
Book Review

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**That Will Never Work: The Birth of Netflix and the
Amazing Life of an Idea**

by: Marc Randolph

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Netflix has become a rage in the current generation. It disrupted the entertainment industry and upstaged the established players with its first mover advantage in the DVD rental and sales business and followed it up by bringing the service on-demand. Having introduced 'eat all-you-can buffet' approach to entertainment, it has led to evolution of terms like 'binge-watching' (Matrix, 2014). Netflix was the top-performing S&P 500 stock in the decade of 2010s, with a total return of over 3,000% and its current market capitalisation of nearly \$219 billion places it among the highly valued firms listed on NASDAQ along with other established and much bigger organisations like Intel.

In this background, a tell-all book, a memoir by none other than Marc Randolph, the co-founder and the first CEO of the firm is a treat for those wanting to know the inside story of one of the most successful dot-com ventures. What makes it even more interesting is that this chronicle is written in simple yet unambiguous language, and is interspersed with lessons on creating successful, sustainable ventures. Reed Hastings, the other co-founder, primary investor and the current CEO calls this book *Engaging and Insightful*. The book aims to portray the life of an entrepreneur, how he/she seeks ideas for businesses and works on making them come true. Written in a lucid manner, this book is one of the must-read books for all existing and aspiring entrepreneurs, researchers, academicians and thinkers working in this ecosystem.

The book is divided in 18 chapters; each one captures the challenges faced by the entrepreneur and the firm as per the stage of the venture – before, during and after launch of Netflix and how those were addressed. The initial section gives the background of the two co-founders, Marc (the author himself) and Reed – calling himself as aggressive and impatient with Reed being more methodical and punctual. These complementary personality traits actually turn out to be an asset for the organisation in the founding years. Both of them had been founders of a few ventures and successfully exited some. Marc describes his modest family upbringing while underlining the constant struggles in the life of an entrepreneur, seeking and experimenting ideas for new ventures. With his wife Lorraine, whom he described as his best friend and sounding board, he yearns for a peaceful life of a postman to get away from the boom and bust cycle of Silicon Valley

though he never quite pursued it mentioning that “he liked headaches, seeking problems to solve as the mark of his being an entrepreneur”.

The author postulates that for every good idea, there are a thousand bad ones. For instance, the idea of setting up a venture around personalised shampoos (by mail), personalised surfboard, individually formulated dog food – all of which were toyed before Netflix but not found acceptable, have been quoted to give an important lesson on creating “scalable business – wherein the effort required to sell a dozen is identical to the effort for selling just one”, this scalability being an essential requirement for a successful venture. He comments that ‘Nobody Knows Anything’ and it is truly impossible to know in advance which ideas are the good ones and which are not hence one has to test by self and be willing to fail.

Silicon Valley loves a good origin story as per the author hence the incident of Reed having to pay \$40 for returning a movie (VHS tape) late to Blockbuster (the leading video rental player at that time) leading to birth of Netflix became popular. The original business idea of Netflix as DVD sales and rental firm (ordered via internet) had quite a few detractors giving the title of this book *This Will Never Work*. A small experiment wherein Marc and Reed successfully conducted a pilot of DVD by mail gave wings to the idea. However, this pilot could have gone either ways and Marc says they got lucky.

The company – just an idea and the two of them was valued at \$3 million during its founding time in 1997. Reed, the one with the money agreed to invest equity in cash of \$2 million and became the initial investor while Marc contributed equity in the form of time and effort. The concept of valuation and subsequent dilution as explained by the author would be found very useful by the founders of early stage ventures. The author explains the concept of other people’s money (OPM) as prevalent in Silicon Valley to test the business. Through a detailed anecdote during his growing up years, he relates raising money for an early stage start-up to literally asking for alms. Ultimately, Netflix managed to get some seed funding from Marc’s mother as ‘friends and family round’ and his former boss, none of whom expected a return of their investment.

The first few priorities for Marc in setting up the foundation of the company are attracting talent, building the office and organisational culture and product development whereby he goes even to the minutest detail in product development. These serve as sound advice for entrepreneurs on the path ahead. The delicate ecosystem of an early stage start-up confronts the founders in the form of competing pressures and managing investor expectations at the same time. The author however, manages to find that balance between family and work along with developing certain hobbies which help him de-stress to some extent. How the established manufacturers, venture capitalists (VCs) and bigger firms like Amazon and Blockbuster treat nimble upstarts also come up in this section. Blockbuster which passed on the offer to buy Netflix at \$50 million was later driven into bankruptcy because of having failed to adapt quickly enough (Davis and Higgins, 2013). Marc expresses his dislike for the business plans – “Most business plans are a complete waste of time. They become obsolete the minute the business starts and you realise how wildly off the mark you were with your expectations. So the trick is to take your idea and set it on a collision course with reality as soon as possible.”

Netflix in its early days had no set hours and no vacation allotments for employees, the same continues even now. In pursuit of attracting talented employees, the author mentioned Netflix hired Indian engineers and found this talent pool very advantageous. Experimenting with new promotional schemes to attract customers and the days worrying about cash continues throughout the initial years. Challenges in raising the next round of

funding from VCs, concept of customer acquisition cost (CAC), losing money (burning cash in the lingo of start-ups) and the decision to focus on DVD rental business while giving up on DVD sales, inspite of latter being 97% of business come as beacon for aspiring founder community. Very candidly, the author states that life of a start-up is living on razor's edge. The standing of the initial investor (Reed) turns out to be an important factor in getting the next round funding from VCs.

Marc has very positively handled the episode of CEO succession wherein he's required to give up reins of the company and his own aspirations, and is bumped down as the President of the company, with the other co-founder Reed taking over as CEO. This is followed up by scaling up the company, coupled with the peeling off of founding team. The dot-com crash gives a perspective on tightening of belt, reducing expenses to sustain slowdown as it happens in the lifespan of all start-ups, including the layoffs. The author has methodically described the painful process of letting people go while maintaining sensitivities involved. Though it gives some emotional touch but life moves on and leads to a leaner, efficient and better company.

The book ends with the unveiling of the initial public offering (IPO) and its stock being listed on NASDAQ in May 2002, nearly four years after Netflix commenced business. The IPO, being the holy grail of all entrepreneurs gets its fair share of excitement in the form of frame-by-frame commentary from the author leading to the climax, while giving details on terminology like book-building and price determination. Incidentally, his mother made over hundred times her initial investment and so did other investors. The IPO while being successful gives him mixed feelings upon the realisation that he no longer needs to work. His exit from the company and the grand farewell has been gracefully handled in the book.

Marc left Netflix in 2003 and the book essentially captures the founding years of Netflix till his departure. Though he is no longer involved with Netflix, it would have been even nicer, if the book would have captured some details on the journey after that, including the current state of affairs at Netflix. Notwithstanding that, it can easily be a tutorial for entrepreneurs explained through narratives. At one instance, the author vividly describes the job of a sales manager 'never to take no as a no', which helped him throughout. The 'Canada Principle' has been brought up a few times in the book and serves as a guidepost to stay focussed and set priorities – focus, he says is an entrepreneur's secret weapon.

That Will Never Work is yet another inspirational and remarkable story, in the series of the ultimate follow-your-dreams parable from successful entrepreneurs. From idea generation to team building to knowing when it is time to let go, it maintains an easy to read, fast pace almost like a Hollywood style flick, captured in the form of a book.

References

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