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GREATEST COMPANIES · RESEARCH SHEET · The Scale Flywheel

Netflix

The Company That Kept Killing Itself to Survive

NASDAQ: NFLX · Streaming / Media · Founded 1997 · Los Gatos, California, USA

Public · v1.0 · July 2026

In autumn 2000, two men flew to Dallas to sell their small, money-losing DVD-by-mail company to Blockbuster for fifty million dollars, and were, in effect, laughed out of the room. Ten years later Blockbuster filed for bankruptcy and Netflix went on to be worth, at its height, more than half a trillion dollars. But the truly instructive part is not that Netflix won. It is how: not once, but through a series of deliberate acts of self-destruction, each one terrifying, each the only thing that kept it from becoming Blockbuster itself.

Key Facts

Founders	Reed Hastings and Marc Randolph
Sector	Streaming and media — subscription entertainment
Moat	A scale flywheel: more subscribers fund more content, which attracts more subscribers
Founder Archetype	The serial reinventor — kills its own working business before a rival can
The Rejected Offer	Blockbuster turned down the chance to buy Netflix for $50 million (2000)
Four Reinventions	The video store, then its own DVD business, then the studios, then its own sacred principles
Status	Public (NASDAQ: NFLX)

By the Numbers

Suffered two separate ~75–80% stock collapses — the 2011 Qwikster crisis and the 2022 subscriber loss

The 2011 blunder cost ~800,000 subscribers, its first-ever decline

Spent on the order of $17 billion a year on content at the peak, turning scale into a moat

Membership base has climbed past 300 million; worth ~$360 billion in 2026

In 2000 offered itself to Blockbuster for $50M and was refused; IPO'd in 2002 at $15/share

After 2022 it did the two things it swore never to do: launch ads and crack down on password sharing

The Moat

A Scale Flywheel Paid For Upfront

Netflix's moat is one of the most elegant in business: a scale flywheel. Content has enormous fixed costs, a great series costs roughly the same whether a thousand people watch it or two hundred million do. So the more subscribers Netflix has, the more it can spend on content while keeping cost per subscriber low; the more it spends, the better the content; the better the content, the more subscribers it attracts. By spending more on programming than almost anyone in history, ~$17 billion a year at the peak, Netflix turned its scale into a moat a smaller rival simply could not cross, because that rival had to spread the same enormous content cost over far fewer members. Brand, habit, and a vast trove of viewing data reinforced it. But a flywheel depends on growth, and growth eventually runs into a wall.

Two Near-Deaths, Four Reinventions

The Company That Walked to the Edge, Twice

In 2011, overconfident from a track record of bold, correct bets, Hastings imposed an effective ~60% price hike and the bizarre “Qwikster” spin-off of the DVD business. Customers revolted; Netflix lost ~800,000 subscribers, its first decline ever, and the stock fell close to 80%. Hastings apologised publicly, admitting he had slid into arrogance based on past success, the arrogance came from the success. Then in 2022 came the second near-death: the first subscriber loss in over a decade, competition multiplying, and the stock down ~75%, at one point the worst in the S&P 500. It triggered the hardest reinvention of all, betraying its own deepest principles: a cheap ad-supported tier, and a crackdown on password sharing, the two things it had sworn it would never do. Both worked spectacularly, and within two years the stock reached new all-time highs.

> ***“ Lasting greatness is not building one great thing and defending it, but repeatedly killing your own creations before the world does it for you. ”***

The Legendary Scorecard

Category	Score	Notes
Founder Vision	9	Hastings saw streaming and originals years before rivals and acted on both
Innovation	9	Invented the subscription-streaming, binge and data-driven-originals template
Execution	8	Mostly superb global execution; the Qwikster stumble was self-inflicted but fixed fast
Moat	7	A powerful scale-and-brand flywheel, now under relentless, well-funded competition
Capital Allocation	7	Years of content burn built the moat; the large debt-funded media bet is a big swing
Wealth Creation	9	One of the great stocks of the 2010s, despite two ~75–80% drawdowns

Durability	7	Survived two near-deaths and still leads, but growth is maturing and the model is copied
Historical Importance	9	Killed the video store, invented modern streaming, reshaped how the world watches
Overall Legendary	**8.0 / 10**	**The rare serial reinventor; held back by maturing growth and rising competition**

Scores are an editorial verdict on the standard eight-category Greatest Companies scale. The overall is a judgment, not a weighted average.

Timeline

1997	Hastings and Randolph found Netflix as a DVD-by-mail service
1999	Netflix introduces a flat monthly subscription with no late fees
2000	Hastings and Randolph offer to sell Netflix to Blockbuster for $50M and are turned down
2002	Netflix goes public on the Nasdaq at $15 a share
2007	Netflix launches streaming, beginning to cannibalise its own DVD business
2010	Blockbuster files for bankruptcy; Netflix passes 20 million subscribers
2011	The Qwikster price-hike blunder triggers a subscriber exodus and an ~80% stock collapse
2013	House of Cards launches the original-content era, freeing Netflix from the studios
2022	Netflix reports its first subscriber loss in over a decade; the stock falls ~75%
2022	An ad-supported tier launches and a password-sharing crackdown follows
2025	The turnaround drives record highs and 300M+ memberships; a push into live events

Lessons — What This Means for You

THE MOVE · Change the game yourself first

The most dangerous competitor is rarely the one playing your game better; it is the one changing the game, and the best defence is to change it yourself first. Netflix repeatedly attacked its own most profitable business before a rival could. The operator's question is continual: what business would you build to destroy your own, and why are you not building it yourself?

THE MONEY · Tell burning cash from buying a moat

Netflix's moat was manufactured by years of deliberate, frightening cash burn, spending more on content than almost any company in history, a bet that scale would turn enormous fixed costs into an advantage no smaller rival could match. It was not reckless; it was the purchase of a moat, paid for upfront. Telling the difference between burning cash and buying a durable advantage is central to judging any growth company.

THE MIND · Be neither arrogant nor rigid

Netflix is a study in two opposite failures: the arrogance that nearly killed it in 2011, and the rigidity that keeps a company clinging to its principles past their usefulness, which it avoided in 2022 by violating its own dogma. The temperament that wins is confident enough to make bold bets, humble enough to reverse them fast, and unsentimental enough to abandon even its proudest beliefs when the facts change.

Related Reading

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Sources & Further Reading

Marc Randolph, That Will Never Work: The Birth of Netflix (2019)

Reed Hastings & Erin Meyer, No Rules Rules: Netflix and the Culture of Reinvention (2020)

Greatest Companies (Netflix chapter), The Complete Trader's Edge

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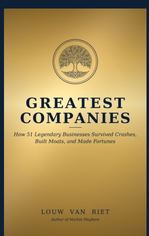

FROM THE BOOK

This company is one of **51** in **Greatest Companies** — every legendary business read through one lens: **Moat, Meltdown, Machine**. Eight kinds of moat, from Standard Oil to SpaceX.

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