

EPISODE 940

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[INTRODUCTION]

[0:00:57.7]

FT: What does it take to bring a world-changing idea to life? My guest today co-founded a company we all know, that fundamentally changed the way that we experience media. Welcome to So Money everybody. I'm your host, Farnoosh Torabi. Marc Randolph is here. He's a veteran entrepreneur and investor who's best known for co-founding and serving as CEO of Netflix. I'm sure you've heard of Netflix.

How do you take an idea to rent movies over the internet and turn it into a company with some 150 million subscribers? Well, it takes grit, it takes gut instincts, it takes failure and determination. Marc's book, *That Will Never Work*, is out now. It's about taking a leap in business and in life to bring your ideas to market and change the world. Marc and I talk about the beginnings of Netflix, borrowing money from his mother and what happened in that meeting with Blockbuster all those years ago when they actually pitched Blockbuster to buy Netflix.

Here's Marc Randolph.

[INTERVIEW]

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FT: Marc Randolph, welcome to So Money and congratulations on your book.

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MR: Thank you, Farnoosh. Very exciting.

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FT: Let's start with Netflix; as one of the founding partners and first CEO of Netflix, you left in 1999 and of course, so much has evolved since then. Is there a part of you that wishes that you didn't leave when you did, that you stayed on? Do you wish you were part of what came after?

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MR: Well, of course I do. In some ways, I am the luckiest guy I know. I've had tremendous success. I have gotten to work on things that challenged me and that are fun. Now since leaving Netflix, I've had a chance to do all kinds of incredibly exciting work with early-stage companies, with mentoring young entrepreneurs.

I have a chance to pursue my other passions, like surfing and climbing. Is there one little piece that thinks it wouldn't be fun to be still sitting around the board meeting, solving these really interesting global chess problems that Netflix is doing? Of course, that'd be fun. On balance, I'm delighted with how things have worked out and just as I know that Reed is delighted with what he's doing.

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FT: Well, it definitely sounds like you followed your own compass. I think it's fascinating to learn about the beginnings of Netflix as this incredibly disruptive concept, that I mean, the title of the book is *That Will Never Work*, so we can sense that there was some – there was a challenge or two along the way in the beginning. Why did you stick with the idea for as long as you did? A lot of people would have given up quite easily and maybe have said, “You know what? There's not any interest. This is becoming really challenging. What kept you and Reed Hastings going on in those early days?”

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MR: In *That Will Never Work*, we talk about how is a constant struggle, but it's not that you have a single idea that you have to make work, because in many ways, the idea for Netflix is not what Netflix has ultimately become. In fact, we recognize that the original idea for Netflix wasn't working and realized that almost on that first tumultuous day in our little drab office with the green dirty carpets when the server's crashed, it's really not about an idea.

It's about falling in love with a problem and saying, "How are we going to solve this problem?" This book is really about that untold story, about how you go from just a Patsy Cline CD and a first-class stamp and end up being a publicly traded company.

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FT: What do you think about Netflix today? Is it in some ways how you thought things would go? Was it in some ways predictable, looking back, or are you completely blown away by where it's arrived?

[0:04:50.0]

MR: I'm completely blown away by the size and the scale and the reach that Netflix has achieved. When we set out to launch it, when the 12 of us huddled in that little office for six months building this simple e-commerce website, we were just dreaming about our first 100 customers, no less ever getting to a 150 million subscribers. If you ever told them what the business model would look like and that we'd be streaming videos and making our own movies and television shows, I probably would have told you that will never work.

It's funny, despite the tremendous success and how Netflix is in some ways a different company, in many ways although it doesn't look exactly like me, that company still has my nose. I mean, a lot of those early cultural things that we talked about in the book about Reed and I driving back and forth to work and arguing about business ideas, the drive for personalization, for customer attention, for ease of use, for metrics, all those things which survive today were all taking place during those first few years between Reed and I and between Reed and I and the rest of the company.

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FT: What inspired you and Reed to start Netflix? You've described yourself as the founder, CEO that really loves the beginning stages of a startup, that you love the triage. What was the thinking behind Netflix? Was it just that we need to take over the video industry, take out the Blockbusters of the world? Where were you even before Netflix allowed you to have that wherewithal and the desire to pursue this path, or was this a complete pivot from where you were before?

[0:06:29.8]

MR: No. Everything has a purpose and everything that happens has something that came before, which led to it. Certainly with me, it was no different. I've been having problems late in front of me and wanting to solve them ever since I was young. I mean, in my – I came from a family that if I came running into the kitchen with some crazy idea, rather than my parents saying, "You're out of your mind." They'd say, "Well, give it a try. See if it works."

That's happened continually. I didn't start Netflix until I was nearly 40-years-old and it wasn't my first startup. It was my sixth startup. Each of those things lent some piece – for example, earlier in my career I was a direct marketing person, which is very involved in not only using the mail, but also in personalization. I did magazine circulation, which is subscriptions. I did mail-order, which is delivering things and worrying about how quickly they can get there.

If you think about all of those components, were just nestled in my head. When the internet came along, I perhaps saw different opportunities that other people did. It wasn't like I've been dreaming since I was a child, "Oh, boy. I would love to disrupt the video industry." In fact, it's funny. In *That Will Never Work*, some of the ideas that Reed and I were dreaming up on our car rides back and forth had nothing to do with video. They were things like, custom lathe, using robotic milling machines to make baseball bats, dog food customized for your dog, a shampoo that you got delivered by mail that was formulated exactly for your hair. I mean, Netflix could have been any of those things. Although, I think if it had been the shampoo idea, we probably wouldn't be talking today.

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FT: Now you kept going back to video. I am curious what kept you going back to that concept and then ultimately pursuing it.

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MR: Well, the funny thing is in those car rides, one of the ideas that I pitched to Reed was doing video rental by mail. This was the dawn of the e-commerce age. I mean, just Jeff Bezos had been selling books only for just over a year and everyone was looking at what categories could we bring into the online world. I was poking around at big categories and said, video rental is a big category.

The idea that I pitched to Reed originally, “Let’s do video rental by mail.” One small problem, which was that video then came on those big VH cassettes that a lot of us – at least those of us who are a bit older may remember. It didn't take a lot of research to go. Those are too heavy and too expensive and too fragile to make work.

That idea, it was abandoned. It was a bad idea that was not going to work. On we went to I don't know, shampoo or something. Until, you have one of those lucky breaks, which inform every successful company. We heard about this thing called a DVD. It was flat and light and thin and boy, it might even fit in an envelope and maybe we could mail it. Then we did the thing that we talk about a lot in *That Will Never Work*, where you say let's stop thinking about it. Let's try something.

Reed and I were in mid-commute, we just turned the car around and drove back down to Santa Cruz where he lived, in which we used music store and bought a Patsy Cline music CD. I went two doors down into a stationery shop and bought an envelope and we actually put the CD on the envelope and we mailed it to ourselves. It arrived at Reed's house the next day for the cost of a first-class stamp.

In terms of pursuing an idea, it was abandoned until this lucky break said, "This might work." Then that's what we said, "Okay, the only way to really figure out if this is going to be a successful business is to try it," and off we went.

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FT: What was it about your relationship with Reed Hastings that you think made this successful? I was just reading about sometimes the dynamic between two leaders in a business, two founders, what works is having two people who have ultimately different personalities, they're opposites, they bring very different skills to the table. How would you characterize your relationship with Reed and why it worked ultimately?

[0:11:10.1]

MR: I'll start with the not the ultimate reason. Yes, we're friends. Yes, we got along and yes, we had totally different skillsets, which was fantastic. I mean, people talk a lot now about diversity in business. The important diversity in business is not necessarily skin color or gender, it's diversity of viewpoint. Reed and I had very different backgrounds and experiences. I was coming out of mail-order and direct marketing and customer experience. Reed was coming out of algorithms and software programming. We both shared this love for metrics. We both brought totally different skills and experiences to the problem.

I think the thing that ultimately made it work is that Reed and I shared this belief that the only real way to treat someone is complete, unsparing, brutal honesty. We told each other exactly what we were thinking, what we felt. What that allowed us to do was have these very vigorous discussions. I mean, voices were raised, but it was never angry. It was pushing for a point of view using logic, but then the miraculous part, because a lot of people can argue, the miraculous part which both of us didn't have any ego in this fight, which meant that as soon as it became clear that one or the other of us, or even better, some combination of our ideas was ultimately the best one, we would both just fall in, instantly forgetting whose idea it may have been and rallying around that idea. That culture, that birthplace of culture I think was the most valuable contribution that my relationship to Reed brought to Netflix.

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FT: No egos allowed, right? Leave your ego at the door.

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MR: Absolutely not.

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FT: I read that in the beginning, Netflix received some money from your mom. I'm sure that was a bit of a pitch. Take us back to that scene. What was that like? I think for a lot of people listening who might be in the early stages, it's so hard to get big funding. A lot of the times, you are leaning on family and friends. How did that work for you? Tell us the story.

[0:13:22.5]

MR: Well, these days it's called a seed round. Back then, it was called the friends and family round, because essentially, they were the only suckers you could really get to put money into this venture, which had no visible means of support. Of course, as soon as they left the table, they were muttering to themselves, "Ah, this will never work."

Nonetheless, it's part of the process. Not only is it raising the money, it's a form of validating your idea. It's making sure that you're not living in an echo chamber, that Reed and I are not just sitting in my Volvo being the only voices in the room. Asking for money forces you to validate it and it is hard. Certainly, asking your mom for money is hard. I mean, I've asked my mom for money ever since I was three-years-old when I wanted to buy a candy bar. Asking for \$25,000 was different.

In That Will Never Work, I actually described that asking for the \$25,000 was easy compared to some of the asking I had to do earlier in my life when I actually as part of an experiment, part of a training for an outdoor program was dropped off in the streets of Hartford, Connecticut with no wallet, no money, no ID and no food and picked up again three days later. Amongst other

adventures, had a panhandle. I can tell you that panhandling is brutal, because it's that naked ask. It is walking up to someone, a stranger with your handout and asking for money for nothing.

I did that over and over and over again, chickening out, mumbling. Until finally, hunger is a pretty good incentive and finally was able to make those asks. What I tell people is that after you've had a panhandle for food at a food court, asking for \$25,000 is easy.

[0:15:18.5]

FT: Wow. There's another infamous story in the book about how you actually – your team in the beginning stages pitched Blockbuster to acquire Netflix. We obviously know how that turned out. What went right or wrong in the meeting? Because I guess in the end, in hindsight, it was probably a good thing. At the moment, maybe you thought it was a failure.

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MR: Well, we started off on the wrong foot to begin with, because that trip actually began – we got the call from Blockbuster when we were on our corporate retreat up in the mountains in Santa Barbara. Because we're on retreat, all I really had with me was shorts and flip-flops and t-shirts. There we were in the Blockbuster headquarters in Dallas, Texas on the 27th floor in this huge boardroom and I'm there in my shorts and my flip-flops. Reed is there in a Hawaiian shirt or something like that.

This was not an auspicious beginning to the meeting, but we still pitched to our best. We pitched to Blockbuster that we should join forces, that they should run the stores, that we would run the online business, then we'd find those mythical synergies that everyone's always talking about. We thought it went great, but then of course came that moment where they said, "Well, what do you think we should pay for you?" I remember Reed screwing up his courage and we talked about this in the plane. Look, we were 50 million dollars in the hole, so maybe 50 million dollars.

Yeah. John Antioco who was that was the CEO and chairman of – the CEO of Blockbuster, he's a pretty composed guy. When we said that, he was struggling not to laugh. That was a sign that perhaps, things were going to go south from this point on. Of course, they politely declined. We

had to fly home empty-handed and reckon with the fact that there was no one who was going to save us, that we were going to have to dig our way out of it ourselves. Whereas, I actually put it to the guys on the plane, “Now we're going to have to kick their ass.”

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FT: For Blockbuster, surely – I'm not going to jump to conclusions here, but probably kicking themselves over that moment. What else were you supposed to ask for? If you were 50 million in the hole, you need at least 50 million to be solvent. Didn't seem like you were asking for a lot. If you had to go back in time, have you asked for a smaller amount?

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MR: If I had to go back in time, I wouldn't have asked for – I wouldn't have been in the meeting at all. Because certainly, you can see how things worked out. You go to war with the army you have. At the time, that was what felt right. Don't forget, despite the fact that we were against the wall, that this was right after the collapse of the dot-com, the popping of the dot-com bubble. The money that we were using to sustain our growth and our losses, which used to be so easy to get for anyone who did dot-com on their name, was now impossible.

At the same time, there is always optimism. There's always the sense that, well, we don't want to give up too easy. Part of it, I think is pride, in that 50 million in the hole doesn't necessarily mean covering your losses. It means giving some fair return to your shareholders for the people who believed in you, to my mom, to the other early seed stage investors, to the VCs who had faith in us. I think we weren't prepared to slink off with our tail between our legs.

[0:19:22.1]

FT: Marc, what are some financial pieces of advice you might want to give to a fledgling entrepreneur, who like you is very determined, passionate, ultimately knows they want to spark change in the world, but might not know how to get there exactly. Let's offer some tactical advice. The reality is you need some money, right? To keep your personal finances healthy and working, so that you can pursue risks. What would be your advice to someone today? You've

worked on a number of startups since Netflix. You've worked with a lot of founders. What is working for people financially? What's a good strategy to go with?

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MR: I assume, you mean personally, or you mean for the business?

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FT: I would love a personal tip.

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MR: That's fair. That's fair. That's a good one. In *That Will Never Work*, I talk about that struggle that I had personally. I started Netflix when I was in my late 30s, almost 40. I had a brand new house with a mortgage. I was married. I had three kids. One who was in a – one who's in a private school. It's expensive. There's this huge sense of how scary this is. The advice I would give to people is really twofold; is one, it never gets less risky. It only gets more risky. In other words, if you're a young entrepreneur and you're debating is now the time to start? Well, if you think it's tough now, wait until you're 40. If you think it's tough now and you're 40, wait until you're 50. There's never a better time to start than the present.

The other one though is and this is probably the more critical one for the personal thing is you should always scale your aspirations to your abilities. A lot of people believe they have to go bigger than they think. The reason I mentioned that it sounds like a business advice, but it's a personal advice; a lot of people have an idea and they say, "Wow, I have to quit my job to do this. Then I have no visible means of support. What do I do about my mortgage? What do I do about my car payments? What do I do with my kids' tuition?"

These days, you can test your idea, you can validate your idea quickly and easily, as long as you keep the scale at a reasonable size. You can do it without stopping your day job. You can do it without having to give up and live on ramen and stay four people to an apartment. My advice is twofold; don't let it scare you, but scale your aspirations to your situation.

[0:22:14.3]

FT: We like to ask our guests on the show in partnership with our sponsor, Chase, about something that you personally do with your money to create financial security for yourself. Is there a habit that you have, an app that you like to use, something like that?

[0:22:31.8]

MR: Oh, well. Let me think about that for a second. Yes, of course. I actually live reasonably modestly. I think that was partly built in. As an entrepreneur from the very beginning, I was never doing this about the money. I was never doing this about the status. I was never doing this about power. I was doing it because it was fun and I was compelled to do these things. Even as some financial success came, I never felt a need or a feeling of having to flaunt it. I still am pretty careful with how I spend money.

I still have as my premiere credit card by Chase Sapphire Reserve. I do that because of the points and I buy flights using points. Even though I certainly had quite a fair amount of financial success in my life, you know, how big of a house do you need? How fancy of a car do you need? It's just being driven for doing the right things.

[0:23:41.5]

FT: When you do splurge, when you do like to spend the big bucks, what are the things that you value that you like to put more money towards?

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MR: I'm definitely an experienced person. If I had a guilty pleasure at all – A bit more of a story about the guilty pleasure piece; I live in Santa Cruz, California. It's a surf town, so I really have spent the last 25, 30 years surfing in Santa Cruz. If anyone's familiar with that part of the world, the water is cold. Because it's such a great surf spot, it's crowded. Now finally, I've gotten to a point where I'm going, "You know? I don't really need to surf crowded cold water anymore." My splurge is I'll travel places to do surfing in warm, uncrowded water. It's way too expensive and

it's leaving a carbon footprint, which I have to spend money to actually cover up because of the plane flights. But wow, there is something about being in tropical waters on a break with only two or three people. That's a great thing to spend your money on.

[0:24:57.1]

FT: I've never met a surfer I didn't like. I think really, the skills and the endurance to surf as you're – you're going to fall a lot in the beginning and getting back on, I think it's very much a metaphor for how you have pursued your life, and it's truly exemplary. I'm not surprised to hear that you're a surfer.

My last question for you Marc is well, because you have such a finger on the pulse of what could be the next big thing, you're disrupting industries, what are you most interested in now, as far as disruption goes? Is there an area in the world, in business where you think there's an opportunity for massive change? Maybe you're working on something right now that you'd like to talk about? I think that would be really cool to learn about that and anyone listening can be inspired to hear your thoughts.

[0:25:49.9]

MR: I left Netflix more than 15 years ago. I was thinking, do I want to start another company? Decided I didn't have it in it to start another company. Then I was 45-ish and wanted to spend time with my family. I wanted to pursue my other options. Once you're an entrepreneur, you're always an entrepreneur and I couldn't stop. I've gotten my fix by helping other entrepreneurs pursue their dreams, to help them solve these problems.

I now get to do the thing that I loved so much at Netflix, where I get to go into a room with super smart people, help them solve really interesting problems. Of course, now I get to go home at 5:00 and they have to stay up all night, actually working on these things. What I've done in working with all these early-stage companies is seeing that innovation now is every place. There's not one place it's happening, the ideas that are being formulated in, one of my companies I'm working with is doing robotics, one is doing AI, one is doing plain old e-commerce for shorts. It is remarkable all the things taking place.

If I wanted to give up one last message is that it's really was the reason that I wrote this book, was because I just wanted to share with everyone that all these things that I learned over the last 40 years can apply to anybody who has a dream. These are not things you need money, these are not things you need to be in Silicon Valley for, it doesn't even need to be a business.

If you have a dream, if you have a passion, if you have something you want to start, this book in some ways is that how to manual of how to do it. The world is going to be an exciting place coming ahead. There's a million new companies left to start and I am so excited to see everyone start them.

[0:27:43.6]

FT: Well, congratulations. Thank you for telling us this story. We don't often get the backstory of how a massive company that we've all pretty much have experienced. I mean, what are you watching on Netflix right now? I mean, who isn't watching something on Netflix right now? I have a whole list of things I have to catch up on.

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MR: Have you seen Sex Education yet?

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FT: No, I haven't. Thanks for the rec.

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MR: It is fantastic. We're almost done. Just so funny, so poignant, so moving, so capturing, teenage acts, highly recommended. This Netflix company, I think they're onto something.

[0:28:20.1]

FT: Maybe. I don't know. No, seriously. Thank you so much for joining us. Congratulations on the book, Marc. We really appreciate your time.

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MR: It was a pleasure being with you. Well, thanks very much.

[END]