder that fundamentally, success in business is not about being a hard ass. It's not about applying some formula better than someone else. It's being a decent person that people want to work with, that people want to work for, that people want you to work for them. And that's what I've tried to keep front of my mind for my entire career.

Jacob 52:46

Can I, is it okay with you if I just read through these eight really quick just so people can know what they are?

Marc 52:52

I'd love it. Sure.

Jacob 52:53

Okay, so and I love these because some of these sound like things that my dad told me when I was young. So rule number one is do at least 10% more than you are asked, which I love. Because I feel like a lot of people today do not do that. And I don't know if you want to call it an entitlement in some regards. Maybe it is. But I feel like there's a chance that people don't want to do that. I don't know if you find that true or not. That's hard for a lot of people, right.

Marc 53:23

Magic. It is magic. People who do that. It's like, it's like they're walking around with a neon sign on their head, saying I'm competent. And believe me people are all get all bent out of shape, but what's my job, what's my title, what's my responsibility, and I go mellow out, just do this. And I swear, the next time there's an opening, they're gonna look around, and they're gonna pick you. It's just like, it's like magic,

Jacob 53:49

I love it. Never ever to anybody, as you mentioned, present as fact, opinions on things you don't know, which is today, something that a lot of people struggle with. Take great care and discipline, which was part of number two. Number three, be courteous and considerate, always up and down, which I think is very important. Because one of the things that we see, especially in very strict hierarchies, we're courteous to our peers. But oftentimes, we treat those below us on the hierarchy, so to speak differently or not as well. So I love that treat everybody how you want to be treated basically the golden rule.

Jacob 54:27

Number four, don't knock don't complain, stick to constructive, serious criticism, which it seems like was also part of Netflix's culture. Patty was actually telling me this story, where one day she you know, she was she was an HR and somebody came to her and they were complaining about one of their co workers. And I can't remember what the complaint was, but they were just kind of bashing this coworker and saying how terrible they are. And Patty told me the story has she says okay, hang on a second. She leaves the room and she goes to get the co worker that this person was bashing and she brings come into the office and say, Okay, now tell this person what you were telling me. And she told me it was this idea of like, Don't talk behind people's back, be straightforward. Be honest with people. And if you have a criticism, you know, like Ty figure, You're a grown up, figure it out with the person directly and don't go behind people's back. And I love that story that she shared with me because I think it speaks volumes to the culture that you guys had.

Jacob 55:24

Don't be afraid to make decisions when you have the facts in which to make them quantify where possible, be open minded, but skeptical and be prompt such a simple one be prompt. Ah, man, your dad was a genius.

Marc 55:37

Hey, I learned a lot from him. Here's the interesting thing. Not a risk taker. I think he, he lived vicariously through me in that regard.

Jacob 55:48

Interesting. So you did all the risk taking for everybody huh.

Marc 55:53

I did more than enough to go around. I have some extra if you want.

Jacob 55:56

Well, and I also love the Pseudomonas and they're from Nolan Bushnell, who also was a guest on this podcast, I had the opportunity to meet Nolan at an event we were both speaking in a while ago. And you said that you really like this quote, which was everyone who has taken a shower has an idea. But it's the people who get out of the shower, towel off, and do something about it that make the difference. And I love that because I think everybody has an idea, but very few people are, you know, wanting to move and do something about it, which makes entrepreneurs what they are right.

Marc 56:31

It's the thing, the singular difference between an entrepreneur and someone else is that a predisposition to action. Now that most people, everyone thinks of ideas, a small number of people say let's do something about it.

Jacob 56:45

Yeah, No, I agree. Well, maybe to wrap up, you can let people know. I mean, what are you working on these days?

Marc 56:52

Well so I left Netflix quite a while ago. It's been now, 17 years. But Netflix was my sixth startup. So I was okay to take a break. And so I knew I didn't want to do another company. But you can't stop being an entrepreneur and I needed some way to get my fix. So for the last bunch of years, I've been a mentor to other entrepreneurs at a pretty deep fundamental way I spend enough time to get to know them, know their co- founders, know their team, know their competitors, the product and market. Because and it's not like I'm entirely altruistic here is because what I need is to be able to come in with them and sit around the table with these really smart people, and help solve these really complicated, interesting puzzles.

Marc 57:39

And that's what I love about being an entrepreneur. And I get to do that as a mentor. And then I still get to leave at five o'clock and get home. While they stay there for hours, actually doing that stuff.

Jacob 57:51

Love it. Well, in the last two minutes, I just have a couple of rapid fire questions for you just so people can get to know Mark as an individual a little bit more. Starting off with what has been your most embarrassing moment?

Marc 58:05

Gosh, my most... I'm not gonna tell you that. Let's I can't actually I don't have a million of them. And I would tell you nothing jumps into mind. I don't know, I don't get embarrassed very easily. I'm serious, I can't think of any....

Jacob 58:20

What's your greatest business failure, if you can think of that one.

Marc 58:24

Oh, God, these are bad questions. This is no, seriously. And that can't be a quick question. I need at least 30 seconds to answer in that. Obviously, I get asked all the time. And I'm totally sincere. I can't think of something because I don't. I try so many things. And so many of them don't work, that I don't see those as failures anymore. I've had companies that have gone down if that's what counts, but that doesn't count as a failure. Anyway, sorry.

Jacob 58:55

What's your favorite business or non business book?

Marc 58:59

I really like Shoe Dog as a business book. I mean, in some ways, that was a model for me that how you could write honestly, and with humility, about your life as a business person.

Jacob 59:12

Best mentor you've ever had.

Marc 59:15

Ah, tough. I would probably say a gentleman named Felipe Khan, founder of a company named Borland and several others since then, crazy, volatile, but brilliant, and really taught me that you can see things that no one else sees, and then act to make them happen even though no one else sees what you're doing or why you're doing it.

Jacob 59:41

All right, and last two for you, of course, I have to ask What are you currently bingeing or watching on Netflix?

Marc 59:47

Let's see on Netflix. We're watching season six of Alone, which is not necessarily I'm not even sure it's a Netflix show, but oh my god, it's incredible. Like Naked and Afraid but way more intense. You'll like it, I promise.

Jacob 1:00:07

Alright, and last question for you, if you were doing a different career, what do you think you would have ended up doing?

Marc 1:00:22

I'm pretty unemployable. If I had done a different career, I think I would have been ended up doing direct response, working for a catalog company or running a catalog or something like that something predictable, but I would have been unhappy. I mean, I can't do a regular job. I need this. Who knows what's coming next type of experience.

Jacob 1:00:46

Yeah, I feel the same way. Well, Marc, thank you so much for taking time out of your day. Why don't you let people know? Where can they go to grab your book, learn more about you anything that you want to mention for people to check out? Please feel free to do so.

Marc 1:00:59

Sure. I mean, obviously, the best way to get the big picture is the That Will Never Work, the book. But if you don't have the patience for 200 and some odd pages, and you want it in 220 character pieces, you can get me on twitter at MBRandolph on Instagram at That Will Never Work. But Randolph central is found at MarcRandolph.com, which has all my writing, speaking, my videos, and of course where to find the book. That's Marc with a C. And Randolph with a Ph.

Jacob 1:01:28

Very cool. Well, Marc, again, thank you so much. I really, really appreciate your time for sharing your insights and your stories with me and with everybody else.

Marc 1:01:36

Thank you so much. This was actually kind of a fun, fun one to do. I appreciate it.

Jacob 1:01:40

Well, thank you. I like to hear that. And thanks, everyone, for tuning in. I had a chance to read the book. I hope all of you get a chance to read the book, we just really scratched the surface of some of the really cool stories that Marc shares. So do get a copy of the book. And I will see all of you next time. Thank you very much for joining