

SUMMARY OF

SHOE DOG: A MEMOIR BY THE CREATOR OF NIKE

By Phil Knight

Who is Phil Knight?

Philip Knight (born Feb 24, 1938) is an American business magnate and philanthropist. A native of Oregon, he is the co-founder and chairman emeritus of Nike, Inc., and previously served as chairman and CEO of the company. In November 2015, Forbes named Knight the 15th richest person in the world, with an estimated net worth of US\$28.1 billion. Knight is a graduate of the University of Oregon and Stanford Graduate School of Business. He ran track under coach Bill Bowerman at the University of Oregon, with whom he would co-found Nike. A noted philanthropist, Knight has donated hundreds of millions of dollars to each of his Alma Maters, as well as Oregon Health & Science University. In total, he has donated over \$2 billion to the three institutions. According to Forbes, Knight's net worth is estimated at \$24.1 billion in 2016, for his stake in Nike. **Source: Wikipedia**

About the book

Unlike other books, this book is not organized by chapters and doesn't have a table of content. It's rather organized by years starting from 1962 to 1980, a journey of 18 years. This book offers captivating stories of Phil's passion for shoes, struggles, successes and life lessons.

1962

The crazy idea of selling Japanese shoes in the US emerged from Phil's research paper about shoes at Stanford University. The paper had evolved from a run-of-the-mill assignment to an all-out obsession. None of his classmates thought his idea had merit except his professor. To satisfy his obsession, he thought about going to Japan and finding a shoe manufacturer and pitching his idea of bringing Japanese shoes to the US.

In Japan, Phil managed to meet with a Japanese shoe manufacturing company Onitsuka. In the meeting, Phil suggested bringing Tiger shoes brand of Onitsuka into American stores, price them to undercut Adidas, which most American athletes were wearing at that time. When the Japanese asked Phil about his company, he made up a company name right there and said, "Blue Ribbon. Gentlemen, I represent Blue Ribbon Sports of Portland, Oregon". Phil bought a few samples in which the company agreed to ship to Phil in the US.

He continued his journey and visited many countries including Hong Kong, Philippines, Thailand, Vietnam, India, Egypt, Israel, Turkey, Italy, France, Germany, UK, and Greece. This opportunity allowed him to learn and appreciate different cultures, language, and religions.

1963

After returning back to Oregon, Phil decided to find a job to earn some cash. He landed a job with an accounting firm in its small Portland branch. Since it was a small branch the job kept him very busy but he earned enough money to buy a car.

1964

Phil got a notice around Christmas of 1963 about his parcel from Japan. After the Christmas holidays, he ran to the post office to collect a large box of twelve pairs of shoes. He immediately sent two pairs to his old track coach at Oregon, Bill Bowerman (most famous coach in America of his time). In four years he had run for him at Oregon. Bowerman strongly believed that light, comfortable shoes make a difference for runners. He would sneak into his students' lockers and steal their footwear. He would spend days tearing them apart, stitching them back up, then hand them back with some minor modification. For Phil, Bowerman's approval of TIGER shoes would constitute success for his fledgling company.

Phil heard back right away from Bowerman. He wrote back to say he was coming to Portland the following week, for the Oregon Indoor, and would like to meet. At the meeting, Bowerman offered to become a partner for the shoe business, which Phil gladly accepted without giving it a thought. Later that day, Phil wrote Onitsuka and asked if he could be the exclusive distributor of Tiger shoes in the western United States which they agreed. He purchased three hundred pairs of Tigers to start with at \$3.33 a pair which was roughly \$1,000 worth of shoes.

After being rejected by a couple of sporting goods store, Phil started meeting track coaches, runners and fans to show his wares. In four months, Phil sold out his first shipment and ordered another 900 pairs. Phil decided to sell his shoes in California for which he would need to hire a salesman. The problem was how he would get to California as he couldn't afford the airfare and didn't have time to drive. So every other weekend he would load a duffle bag with Tigers, put on his most crisp army uniform, and head out to the local air base. Seeing the university, the member of parliament would wave him onto the next military transport to San Francisco or Los Angeles, no questions asked.

Life was good for him as he was making progress and then received a letter from any high school wrestling coach in which he claimed that Onitsuka anointed him their exclusive American distributors and asked Phil to immediately stop selling Tigers. "That any attempt to

interfere with Blue Ribbon will be met with swift legal reprisal". His business was only 2 months old and he was embroiled in a legal battle. Phil wrote letters to Onitsuka but never received a response.

Phil was distressed but decided not to give up and go to Japan. In Japan, he managed meeting an executive and then Mr. Onitsuka, the founder of the company. Phil managed to convince Mr. Onitsuka and continued to sell in the west.

1965

Phil hired his friend Johnson (first employee) as a part-time commissioned salesman. Phil would pay him \$1.75 for each pair of running shoes he sold. Phil ran into a problem of getting his shoe shipment financed as the bankers thought the growth of his business was too fast for his equity (assets minus liabilities). Phil decided to find a job to support his business. By that time he had completed his CPA and immediately landed a job. This year Phil's partner, Bowerman, visited Japan to support a US track and field team and took that opportunity to visit Onitsuka and discussed a prototype of shoes that would fit US athletes.

1966

Every now and then Phil would make a mental note to warn Johnson that he is only allowed to sell in 13 states but he was selling shoes to customers in 37 states. Since the Marlboro Man (wrestling coach) was not doing anything, his incursions in his states seemed harmless. Johnson and Phil opened their first-ever store in Santa Monica. The Marlboro Man had placed an ad for selling the distributorship of Tigers; Johnson had built up his enormous customer base, had spread the word about Tigers and now the Marlboro Man was going to swoop in and capitalize. Johnson suggested Phil to visit Onitsuka in Japan and demand his right to be a sole distributor of Tiger in the US. Phil had no money to go, so he decided to put the airfare on his credit card with twelve months to pay. In Japan, Phil met the executives and told them how they are growing the business with \$40,000 in 1966 and \$84,000 projected in 1967. Phil managed to convince them and signed a three-year contract for exclusive distribution rights for the United States.

1967

In order to become the sole distributor of Tigers in US, Phil had lied to Onitsuka executives that he had an office in East Coast and he will send the address once he goes back. Next order of 5000 shoes had to be shipped to East Coast office. Phil had an urgent task of setting up an office with Johnson and find a replacement of Johnson for Santa Monica store. Johnson after some resistance agreed to go to Boston. And then Johnson threatened to quit; he either wanted to be partner or \$600 a month plus 3rd of all profits beyond the first six thousand pairs of shoes sold. After negotiation, Phil only agreed to raise 50 dollars. This year Phil hires two more employees upon Bowerman's recommendation. Bowerman worked with Onitsuka

to create a shoe for US market which they decided to Artec, but Adidas threatened to sue them as they had a similar name of one of their shoes. They changed the name to Cortez.

1968

Phil decides to leave his full-time job at Price Waterhouse and becomes a teaching assistant at Portland State University which required fewer hours so that he could focus more on Blue Ribbon. He still didn't have all the time he wanted or needed for Blue Ribbon, but he had more time. Phil hired one of his accounting students, Penny, to work at the office for \$2 an hour and soon they started dating which eventually culminated into a marriage. Phil went for a long and vital trip to Japan before his wedding to cement his relationship with Onitsuka. He also showed shoe designs from both Bowerman and Johnson, including one they had teamed up on. It had an innovative full-length cushion.

1969

Rising sale enabled Phil to hire more and more reps solely on commission. Most were ex-runners. He also hired a graphic designer to do some lettering, logos, charts for presentations, etc. Blue Ribbon posted \$150,000 sales in 1968 and they were on their way just under \$300,000 in 1969. Phil quit his job at Portland and went full time at his company, paying himself a generous eighteen thousand dollars. Phil doubted that Kitami, an executive at Onitsuka, is not a fan of Blue Ribbon and thinking of jacking up the price of shoes. Therefore, he hired a spy in Onitsuka Export Department to keep himself abreast with what is happening at Onitsuka. Spy system is ingrained and completely accepted in Japanese business circles. In 1969, Phil gets blessed with a baby boy (named Matthew) and buys a house for \$34,000 for his growing family.

1970

Phil flies to Japan to meet executives and secured a 3-year contract for a sole distributor of track shoes from Onitsuka. This was a troubling year for Phil. Cortez model was highly successful, but not enough supply to keep up with the demand. Phil decides to place a big order of \$1.2 million. However, his banker Wallace couldn't get the loan approved due to the lack of cash in the bank account. Phil decided to sell 30% of Blue Ribbon to raise \$300,000 overnight, but no venture capitalist showed interest. He visited Bank of Tokyo branch in Portland and gets the financing for future imports approved on the spot. Phil's spy informs him that Onitsuka is considering a clean break with Blue Ribbon and Kitami is in touch with several distributors in the US, but it's not final yet. Phil invites Kitami to visit the US so that he could convince him to continue to do business with Blue Ribbon.

1971

Kitami accepts Phil's invitation and visits him in Portland. Even though sales were doubling every year, Kitami said he thinks sales should be tripled. Phil stole the list from his briefcase the moment he was out of sight. Phil noticed he had a list of eighteen athletics shoe

distributors across the US and scheduled appointments with half of them. Phil visits Japanese trading company and meets Tom Sumeragi who agrees to finance. Tom sends his delegation to convince Onitsuka to let financing deal go through them but Onitsuka even refused to meet. Angry and embarrassed, Sumeragi offers to find a different company in Japan to do business with and replace Onitsuka. Phil visits Japan in search of a company and happens to visit Nippon Rubber which was the biggest shoe company he had ever seen. Phil orders a few samples and together with his team, they decide to replace Tigers with Nike. This year Bowerman came up with an idea of waffle sole shoes without spikes that could grip equally well on grass or bark dust."

1972

Chicago was the site of the National Sporting Goods Association Show where the sales reps from across the nation got their first look at all the new athletic products, from different companies. Even though the quality of Nike was not as good as Nippon Rubber had promised, Nike was still quite an attraction and Phil got some orders. Kitami got to know about Nike and decided to end the contract for Tigers. This year Phil decided to sell his own brand only and file a patent on Bowerman's waffle shoe. In the Olympic games, six Israeli athletes were kidnapped by a squad of eight masked gunmen. This year Phil signed a Romanian tennis player to wear Nike for \$10,000 and University of Oregon football team coach decided to try Nike waffle-soled shoes against Oregon State and fortunately they won quite easily.

1973

Pre Fontaine who finished fourth in the 5000m of 1972 Olympics became the second athlete endorser of Nike, and Phil also hired him to work as National Director of Public Affairs. Pre also allowed his foot for Bowerman's shoe experiments.

Phil felt that even though Johnson is successfully building East Coast operation but he would be better located in Oregon and work on new Nike design for Pre for upcoming Olympics. Phil managed to convince Johnson and his other employee, Woodwell, to switch keys to their places. This year Phil met with investors and revealed that even though Nike's revenue was \$3.2 million, they had a net loss of \$57,000 which upset the investors. To add to his worry, Onitsuka sued Phil in Japan. Phil hired his cousin, Houser, to file a case in the US.

Phil, to overcome the supply and demand problem, had an idea of getting large and nonrefundable orders, 6 months in advance. In return, he decided to offer a hefty discount of up to 7%. Initially, retailers resisted but with Phil's persistence few retailers signed on. The program started to gain traction. Before long, stragglers and holdouts were desperate to be included.

In September of 1972, Phil and Penny were blessed with the second child whom they named Travis.

1974

Court trial began in April and after some hearings, the Judge ruled that Blue Ribbon has been truthless during the case and Kitami lied through his translator even though he can speak perfect English. Therefore, Blue Ribbon reserves the right to the names of shoes they made through Onitsuka: Boston and Cortez. Further, he said, there are clearly damages here. Loss of business. Misappropriation of the trademark. It was later settled for \$400,000.

Phil faces another problem of fluctuating Japanese Yen and rising labor cost in Japan. Phil decides to renovate an ancient, shuttered factory in Exeter, New Hampshire. He hired Giampietro to equip the factory, and Johnson agrees to run it.

1975

Blue Ribbon was growing exponentially. Inventory and assets put enormous strains on the cash reserve. With any growth company, this is a typical problem. But finally a rainy day came and they owed a Japanese trading company, Nissho, \$1 million who they had a line of credit with. They were \$75,000 short. Phil decided to move all the funds from stores and factory to pay to Nissho. As a result, they were left with no cash and they missed a payment to Bank of California whom they also had a line of credit with. The bank decided to cut their business relationship with Blue Ribbon and froze their account and notified FBI for fraud. This was the time Phil thought it was over and he would go to jail. He met with Nissho executives who saved Phil and Blue Ribbon by repaying the bank after looking at the future cash flows.

Phil still desperately needed a bank in order to operate. A few banks hung up on him but he managed to secure a \$1 million line of credit from the First State Bank of Oregon. In the May of 1975, a day after Pre won 5000 meters, Pre had an accident and was found dead.

1976

Bowerman was retired, living on a fixed income, and greatly weakened by the death of Pre, he didn't want any more risks. He decides to give two-thirds of his stake in Blue Ribbon, at a discounted price. Bowerman's waffle trainer was capturing more and more attention and retailers and sales reps were pleading for waffle trainers to be shipped. Blue Ribbon added factories in New England and Puerto Rico but much of the manufacturing was still in Japan at Nippon Rubber. In desperate need to add more manufacturing hubs outside Japan, Phil chose to visit factories in Taiwan and after touring around two dozens factories, in a small town of Douliou, they a found a factory that showed promise.

At the 1976 Olympic trials, Nike had a fantastic chance to make a show. Fortunately, Nike dominated the trails and all the top runners in 5,000 and 10,000 meters were wearing Nike. Nike had become a bigger brand and at the close of fiscal 1976 sales doubled to \$14 million. And yet they were still cash poor. Going public had become a serious consideration in order to survive in long term.

1977

M. Frank Rudy, an aerospace engineer met with Phil and introduced pressurized air bag soles for the shoes. Phil agreed to pay around 15 cents per pair of shoes sold and sent Rudy and his partner to Exeter which was becoming de facto Research and Development. This year, Blue Ribbon signs many college basketball teams to wear Nike. This year Bowerman's LD 1000 came out, a running shoe that featured a dramatically flared heel. By the end of 1977, besides Japan, Blue Ribbon had factories in Taiwan, Korea, Puerto Rico and Exeter which ended their dependence on Japan.

Another crisis appeared this year. U.S Customs Service, Washington, DC sent a bill of \$25 million for Blue Ribbon to pay. Their American competitors, Converse and Keds, plus a few small factories had lobbied Washington in order to slow the momentum of Nike. They'd managed to convince custom office to effectively hobble Blue Ribbon by enforcing the American Selling Price (ASP). ASP meant if there's a similar shoe manufactured by a competitor in the US, the duty must be 20 percent of the competitor's selling price, otherwise 20% of the manufacturing cost. So all their competitors needed to do was make a few shoes in the US, get them declared similar, price them sky high. And that's just what they did.

At the close of 1977, sales were nearly \$70 million.

1978

They were on track to a staggering \$140 million in sales in 1979. The headquarter moved to a 40,000-square-foot building in Beaverton. This year Phil decided to make the company more diverse with adding a line of apparel. For the very first time in the history of shoes, Tailwind, shoes with air soles launched. Sales were huge but people started returning as the air soles were falling apart. A recall was issued with full refunds and half of the first generation shoes with air soled ended up in recycling. Two new factories were opened this year; one in England and one in Ireland.

1979

Phil met with a representative of US Treasury and Finance in Washington who had been sending notices of \$25 million duty on import. A representative refused to do anything about it. Late in the summer, Phil managed to meet Oregon's senator, Mark O Hatfield, who then

got in touch with Treasury. As had Oregon's other senator and chairman of Senate Finance Committee, which had review authority on the treasury. This year Phil thinks about opening a factory in China and he wanted to get into China first in order to get a competitive advantage. He gets introduced to a man named David Chang who had helped many US companies to do business in China.

1980

This year three great milestones were achieved in the history of Nike!

Getting into China was an extremely difficult and laborious process. You need to formally request the Chinese government to invite you. Phil put together a written presentation and sent it off to Beijing without hope. The Chinese government sent a letter in the summer inviting Phil and his team to visit China. Phil finalized a deal. Four years later, in Los Angeles, the Chinese track-and-field team would walk into an Olympic stadium for the first time wearing American shoes and warm-ups. And, just before leaving China, Phil signed deals with two Chinese factories which officially became the first American shoemaker in twenty-five years to be allowed to do business in China.

In order to fight the \$25 million import duty, Nike launched a new running shoe with nylon uppers and called it One Line. It was a knockoff, dirt cheap, with a simple logo and was priced low. Now customs officials would have a new reference point in deciding the import duty. Then they produced a TV commercial telling the story of a little company in Oregon, fighting the big bad government, followed by a \$25 million antitrust suit filed in the US District Court for the Southern District of New York, alleging that their competitors, and assorted rubber companies, through underhanded business practices, had conspired to take them out. Upon which they initiated settlement talks and Phil finally settled for \$9 million.

Lastly, going public was agreed and finalized unanimously in order to kill the cash flow problem forever. Of 50 million shares, total, almost 30 million would be held in reserve, and about 2 million Class B would be sold to the public. Of the roughly 17 million remaining class A shares, Phil, Bowerman, the debenture holders, and the others who had been running the business with Phil from the very beginning would own 56 percent. Phil would personally own 46 percent.

1980-2006

Phil stepped down as CEO after forty years in 2006 and sales in 2006 reached \$16 billion (Adidas was \$10 billion). By 2006, Nike shoes and clothes were in five thousand stores worldwide and had ten thousand employees. Phil's net worth had reached \$10 billion. However, his fame and wealth didn't spare him from tragedy. He lost a few people between 1980 to 2006. His son, Matthew, died in a scuba diving accident in El Salvador in 2004.

Bowerman, co-founder of Nike, died in 1999 and Strasser, first in-house lawyer, died in 1993.

During that period, Nike came under attack for poor working conditions in overseas factories. Nike used that controversy to reinvent the entire company. The fumes from bonding upper and soles were choking, toxic, and cancer-causing. So Nike invented a water-based bonding agent that gives off no fumes, thereby eliminating 97 percent of the carcinogens in the air.

Nike also spends tens of millions of dollars to educate and lift up young girls in third world countries including Ethiopia, Nigeria, and Rwanda.

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