

★★★★★

“IF YOU LOVEFiLM, AND LOVECUSTOMERS, THEN YOU’LL
LOVE THIS BOOK!”

WILL KING, FOUNDER, KING OF SHAVES

SUCCESS THE LOVEFiLM WAY

HOW TO GROW A FAST GROWTH
BUSINESS IN FAST CHANGING TIMES

SIMON CALVER

FROM THE CEO’S CHAIR

“The LOVEFiLM story offers interesting insights into the way modern businesses, and particularly those backed by venture capital, succeed. There are useful lessons for anyone looking to start or grow a business using this route. Simon Calver explains both the challenges and opportunities that VC funding raises. Calver is right to describe this as the classic modern business story.”

Alex Mitchell, Head of Influencer Relations, IoD

“The LOVEFiLM story was a great read. It’s honest, insightful and very entertaining. It shows most importantly the power of leadership to create an exceptional company. Frankly, everyone in the UK needs to read this book right now.”

Julie Meyer, Managing Partner, ACE Fund

“I met Simon at the annual Real Business awards in 2009, and was delighted when he asked King of Shaves to become a founding member of The Consumer Forum – an association of SME’s that put the customer first. The success of LOVEFiLM, and his leadership of this disrupting business, was entirely down to his ‘putting customers first’ – by giving them what they wanted, when they wanted it, always embracing the latest in cutting edge technology. Firstly by sending the latest film releases through the post, and now by it streaming on demand.

I’ve been lucky enough to spend personal quality time with him, and now you can learn how he helped LOVEFiLM grow so astonishingly, in a constantly changing digital environment. If you Lovefilm, and LoveCustomers, then you’ll Love this book!”

Will King, Founder, King of Shaves

“The LOVEFiLM story shows the importance of organizational agility, trust and the relentless focus of taking customers, stakeholders and employees with you on your journey. Above all it demonstrates the importance of understanding what you do and why you do it, and why it’s important to have a business model that delivers for the customer and the business.”

Jo Causon, CEO, Institute of Customer Service

“It took Simon’s dedicated hard work bringing together a series of smaller businesses to make LOVEFiLM one of the true internet success stories. In Simon Calver’s book, he shares his business philosophies that led LOVEFiLM to the successful takeover by Amazon. The book is not just a compelling narrative, but lessons that all businesses and entrepreneurs can benefit from.”

Mark Florman, CEO, The British Private Equity and Venture Capital Association (BVCA)

“LOVEFiLM was a company Ella’s Kitchen had looked up to as an example of being an innovator, the re-definer of its category and one that was truly customer centric. Simon was a CEO I had personally looked up to as someone who I thought defined leadership, rose to challenges and could think differently. I’ve had the privilege to see, almost from the inside, his style, vision, inclusiveness and clarity of thought which have inspired his team – and me too – whilst I have also benefited from the generosity of time and his willingness to share learnings with me. If I ever started again and were looking for a partner or non-executive mentor, I know who’d be top of my shortlist. Enough said.”

Paul Lindley, Founder, Ella’s Kitchen, www.ellaskitchen.co.uk

“Simon’s considerable experience spans start-ups and multinationals, and his CV reads like an album of number one hits. You wouldn’t know it to meet him though, he’s ego and buzzword-free, offering straightforward insights based on nearly three decades building, fixing and growing great companies.”

Richard Moross, Founder and CEO, moo.com

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**How to Grow a Fast Growth
Business in Fast Changing Times**

Simon Calver



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*To Monty James Calver and Nieve Elizabeth Calver
hoping you follow your entrepreneurial passions
and dreams.*

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INTRODUCTION

Thursday 20 January 2011 is hardly a day that set the history books alight. There weren't many major news stories that day. The year's big story, the popular uprising across North Africa and the Middle East that became known as the Arab Spring, had barely started. One news item that day, alongside the usual litany of unfortunate crimes and new political initiatives, was the opening of a shrine to Paul the Octopus in Germany. This marvellous marine creature had allegedly accurately predicted all the winners in the previous summer's football World Cup but passed away in October. I think it's safe to call it a slow news day.

But it was a big day for me and for the rest of the team at LOVEFiLM. It was also a pretty big day for everyone at Amazon, because it was the day we announced the deal in which Amazon took over the bit of LOVEFiLM it didn't already own. Amazon had been a major investor in the business, with a seat on the board, since 2008. In some ways it was no surprise to see Amazon purchase the rest of the stock. While some UK observers complained it was another example of a UK business being sold before it had chance to grow, the truth is that the earlier Amazon deal was one of the reasons the business had grown as much as it had since 2008. When the announcement was made to the staff, gathered at an all-staff meeting, they spontaneously broke into a cheer and a round of applause. That said a lot to me about this being the best possible news for LOVEFiLM. They were cheering because they knew it was the best deal. It was by no means inevitable. But even with a little sniping from some of the smaller investors, the deal went ahead and went smoothly.

Anyone lucky enough to have been part of a business that has grown as quickly as LOVEFiLM – particularly one that captured the public imagination the way we did – will tell you the journey is never straightforward. And it wouldn't have surprised me if there had been a final, unexpected twist in the tale. It is partly the unpredictability that makes leading a fast-growth business so interesting. And one of the reasons for this book is to attempt to translate those experiences into useful business lessons.

My involvement with LOVEFiLM may have culminated in the full glare of the media spotlight as we announced the Amazon sale, but it began in a much more low-key manner, over a coffee. There were no cameras and no journalists present. There wasn't even a press announcement about me joining. While some elements of the team, the company culture and its approach to customer service might still be the same, the company we sold to Amazon was mostly unrecognizable from the one I joined in 2005.

In the six years between those two dates my role as CEO was to lead the company through a near-constant process of change and evolution. Some of these changes were small and insignificant; the sort of thing that only those concerned ever get to know about. But others were huge. I led the company through a series of events that transformed it from a small, obscure, tech start-up into a well-loved household brand name. That transformation included mergers with rival firms and sensational marketing campaigns, as well as the defining deal with Amazon. Along the way we made some people very wealthy and brought lots of people lots of entertainment and happiness. It's always nice to enjoy your work, and as the CEO of a company, it is vital that you love the brand and company you lead. If you don't believe in what you're doing, it's difficult to take others with you and almost impossible to convince them to do things they might not want to in the interests of the wider company. The sale to Amazon was a defining moment in my personal LOVEFiLM and business experience. But as positive and exciting as doing that deal was, there was a part of me that was sad because I knew it would change LOVEFiLM forever.

The sale was the culmination of a journey that had begun almost a decade earlier, when a number of bright entrepreneurs and venture capital (VC) investors had the same idea at roughly the same time. Online video rental business Netflix was thriving in the US and taking that model and launching a version of it in the UK was an obvious win that was appealing to potential investors.

“In many ways the LOVEFiLM experience encapsulates the archetypal modern business story.”

Companies such as ScreenSelect, Video Island, LOVEFiLM and MoviesbyMail stuck to the 1% innovation rule, in other words they were all basically variations on the successful Netflix business model. That meant there was a decent amount of evidence that the business would work. Each of these businesses that started and eventually merged to become LOVEFiLM International was slightly different. They each reflected the personalities of their founders. But the differences were marginal. Each was essentially an adaptation of the Netflix model for the UK. Although it is much smaller than the US, the UK nevertheless has a strong tradition in cinema and films. In the early 2000s, bricks and mortar DVD rental shops were still doing OK. But internet connections were speeding up and spreading across more of the UK and it was clear that the future for film distribution would be at least partly digital. While investors were still risking their money – and any start-up is always a risk – it was a calculated risk and one many were evidently prepared to take.

The business case clearly stacked up well enough for VC investors because a number got involved in backing these various start-ups. This involvement of multiple VCs became a defining characteristic of the business. In hindsight it was both a bonus and a drawback. It meant that when we eventually brought all the firms together under the LOVEFiLM brand, there were several VCs at the board table. While this gave us plenty of access to the brains, the support and the cash we needed to grow the business, it also meant that the pressure to secure an exit was significant. There was no question that people were at the board table to make sure they got the best possible return on their investment (both intellectual and financial), after all, this is the job they do for their investors.

In many ways the LOVEFiLM experience and the journey we went on as a team, encapsulates the archetypal modern business story. It involves fast-moving technology, VC investment from the start and the involvement of one of the biggest beasts in the modern technology market. In just under a decade we took a business from a series of start-ups, through mergers to a partial sale, through a period of rapid

growth and then on to a full sale to a major global corporation. Along the way we experienced everything: a dramatic fire at our distribution centre, referrals and investigations by the Office of Fair Trading (OFT), rifts and fallout between investors and management and takeover discussions with some of the biggest media and online businesses in the world. We didn't sit still for a minute and no two years were the same. And the Amazon ownership means LOVEFiLM has ended up as an essential part of one of the largest online businesses in the world.

My intention in this book is to tell this business tale. I believe the lessons it offers are powerful and general enough for it to act as a kind of extended case study. If you're a film buff, there should be something in this for you. But if you are interested in business, leadership and management, then I hope the lessons here will prove valuable. Most are drawn from my time in charge of LOVEFiLM, but some come from my earlier career experiences.

This is not intended as an autobiography. Instead, I prefer to think of it as the biography of a business philosophy. For a start, I wouldn't presume that anyone outside a very small circle – including my young son and new daughter whose reading is not yet that advanced – would have any interest in reading about my life. But in the course of a career that includes having worked at a senior level at several large multinationals, and, more importantly, having taken LOVEFiLM from start-up to sale, I have had some interesting business experiences. In particular the rules and processes, tips and tricks that have helped me through my career to date are worth passing on.

Of course that means talking a bit about the people and events that have shaped that philosophy. I have experienced life in vast multinationals and tiny start-ups as well as pretty much everything in between. This range of experiences has led me to form a philosophy for business that transcends the traditional barriers of organization size. I believe there are plenty of lessons that those in very large organizations can learn from those in the smallest companies and the same the other

way round. Working for both types of business unfortunately isn't that common, but it makes for an exciting career for anybody.

My approach to business life – what might more grandly be called my business philosophy – has developed over many years and from a wide range of experiences. People prefer to digest the world by compartmentalizing it. But I think there are interesting insights to be gained from having been successful in both large multinationals and small start-ups.

Who decided that those working in small firms can't employ some big company thinking around issues such as data and performance management and measurement? While I know from experience that many large companies would love to behave more innovatively and entrepreneurially, making decisions more quickly and responding more rapidly to changing market conditions. I have worked for and led restructuring projects for some of the world's largest companies and I have turned around and grown very small, entrepreneurial businesses. While the circumstances and challenges each organization faced meant I learnt something different each time, I applied a common language and consistent approach to them all. It is this approach I hope to expand on and explain in this book. As well as telling the LOVEFiLM story along the way.

This book is split into three parts. The first tells the story of my early experiences and career and explains how I came to get the LOVEFiLM gig. The second tells my version of the LOVEFiLM story, with each chapter covering a year of our incredible journey. In this section for each chapter I have picked a classic film that seems to best sum up the events of that year. The final part of the book explores some of the lessons learnt along the way.

I hope there are plenty of valuable, practical lessons here for you to take away, whether you currently work in a large multinational organization or are running a local shop, which incidentally is where our story begins . . .



**PRE-
PRODUCTION**

PART ONE



CHAPTER 1

OPEN ALL HOURS

The summer of 1976 was unforgettable. It was long, hot and dry. Drought stalked the British countryside, drying up streams and turning this green and pleasant land brown. But what I remember most from that summer is long afternoons lugging sacks of potatoes. Along with my two older brothers, I was working at my father's supermarket in Gloucester. My father was a firm believer in us getting stuck in. "If you can't carry a sack of potatoes, you're no use to me," he'd tell us. So we turned things like carrying potatoes into a contest and made it fun. Sometimes, however dull or mundane a job, you have to get stuck in and get it done. No one should ever think they are above doing those hard, menial jobs.

A PHILOSOPHY FOR BUSINESS

I can date the development of my business philosophy back this far. Certainly business has been a central part of my life from early on. Both parents ran their own businesses – and still do today – and many early memories are of helping my father in Calver's, a two-store chain of medium-sized local supermarkets in Gloucester. My grandfather started the business after WWII, and by the time I appeared Dad was

"I spent my formative years watching customers, learning how they behaved, and dealing with them myself. It was a great early learning in merchandising, how to handle customers and how to run a business."

running one branch and my uncle looked after the other. My mum is also entrepreneurial and when I was young she launched a hairdressing salon not far from our junior school.

So business was a regular topic of conversation around the house when I was growing up (as were rugby and girls). The dinner table was often lit up with talk of a new idea or a new business venture. While it's impossible to know what makes entrepreneurs do what they do, my early years were a series of business lessons that made it inevitable that at some point my career would take an entrepreneurial twist. Interestingly both my brothers have also ended up running their own businesses.

Whatever I did was also likely to be customer facing. After all, I spent my formative years on the shop floor watching customers and learning how they behaved, how my father and his staff dealt with them and dealing with them myself. It was a great early learning in merchandising, how to handle customers and how to run a business. I learnt about stock management and things like how to manage the mark-up on fruit and veg and how it all generated profit. I remember watching my father work his magic with customers, offering “just a bit over” at the butcher’s counter with a beaming smile everybody loved. The experience in-store stacking brands on the shelves was definitely one of the reasons why later on I ended up working in marketing and branding roles at a brand and product powerhouse like Unilever. I had no choice. Retail was in my DNA.

I also used to go with Dad when he took the cash to the bank, counting it out in the back of the car. That taught me the most powerful lesson there is in business: the importance of cash and cash flow. We probably took it for granted as the supermarkets flourished, but its importance hasn’t diminished one bit. In fact, in this age of austerity, cash is arguably more important than ever.

The lesson on the importance of cash was one we chose to ignore when we took the decision at LOVEFiLM to spend a large chunk of the money we had in the bank to launch our first major TV advertising campaign. It was a calculated gamble. But I’m getting ahead of myself.

The first entrepreneur that I was aware of, even if he never described himself as such and died before I was born, was my grandfather. He worked for Lipton and was involved in food distribution during the war. It has never been discussed, but I suspect that meant sailing close to the line where “entrepreneurial” met the legally blurry post-war, ration-inspired black market. By all accounts he was a strong and forceful character. He was also partner in two cafes in Gloucester; funnily enough they were the only two in

Gloucester able to cook their chips in lard rather than the inferior rationed ground nut oil. They used to have queues outside them every night. This was how he made the money that funded the supermarkets.

WHAT'S THE POINT OF EDUCATION?

After the war he founded Calver's in Gloucester and later pulled my father out of further education to bring him into the business. This still irks my father today as his brother, my Uncle John, went on to get a scholarship to Oxford. With my other uncle, Dad took over as shop managers and co-owners of the business when my grandfather died.

The Art of a Good Gloucester Team

In Gloucester rugby is a religion not a sport, and as three boys we had no choice but to start playing at six or seven. We all learnt a lot about teamwork from rugby. To my mind rugby is one of the ultimate team sports. Anyone in business can learn from it. It's remained a passion of mine – and I am lucky enough today to have debentures at Twickenham. The key thing about a good rugby team is that you need individuals, each with their specialist positional skills, to combine well together to build a team. Props need to be props, technically good at scrummaging and lifting, flyhalves need to be flyhalves, quick and decisive, but both have to work together on the pitch, even if they don't drink together in the bar. This is a powerful analogy for the modern workplace where individual specialists are just as dependent on each other to produce a winning organization.

INNOVATE OR DIE

My father's shop was my defining experience growing up, at least until my parents split up. For all that my dad worked all hours; he also showed me the importance of taking time out. Sometimes when he was tired after a hard game of rugby, he'd lay out the toilet rolls upstairs in the storeroom and make them into the perfect bed. Then again, his nickname growing up was "kipper", because he had the ability to sleep anywhere.

Initially the businesses did well and both shops flourished. But it was a transitional time for shopping in this country and with the arrival of larger, less personalized supermarkets it was tough time to be running small, local stores. But we had a good life and both the shops were at the heart of their local communities. In some ways the success of the business was one reason it got into trouble. We didn't innovate in order to compete when Tesco came to town. Because we were comfortable we did nothing about it. But as those major supermarkets – and Tesco especially, which at that time under Jack Cohen was thriving as a "pile it high, sell it cheap" operation – moved into town, we couldn't compete on price. Customers started to drift off, one by one. I would go round to friends' houses and their mums would apologize for not being able to shop with us anymore.

Over time it got harder just to survive. In the end, the shops were sold and converted into Post Offices, which is what they still are today. Ironically you could say the same thing is now happening to Post Offices. But this was a bitterly painful early experience, seeing customers and friends walking away from the business, and it was, of course, discussed at home. It's always difficult to change when you are doing well, but if you do it then it is more effective and long lasting. If you leave it too late it becomes about survival and often you don't have time or resources to get it right. You always need to be moving forward, because it is onwards or out in most markets today.