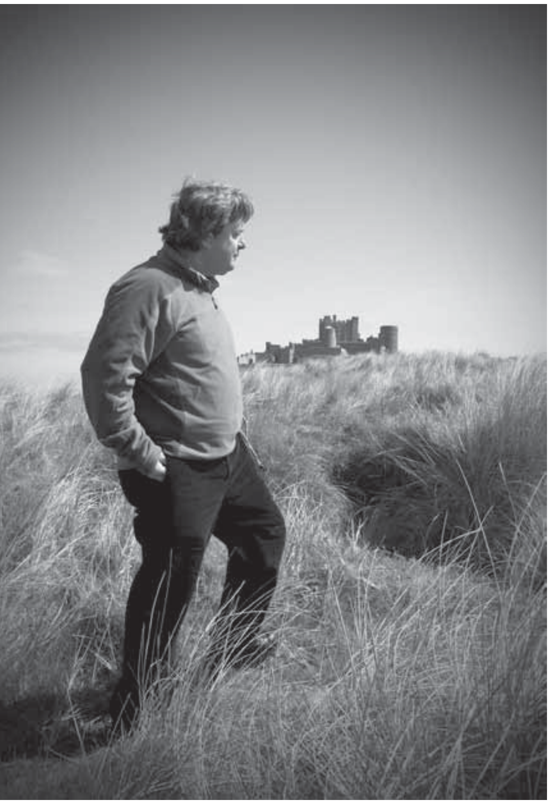
Murphy's Law



After parting ways with Hardy & Greys, career fly-fishing insider Jim Murphy gets real about the state of this business, where the opportunites lie, and where the pitfalls linger.

Written by Geoff Mueller

Few individuals have helped steer the course of the fly-fishing industry with more entrepreneurial verve than Jim Murphy. To say the 62-year-old Boston-native has been around the block is an understatement illustrated by more than 20 years of managerial and ownership roles at Thomas & Thomas, Redington, Albright Tackle and, in more recent times, as president of Hardy & Greys North America. Murphy took the latter gig in 2008, establishing a team of dedicated employees at offices in Lancaster, Pennsylvania, and was instrumental in bringing the 142-year-old company up to present. Under his leadership, Hardy introduced anglers to a new era of the venerable tackle mainstay that included an aggressive rollout of technically-advanced hardgoods—such as the Sintrix series fly rods—backed by a rebranding of classic, UK-made reels like the Perfect. In 2012, talk of Hardy & Greys' impending sale made the rounds, and we wondered what it meant Murphy and his ilk, and the forward momentum of the company, not to mention the future of other core brands that continue to be swallowed by entities with deep wallets and large non-fly-fishing portfolios.

At the turn of the year, Murphy delivered his resignation, returned to Stuart, Florida, and, true to form, has spoken to us candidly about the challenges and opportunities ahead. Here's what he had to say.

AT: Tell us about the sale of Hardy & Greys to Pure Fishing. What was your role in the lead-up?

JM: The process, in my mind, was a bit baffling. They [Hardy] announced publicly that the company was for sale and that they'd be soliciting bids in an auction-type process. I fought that decision… as hard as I could at the board level. It was a very open process that really meant a freezing of our business in the States, when compared to other less-publicized acquisitions like SA [Scientific Anglers] taking in Ross Reels.

What prospective buyers, mostly American, found was a complex company that wasn't as simple and potentially fun to own as it might have seemed at first glance. And it drove the enthusiast, qualified-party buyer, out of the process.

Pure Fishing had expressed its interest in buying Hardy from the get-go, and from my standpoint I found it to be a difficult prospect. They're the most successful fishing company in the world, they're very large, very profitable, but they really participate in a different category than Hardy—not only in fly fishing, but in the specialty market.

AT: In the end, Pure Fishing won the game and purchased the brand in July 2013. Discuss the potential implications.

JM: The jury is out and I don't really know who's on the jury. If it's a jury of stockholders, who want to maximize their investment for maximized returns, they might have a different roadmap to success than I would.

I believe that Hardy is worthy of a significant presence at the highest levels in the marketplace… We had it with the British reel business, in the innovative performance reel category, and certainly in the rod category with Hardy & Greys, where we were very successful. It was a great team of individuals, some of whom had worked with me all the way back to the beginning with Redington. It was a cohesive team from shipping to customer service to operations to sales to marketing.

And that's all gone. There's nothing left of that.

AT: It's common in this industry to hearken back to "The Movie" and the heyday that followed the release of *A River Runs Through It* in the early 1990s. How has that boom affected where we are today?

JM: The Movie produced a bubble of interest that provided historically high growth levels. And it was a bubble way beyond the subsequent bubble that sustained it for a while. We saw double-digit growth of the major players during this period and certainly Redington was part of that. Quite simply, people went out of the movie theater, into fly shops, and spent a grand. A fair portion of those compulsive male buyers—who inflated the market—eventually left it to go windsurfing or biking, migrating from one expenditure to the next. That's male shopping. It's just the way it is.

Then we had the economic bubble through 2007, which sustained the growth of the industry until the collapse in 2008. And you're left with all these companies that had unsustainable growth, and had grown into much larger companies. All of a sudden they were faced with creating a business plan based on shrinking, while still being profitable.

From a business-planning standpoint that is a very difficult task. Shrinking is a challenge. It goes to morale and core principles and to R&D and marketing.

AT: You recently said there is a reason why 75 percent businesses in the U.S. are small businesses. What did you mean by that?

JM: When you look at large businesses, they have two sets of clientele: They have their customers and they have their stockholders…. The interest of the stockholder is not always the interest of the customer.

Large companies tend to build businesses that increase the value of the equity investment of the stockholder. Whereas a small company, without two sets of clients to satisfy, with potentially two very diverse sets of interests, can focus on putting the customer at the top of the paradigm.

So I believe that when it comes to personal service and responsive product development, customer service with dealers… all of that, I think the smaller business has a greater advantage over the bigger business… At the end of the day, large businesses often end up buying these small businesses that end up disappearing, frankly.

AT: Let's expand that idea to the fly-fishing industry as a whole. Do you feel that we can coexist successfully with the conventional tackle market, for instance? And how?

JM: Sitting beside all the fly-fishing brands is an industry that is at least 20 times the size. They're in the fishing business. They're in the fishing stores. And so we look to diversify our revenue base by joining the conventional market. The prospects of the fly-fishing market growing at anything more than two or three percent a year are probably unrealistic, and so [companies] have moved over.

Some have been successful. Some have been partially successful. And some have failed. But I think it makes sense from a strategic department to try to diversify your revenue sources. The other way to achieve this is by augmenting your route to market, building products that will go to Cabela's and Bass Pro Shops… and that's tricky, too.

Dealing with mom and pops across 600 or so industry fly shops is a relationship business. It's a business where usually the manufacturer has the upper hand and there's leverage in terms of product placement, credit, receivables, and distribution—it's really a manufacturer-driven model.

When you do business with the [big boxes], it's good business, but it's not the same business. Now the retailer gains leverage and even a superior position in terms of long-term

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strategies. You have to know how to run co-op, pay for catalogs, how to buy space in stores, lower prices, increase margins, and deal with higher volumes. All of these present significant challenges to practitioners of the specialty trade.

AT: What are some of the pitfalls for retailers and manufacturers?

JM: As routes to market diversify, retailers are competing more and more with the big doors. Some retailers are, and some retailers are not, up to the challenge. And some are just bitter and angry about it. And then you have manufacturers with cut margins, the allowances they have to give the big boxes are challenging… and they may have overestimated their return on investment.

What happens then is they stop investing in R&D. Second thing to go is sales and marketing. Third thing is to tighten up terms so cash flow is healthier. And all of those [cuts] fundamentally weaken the market. Whether we have the equipment, the training, and even desire to respond reasonably is a question that has yet to be answered.

AT: Where do the potential opportunities lie?

JM: [To be successful] you not only have to like it, but you really have to know this business—from product categories that offer opportunities to routes to market that work to materials coming out of the science world. If you don't know them thoroughly and completely, you're going to go out of business.

There's no breathing room here at all.

But I'm optimistic because I think every market has opportunities. You have to be able to identify them, which means you have to know more about the fly-fishing industry than you ever did before. Significant opportunities include material science like nano and carbon applications that will change what people expect out of a fly rod. Just in durables alone—for rods and reels—there are opportunities to build products with improved performance.

But it won't be done by the companies that are on their heels, trying to shrink and still make money.