The other day, I was rummaging through a junk drawer—you know, that desk drawer where you throw something in, something that you might use again, even though you have no need for it now? And I found something in that drawer that made me chuckle: a Blockbuster Rewards card!

Blockbuster, of course, was a giant company renting movie DVDs, topping out with over 9,000 stores and 80,000 employees worldwide. And the Blockbuster Rewards card was a plastic card the size of a credit card and was designed for a Blockbuster customer to get rewards, typically a free movie rental every once in a while, when the cardholder had been a frequent-enough renter from Blockbuster.

Well, now, the mighty city of Bend, Oregon in the United States—population about 100,000 people—has the distinction of having the one and only Blockbuster location left remaining in the entire world. Think of it: going from over 9,000 locations to just one. What a story!

But, in a basic way, Blockbuster is the quintessential American business story. That's because it began humbly, succeeded mightily, was fought over constantly, and ultimately failed. So here's a key point. Economic history is clear: the U.S. has succeeded economically over centuries because individuals and companies can fail! That's real capitalism, not the crony capitalism that is now cropping up constantly—named for helping insiders called cronies where companies and individuals get favored treatment from the government! To the contrary of crony capitalism, free markets succeed because people and businesses can actually fail when they are unwilling or unable to be the best steward for their customers.

Contrast that free-market capitalism with socialism or communism, where central government officials choose which companies will be the winners and then those chosen companies don't really have to compete. They can't fail. The result? Socialist enterprises are poor stewards for customers who, in turn, then don't get to be the best stewards of their own resources.

The fun reality of Blockbuster is that it was an entrepreneurial venture that won the hearts and the patronage of happy movie watchers around the world for years. Famous entrepreneur Wayne Huizenga got involved with acquiring many franchises in Blockbuster's high-growth era in the 80s, ultimately growing Blockbuster by following the McDonald's restaurants-style of growth model, at one point reportedly opening a new Blockbuster location every day. But his nagging worries included the threat of looming new technology and competition, including video-on-demand.

So entertainment conglomerate Viacom bought Blockbuster for a reported $8 billion or so in 1994…and Huizenga certainly looks like a genius today for his vision, his savvy, and both his entry and his exit timing at Blockbuster. That's because the company had great momentum during the Huizenga years, but Blockbuster subsequently revealed a lack of true understanding of the strategic landscape and its possible strategic partners. And that really helped doom Blockbuster.

Look at several revealing events. In 2000, Blockbuster forged a relationship with Enron, later infamous for its immorality and business failures. That same year, 2000, Blockbuster declined buying Netflix for a reported $50 million. Unfortunately for Blockbuster, within two decades, Netflix became one of the most valuable media companies in the U.S. on its own, with a market value of around $150 billion! Whoa, Blockbuster! Talk about picking the wrong strategic partners: immoral Enron over big-time-winner Netflix!

Still, in the mid-2000s, Blockbuster appeared to many to be flying high. The Blockbuster CEO was paid over $50 million in compensation in 2004…more CEO compensation in one year than what Blockbuster could have bought the entire Netflix company for several years previously. That kind of approach attracted activist investor Carl Icahn, and key players started fighting over the future and direction of Blockbuster. In 2005, the FTC…that's the Federal Trade Commission, one of the many Federal government agencies

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overseeing business in America…prohibited Blockbuster from acquiring a competitor because of its perceived dominance. Dominance? Really? Five years later, in 2010, Blockbuster declared bankruptcy!

Repeating that: in 2005, the FTC prohibited Blockbuster from acquiring a competitor due to Blockbuster's perceived market dominance. But five years later, in 2010, Blockbuster declared bankruptcy, squeezed out by Netflix and the likes of Redbox, where DVDs are provided with very little physical-location cost.

This approach by the FTC of prohibiting an acquisition revealed a lack of true understanding of that market. But the Board of Directors of Netflix itself also lacked deep understanding in 2004, too: the CEO reportedly being paid over $50 million that year was setting the strategic direction of Blockbuster…and those strategic seeds led the company to bankruptcy status in just a few short years!

This is capitalism—healthy capitalism—where poor stewards like Blockbuster's leadership during that key era ultimately get exposed and publicly defeated by a better competitor. As always in free markets, thriving companies displace struggling firms with weaker leadership. You see, Netflix had a whole different way of looking at the industry that Netflix and Blockbuster were both in: delivering entertainment.

During the past several years, Netflix has really carved out a standing in the entertainment industry. Critical acclaim for its significant original entertainment offerings, huge numbers of subscribers, skyrocketed market capitalization for its early investors—like I said earlier, Netflix vaulted to the top tier of media companies with a recent company value of around $150 billion.

But…but even as this podcast is being created in mid-2019, some apparent cracks are likely troubling to Netflix's investors and long-time CEO, Reed Hastings. Recently, Netflix was not able to renew and retain their go-to, highly-watched reruns of the TV shows *Friends* and *The Office*. And Netflix actually lost U.S. subscribers this past quarter. So, partly because of these news items, in about one week, Netflix lost *$26 billion* in company value…some investors are nervous and skittish, and quite understandably so!

It's interesting that Netflix hasn't chosen to take the last several years to become a full-blown platform marketplace like Amazon. You see, Amazon long ago moved beyond being a simple online bookseller to being a platform where countless sellers independently match up with countless consumers…and that strategic change stimulated Amazon's amazing success. Likewise, Netflix could become a platform like YouTube that matches up content providers with consumers. But Netflix has instead spent its significant efforts and resources on producing its own original content, matching wits with other behemoths like Disney and Warner Brothers HBO Max. Was—and is—this a great strategy?

Netflix's Reed Hastings is a savvy CEO. We can learn from Netflix in the future, whether Netflix overcomes a couple of current setbacks….or whether Netflix becomes more ordinary as a company in its growth and stewardship. Nevertheless, the ultimate question is: will Netflix go the way of Blockbuster in the next few years—or will it be highly successful for a long time, well into the future? Just when will fresh, innovative competitors ultimately drive Netflix's market share and Netflix investors' stock values significantly down?

Your workplace enterprise faces similar issues, even if those issues are not of the same size or scale. Does everything look good this year? Still, the key decisions you are making today will reveal your true vision and stewardship five years from now. Is your enterprise spouting commonplace hype or real vision? You see, it's typical that there's a strategy lag time—sunshine and calm today before the unforeseen hurricane tomorrow. This is all about being highly capable stewards in an era of vast change and stout competition.

For business and nonprofit leaders in a constant learning mode, there are enough twists and turns in the Blockbuster-Netflix story to actually make an entertaining Netflix movie! Perhaps a working title could be *Blockbuster Outflixed*. But stay tuned: Netflix itself might soon be outflixed! That's free-market capitalism.

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A&A: Application & Action

1. Does current operating success automatically translate into great strategy for the longer term? If so, give examples. If not, give examples.

2. Should the CEO-level leader expect to be both a great current-operations executive and the long-term strategic leader? If that leader can't do both, then who? Have you observed that these two skill sets often appear in the same person…or not?

3. Some leaders like to cast vision. But is casting vision the same as developing successful strategy? Explain.

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