



*“What do you mean you don’t have an  
Instagram account?”*

## Blockbusted

*“Investor concern over the threat of new technologies is overstated.”*

—**Blockbuster Analyst Report** (1999)

**B**lockbuster, the iconic provider of home movie and video game rental services, had USD 5 billion in revenues, employed 84,300 employees worldwide and had more than 9,000 stores, while at its peak, in the early 2000s.<sup>1</sup>

Around the same time, a company called Netflix, founded by Reed Hastings and Marc Randolph in 1997, was reimagining the entertainment industry. Capitalizing on the proliferation of the Internet and growing popularity of DVDs, Hastings and Randolph launched Netflix on April 14, 1998, as the world’s first online DVD rental store where the users rented movies online and the DVDs were delivered by mail.<sup>2</sup>

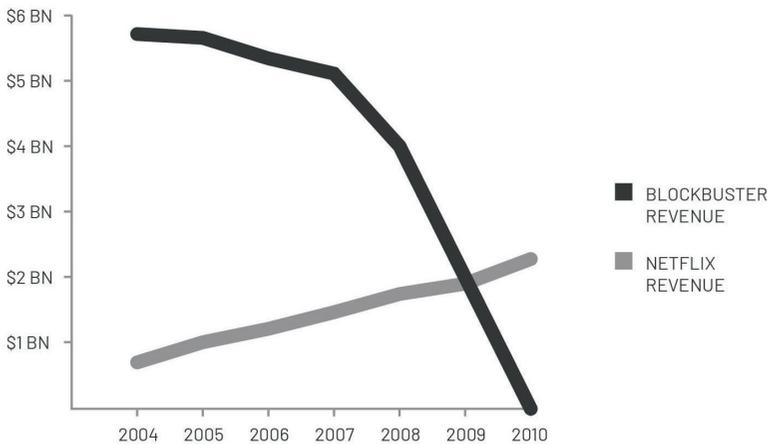
## Founding Story of Netflix

Reed Hastings has an interesting founding story to share. “I had a big late fee for *Apollo 13*”, says Hastings. “It was six weeks late and I owed the video store USD 40. I had misplaced the cassette. It was all my fault. I didn’t want to tell my wife about it. And I said to myself, ‘I’m going to compromise the integrity of my marriage over a late fee?’ Later, on my way to the gym, I realized they had a much better business model. You could pay USD 30 or USD 40 a month and work out as little or as much as you wanted”.<sup>3</sup> This insight is supposed to have sparked the idea for an online subscription-based business model at Netflix, one without any late fee. Incidentally, in the year 2000, Blockbuster was making USD 800 million in late fees, contributing to a whopping 16 percent of their annual revenues.<sup>4</sup>

Legend has it that Hastings met with the then-Blockbuster CEO, John Antioco, to pitch for Blockbuster to become a strategic partner and investor in Netflix. In what would later be cited as one of the biggest misses in business history, Antioco passed up on an opportunity to acquire Netflix for USD 50 million. Bitter rivalry between the two companies ensued and continued well into the mid-2000s. So much so that when in one of the

interviews, Reed Hastings said that Blockbuster was throwing everything but the kitchen sink at Netflix to beat them, leaders at Blockbuster promptly sent him a kitchen sink the very next day.<sup>5</sup>

Long story short, while Blockbuster was struggling to get its online and brick-and-mortar story right, Netflix continued to reinvent itself by getting into on-demand shows and online streaming movies, leveraging the power of the Internet, and serving customers to meet their needs for choice and instant gratification. Blockbuster declared bankruptcy in 2010 and was acquired by Dish Network, while Netflix is ranked among the top 10 Internet companies by revenue as of 2018. Figure 1.1 shows the revenues of Netflix and Blockbuster between the years 2004 and 2010.



**Figure 1.1** Netflix vs. Blockbuster revenues from the year 2004 to 2010