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## ‘That Will Never Work’ Review: Streaming Ahead

Netflix co-founder Marc Randolph looks back on the early days of one of the most successful tech startups ever.



PHOTO: DANIEL ACKER/BLOOMBERG NEWS

By Marc Levinson

Sept. 22, 2019 4:26 pm ET

Starting a business is tough enough. Why would any sane person choose to start a business in a dying industry?

One answer to that question can be found in “That Will Never Work: The Birth of Netflix and the Amazing Life of an Idea,” a charming first-person account of the early days of one of the most successful tech startups ever. The author, Marc Randolph, co-founded Netflix and helped run the company from its inception in 1997 until 2003. His book is a conversational exploration of the successes and missteps of those early days. Anyone looking for dirt about the media industry or Netflix’s better-known co-founder—current chief executive Reed Hastings—won’t find it here. The book instead offers an engaging read that will engross any would-be entrepreneur.

The well-aided story that Mr. Hastings started Netflix after facing a steep late fee for an overdue rental of “Apollo 13,” it seems, is apocryphal. “The idea for Netflix didn’t appear in a moment of divine inspiration,” Mr. Randolph writes. Rather it emerged from a search for a next act. In early 1997, Messrs. Randolph and Hastings had worked together at Pure Atria, a Silicon Valley software company run by Mr. Hastings, who at the time was completing a merger that was about to make both of them redundant.

Mr. Randolph was a serial entrepreneur—he had helped found a startup that Pure Atria had recently acquired—and hoped to create the next big thing. Mr. Hastings was interested in education reform and considered enrolling in graduate school but was also a potential angel investor in any new venture. They batted around ideas during their daily carpool from Santa Cruz, Calif., where they both lived, up Route 17 to Pure Atria’s offices. One of their ideas was to rent out videotapes through a website. But a quick investigation showed that the economics were impossible: The tapes were expensive to purchase and costly to ship, giving brick-and-mortar video stores an advantage.

At the time, DVD players were being introduced in the United States, and the first movies on DVD were about to go on sale. DVDs would be much cheaper than videotapes for a distributor to purchase and send out by mail. That neither Mr. Hastings nor Mr. Randolph had ever seen a DVD was no obstacle. They jumped in, despite the inevitable naysayers. When they approached a software executive for funding, he informed them that their concept had no future: “It’s just a

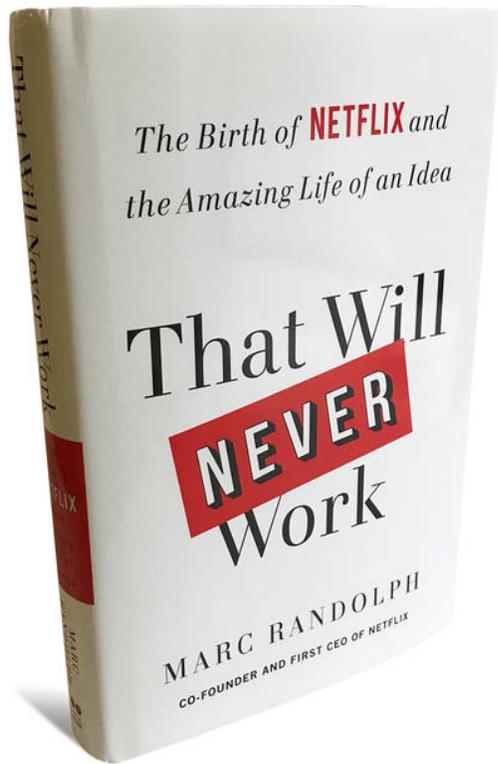


PHOTO: WSJ

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## THAT WILL NEVER WORK

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By Marc Randolph

*Little, Brown, 325 pages, \$29*

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matter of time before people are going to be downloading their movies. Or streaming them. At some point, probably soon, you're going to be stuck with a warehouse full of useless DVDs," he told them in Mr. Randolph's accounting.

NetFlix.com—the name chosen over such alternatives as NowShowing and Replay.com—went live in April 1998. Things went badly; it turned out that selecting a movie on a website, paying a rental fee, and then waiting two or three days for the entertainment to arrive in the mail had little customer appeal. Most of Netflix's early business came from sales of DVDs, not rentals. The struggling company even considered selling to Amazon in 1998, but passed on the offer.

In desperation, Netflix tested monthly subscriptions. To its surprise, customers eagerly forked over their credit-card details. The little company turned on a dime, dropping sales and one-off rentals almost immediately. "If you had asked me on launch day to describe what Netflix would eventually look like, I never would have come up with a monthly subscription service," Mr. Randolph claims. Netflix's innovation with a subscription model would point many other internet-based companies to a reliable source of revenue.

Another unplanned leap soon followed: a predictive algorithm that offered to each user individualized recommendations based on reviews by customers with similar preferences. This feature helped hook customers, but it had a less obvious benefit for Netflix: By directing the user to a less popular film that happened to be in Netflix's inventory, it allowed the company to buy fewer of the most popular DVDs. Yet profits were elusive. Video-store giant Blockbuster, unconvinced about the online business model, turned down a chance to buy the company in 2000, and the dot-com meltdown short-circuited a public offering. In September 2001, Netflix had its first layoffs, cutting costs and steadying the ship.

Mr. Randolph himself left in 2003, not long after Netflix finally went public. By then, he says, he had figured out that he loved starting companies, not running them. "I missed the late nights and early mornings, the lawn chairs and card tables. I missed the feeling of all hands on deck, and the expectation that every day you'd be working on a problem that wasn't *strictly* tied to

your job description,” he writes. The chaos of a startup entralls him. A company with hundreds of employees and the demands of quarterly reports to investors is not his thing.

It turned out, of course, that the executive who declined to be an early-stage investor was correct: DVDs were a short-lived technology. But while the DVD business was a dinosaur, the video business was anything but. The investor hadn’t imagined that by the time most American homes were finally cabled to receive broadband, millions of families would be Netflix subscribers. Making the switch from receiving movies in the mail to watching them online proved to be no big deal.

Netflix has morphed into a media giant doing things that Mr. Randolph never envisioned, including making movies of its own in competition with the film studios whose products it distributes. Its business couldn’t be more different from the prosaic online video store that its founders conceived in 1997. Its improbable history, as Mr. Randolph says, demonstrates that an old Hollywood saw applies to business startups as much as to forthcoming movies: When it comes to predicting success, nobody knows anything.

*Mr. Levinson’s books include “The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger.”*

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