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Blockbuster Could Have Bought Netflix for \$50 Million, but the CEO Thought It Was a Joke John Antioco's arrogance in September 2000 cost Blockbuster its future.

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Netflix co-founder Reed Hastings

Netflix co-founder Reed Hastings Getty Images

There are times when you look back on your career and all you can think is:

"Oops. I really screwed up that time." You have to assume that's what former

Blockbuster CEO John Antioco says to himself every time he remembers a meeting he
had in Dallas in September 2000–and every time he streams a movie to his TV.

In his new book *That Will Never Work*, Netflix co-founder Marc Randolph describes a meeting he attended with Antioco along with Netflix co-founder Reed Hastings and its then-CFO Barry McCarthy at Blockbuster headquarters in Dallas. Everyone from Blockbuster who was at that meeting must cringe when they think back on it now. The

company could have bought Netflix that day for \$50 million, but its CEO didn't even bother to consider the possibility. He seemed to see it as a great big joke.

The evening before the meeting, Randolph, Hastings, and McCarthy were in rural California at Netflix's first-ever corporate retreat when McCarthy got word that Blockbuster wanted to meet with them. At the time, Netflix was in trouble. The dot-com crash had made its once-rosy future look grim. The idea of a DVD-by-mail rental service, which was all that was possible in that era of slower download speeds, was catching on, but not quickly enough for the company to be anywhere near profitable. Two years earlier and in headier economic times, Hastings and Randolph had turned down the opportunity to be acquired by Amazon. Now acquisition by Blockbuster seemed like the perfect solution and the perfect lifeline to keep Netflix afloat.

With this in mind, Netflix executives had been requesting a meeting with Blockbuster's leadership for months. Now word came through that Blockbuster wanted to meet them—at 11:30 the following morning in Dallas which was less than 12 hours away. Let's pause for a moment and contemplate the sheer arrogance of this offer. After someone has been requesting a meeting with you for months, you finally agree to meet them at a time and place where it's physically impossible for them to get to, barring the use of a *Star Trek*-style transporter.

Or at least *almost* impossible. Hastings, who has <u>described entrepreneurship</u> as jumping out of a plane in the confidence that you can catch a passing bird, pointed out that they could make it if they chartered a plane for 5 a.m. the following day. "Probably even have enough time to grab an espresso," he added.

McCarthy objected that this would cost at least \$20,000 when the company was well on its way to running out of money and having to close its doors.

"We've waited months to get this meeting," Hastings replied. "We're on track to lose at least \$50 million this year. Whether we pull this off or not, another 20 grand won't make a

difference." The logic of this was inescapable. The three of them chartered a plane-Vanna White's plane, as it turned out-and off they went.

Loafers worth more than a car.

At Blockbuster's Dallas headquarters, everything seemed designed to impress visitors with the company's wealth and power, from the building, which Randolph describes as "an unbroken cube of steel and glass" to the loafers worn by CEO John Antioco. "His loafers probably cost more than my car," Randolph writes.

Antioco had every reason to treat himself to luxury footwear. He'd arrived at Blockbuster two years earlier when the once-successful company was on a slide due to some poor business decisions, such as trying to sell apparel. He had not only turned Blockbuster's fortunes around, he'd led it through a successful IPO that raised \$465 million the previous year. "I'm sure he was feeling self-assured," Randolph writes. "He was ready to hear us out, but what we said had better be good."

It was damned good, if Randolph's description is accurate. Hastings quickly ran over Blockbuster's strengths and then noted that there were areas where it could benefit from Netflix's market position and expertise. "We should join forces," he said. "We will run the online part of the combined business. You will focus on the stores. We will find the synergies that come from the combination, and it will truly be a case of the whole being greater than the sum of its parts."

Antioco's response is probably very high on his list of things-I-wish-I'd-never-said: "The dot-com hysteria is completely overblown." Blockbuster general counsel Ed Stead then explained how the business models of Netflix and just about every other online business were not sustainable and would never make money. The Netflix execs debated this point with him for a while, then Stead cut to the chase: "If we were to buy you, what were you thinking? I mean, a number."

[&]quot;Fifty million," Hastings said.

Randolph writes that he'd been closely watching Antioco during this conversation.

Throughout, the Blockbuster CEO appeared as a polished professional, leaning in and nodding and giving every indication of someone who was listening attentively. Now Randolph observed as an odd expression crossed Antioco's face, turning up the corner of his mouth. It lasted only a moment, he writes. "But as soon as I saw it, I knew what was happening: John Antioco was struggling not to laugh."

Needless to say, Blockbuster did not accept Netflix's offer or make a serious counter-offer. "The meeting went downhill pretty quickly after that, and it was a long, quiet ride back to the airport," Randolph writes.

It must have been ever-so-satisfying for the Netflix leaders when Antioco left Blockbuster after a prolonged dispute with board member Carl Icahn over compensation, and even more satisfying when Blockbuster filed for bankruptcy protection in 2010. The last corporate Blockbuster store closed in 2014. One final Blockbuster franchise store remains open in Bend, Oregon, and it bills itself as a place for those who wish to revisit the bygone days when you had to remind yourself to rewind that VHS tape and return it in time to avoid a late fee.

Randolph's story is one more tale of a scrappy startup disruptor mortally wounding a long-established industry, but there's also an important business lesson and this is it:

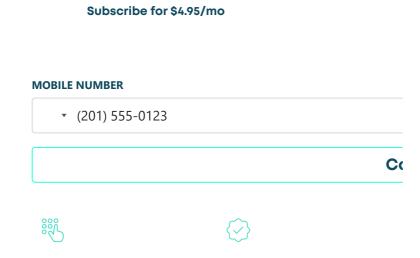
Never, ever be arrogant. Even if the person sitting in front of you has said something that seems absurd, even if it makes you want to laugh, pause for a moment and give it your serious consideration.

If only Antioco had done that, the meeting might have ended differently. Blockbuster could have made a lower offer for Netflix, which the founders might have accepted, given their shaky finances. Or, the two companies could have worked out some sort of partnership that could have given Blockbuster the benefit of Netflix's online expertise without Blockbuster actually buying Netflix. If Antioco and Stead had considered any of this, history could have turned out very differently for Blockbuster and its 25,000 employees.

As it is, the company is remembered only as an object lesson in what happens when you don't adapt to a changing world. And a place to go if you're feeling nostalgic in Bend, Oregon.

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