

## **Investing in the American dream**

*The five Ly brothers arrived as ‘boat people’ from Vietnam. Today, their Sugar Bowl Bakeries are a \$35 million operation. Now they face a new challenge -- preparing the next generation for leadership.*

**By Dennis T. Jaffe**

The five Ly brothers, owners of San Francisco’s popular Sugar Bowl Bakery chain, came to America as refugees from Vietnam in the late 1970s. As “boat people,” they lacked money, knew little English and had no American relatives to help them get settled. The brothers and their wives at first found work as kitchen assistants, dishwashers and newspaper carriers.

Once established in their new home, the Lys began to follow their entrepreneurial dream. Like many refugees from Southeast Asia, they became bakers, a vocation that did not require English fluency. In 1984, after a brief attempt to start a baking business in partnership with some family friends, the Ly brothers pooled their savings to purchase what became the first Sugar Bowl Bakery at Balboa Street and 37th Avenue in San Francisco’s Outer Richmond neighborhood, which has a sizeable number of Asian residents.

The Lys took advantage of each attractive opportunity that arose, and their company gradually expanded. Today, Sugar Bowl Bakeries encompasses six retail bakery/restaurants and a growing wholesale operation whose customers range from luxury hotels to the Costco chain of discount stores. The enterprise employs more than 300 people and generates annual revenues of more than \$35 million, up from \$150,000 in 1984.

Middle brother Andrew Ly, 51, is the president and CEO. Eldest brother Tom, 60, the chairman of the board, oversees cash management. The other three brothers are vice presidents: Binh, 55, is in charge of retailing; Sam, 50, handles product development and international markets; and youngest brother Paul, 48, is the treasurer.

All the sisters-in-law work for the company except for Andrew’s wife, Cindy, who is a federal government employee. And of the 12 members of the second generation, seven are now working in the business and developing as leaders -- preparing for the day that the company evolves from a sibling partnership to a cousin consortium.

As a family business adviser who has known the Lys for a year (as a friend, not as a consultant), I have seen how the brothers applied their traditional family values and combined each individual’s natural talents to expand into new markets, without sacrificing their family’s intimacy or special traditions. As they have faced each successive level of business challenge, they have devised new ways to maintain their unity and focus.

Their story demonstrates how a family can evolve entrepreneurial business structures to overcome common pitfalls. At each stage of development, the family confronted a choice -- to remain where they were, or to move to the next level in terms of size and complexity. Rather than stay at a comfortable plateau, the Lys chose to build for the future. Their current challenge is to mentor the new generation for leadership positions as they continue to develop their various operations.

### **Coming to America**

The Ly family originally came from the Chiu Chow region of China. Chung Ly, the brothers' father, was a farmer who immigrated to Vietnam at age 16 in 1931, during the Japanese occupation of China. He made the journey by himself on foot, by boat and various other modes of transportation, and took very few possessions with him. Chung Ly, now 90, met his wife, Sau Thi Ngo, in Vietnam, and their children were all born there. (Sau died in 1999.)

Though their parents wanted to send the five Ly brothers to school, the war precluded all but Paul from finishing high school. Tom went to Saigon and Binh to the city of Bau Lieu to work. Andrew later joined Tom in the small textile factory Tom had set up in Saigon.

After the communist takeover, the family tried several times to escape Vietnam by boat. (During one unsuccessful attempt to flee the country, Andrew was shot at by the Vietcong, and one of his companions was killed.) By 1982, the brothers and their parents had all arrived in San Francisco. Each had come via a different route, first spending time in refugee camps before arriving in the U.S. Paul and Sam initially went to Texas and then came to California.

In those first years in the country, the family received housing and job-hunting assistance from Catholic Charities and purchased their clothing and household items from secondhand stores. From the start, their goal was to work wherever they could until they saved enough to buy their own business.

In 1981, after the Lys had scrapped the joint venture with their friends, Sam began frying traditional Chinese donuts in his home kitchen and selling them to local Chinese-owned markets. Sam's donut venture took off, and the Lys came up with about \$40,000 to purchase the first Sugar Bowl Bakery. The brothers and their spouses began working there; those who had other jobs moonlighted at the family bakery.

In those early years, family members were the only employees. They had no plan other than what Binh refers to as "moving ahead step by step" -- earning enough money to support their families.

The business began to prosper after Sam decided to begin serving Vietnamese food, which no other neighborhood eatery was doing at the time. The brothers also started delivering baked goods to coffee shops and convenience stores.

During this time, Andrew, who was living with Sam's family, was taking English courses and helping out in the bakery at night while also working at school to cover his expenses. After he obtained his GED diploma, at the suggestion of his English instructor, Andrew enrolled at City College of San Francisco, where he studied information systems. The family encouraged him to continue his education and provided financial support. In 1986 Andrew completed his B.S. degree in business administration at San Francisco State University.

By this time, the family's success had brought them to a critical juncture. They had saved money together, but they all had different ideas about where to invest it. Tom had partnered with a relative to invest in an apartment building in San Jose, but the family withdrew from the partnership at the urging of Andrew, who thought it wouldn't generate enough income to support all five families.

After much debate, they decided in 1986 to invest in real estate for a second bakery on Mission Street in Daly City near the San Francisco border. The building had a retail store in front and room for wholesale baking in the back. Andrew and Sam worked at this location along with Sam's wife, Linda, and Paul's wife, Lisa. Paul, Tom and Tom's wife, Hua Tran, worked with Binh at the Balboa Street location. The business model the family established was a collection of small, personal operations.

### **Building a company**

Since they couldn't find a financial institution that would lend them money in the 1980s, the brothers persuaded the sellers of the Mission Street building to finance their mortgage. With little access to credit in those early years, the brothers used their own savings to expand their business.

Again on Andrew's recommendation, the brothers bought another property in 1990. The purchase of this building, on San Bruno Street in San Francisco, was financed by World Savings Bank. The interest structure was unattractive at first, but the brothers note that the drop in interest rates in recent years has worked to their advantage. Tom and Hua Tran left the Balboa Street location to manage the San Bruno Street facility, leaving Paul, Binh and Binh's wife, Ten Thai, to manage the Balboa Street store.

By this time, Andrew -- the brother with the strongest English-language skills and the most formal education -- had emerged as the leader. He learned how to talk to banks, get funding, network with customers and suppliers, and develop business relationships. When Sugar Bowl incorporated in 1993, Andrew became the CEO. This represented a break from tradition, Andrew notes: "In Asian family culture, the oldest always has the most say and power," he explains. The issue posed a challenge for the Lys, but they ultimately recognized the advantage of naming a leader who was well suited for the job, according to the family. As CEO, Andrew reports to the board of directors, which consists of his four brothers. All the brothers are equal owners of the company.

At first, Andrew's growth strategy made some of his brothers uneasy. The more conservative family members, who were accustomed to running a small business, wanted to invest in less risky ventures. At first, only Andrew and Sam were willing to take the risk of opening a manufacturing operation. But Andrew patiently made the case for growing the business. The brothers had invested in his education, and now he would be able to repay them by creating opportunities for all of them.

As the roster of customers grew, Andrew and Sam decided to look for a bigger facility, which would enable them to expand Sugar Bowl's wholesale division. In 1993, the brothers acquired a building on Toland Street and installed heavy machinery in the large kitchen. This location, now their main facility, spans nearly a block and includes offices and retail space; youngest brother Paul runs the Toland Street retail store. The expansion was costly, since the Lys needed to hire more personnel and increase their fleet of delivery trucks. But by this time Sugar Bowl was well known in the community, and new opportunities continued to arise.

### **Family governance**

The Lys' "Brothers' Council" is their core governance structure -- a monthly forum for the siblings to work out their differences and chart their future. Council

meetings are informal events where different ideas can be shared and explored. Andrew often presents plans for growth and development, but he must have full support from the others before proceeding. The brothers' wives, who receive salaries for their work in the business, are considered their husbands' emotional and business partners. But the wives do not participate in the brothers' council. The men jointly decided to represent their wives rather than including them as council members; they reasoned that it's hard enough to get five people to agree on an issue, let alone ten.

"There's always one person who disagrees," Andrew says. He explains that he builds consensus via a collaborative leadership style. "You make sure what you say is what you do," Andrew says. "You tell [the others] clearly what you want to achieve and how you will do it."

The emphasis on clarification has its advantages, Andrew notes. "Having to be so clear and transparent forces you to really think things through," he says. "My brothers are there to make me do things more thoughtfully. I have to make sure that things are successful so the skeptics believe in me." Yet he and his brothers also recognize when it's best to back off, he says. "We know how to yield when disagreement is too intense. I put it aside, and in some cases I try to get it done the next time. When you run a family business, emotions can be high. Since there are high stakes for everyone in certain decisions, I know that you have to do a lot of due diligence about decisions, so that you don't betray family members or your employees. When emotions are too high, you pull back and wait. As long as you are persistent and believe in yourself, you will be successful in getting your goal accomplished."

Tom, the eldest brother, echoes Andrew's point. "We are very open with each other -- too open, in fact," Tom says. "When someone wants to do something that the others don't want to do, you have to convince them; then they understand."

The Lys, who see each other almost every business day, regularly talk informally among themselves. The five brothers, sometimes along with members of the next generation, also hold quarterly board meetings. The entire extended family gathers annually for an important non-business occasion -- Chung Ly's annual birthday party, a day of celebration and respect for the patriarch.

### **Fast growth**

Over the past two decades, the company has become much more than a chain of retail bakeries. It has grown through innovations and the creation of new divisions. The company's food-service operation began with deliveries in the Bay area. "In the early '80s," explains Tom's son Mark, the company's director of sales, "bakeries were closing down, losing money. This was our opportunity to make products for hotel bakeries, and this grew as different chefs came to us. We became the bakery for several large hotels." In response to customer input, the company created new baked goods, including danishes, croissants, blueberry bars and customized cakes. "We became a custom bakery," Mark notes, "developing different things for different hotels."

The next step was to expand into packaged items for supermarkets and large retailers like Costco and Safeway, for which the Lys have developed several successful creations, including Petite Palmiers, Madeleines and Petite Brownie Bites. "If you have one hit product," says Mark, "then they want more products from you."

The company's exponential growth has necessitated clearly defined roles, accountabilities, goals and structure. The business, begun as a partnership, became a C corporation in 1993. It's set up this way to allow multiple options for future growth, including acquiring other businesses and the possibility of going public. An IPO, Andrew notes, would make it easier to reward the company's long-term employees and fund the brothers' retirement.

Still, Sugar Bowl remains a flat organization, where communication, fast response, hard work and speedy innovation are expected. "If a big customer wants a product, we are fast," says Binh's son Michael, the director of purchasing and cost analyst. "We develop it quickly -- within weeks if necessary, including packaging and design." As the company grows, there are some concerns that the Lys will have to develop greater formality, but as of now, the key managers believe their roles and expectations are sufficiently clear, the family says. The management team -- consisting of about 20 managers from all the company facilities -- gathers together for quarterly meetings.

### **The next generation**

With seven members of the second generation working at Sugar Bowl -- an unusually high number -- one would expect a good deal of competition for space. But the younger Lys say that before they joined the business, each one carefully considered what role he or she would take, based on their talents and capabilities. The second-generation family employees currently work in middle management, and several are overseen by non-family managers.

They grew up working in the business -- busing dishes, cleaning up and doing errands after school. They didn't attend after-school programs or participate in sports because they had to be at work. "We all worked in the first retail store and all went to the bakery after school," eldest cousin Mark recalls. "It was our recreation. It was located near the beach, and we would meet there after school and do what we could. The family could not afford day care, and we watched each other. Now we each have different circles of friends, but because we grew up together, we are comfortable working together."

Sam's son Steven, 28, left college to join the business and was given responsibility for local sales. He is now the national sales manager and is pursuing a bachelor's degree from San Francisco State University at night. Kevin, now 26 and the executive pastry chef, entered the business right after high school. Mark, 31, joined the company after Kevin. As the sales director, Mark works closely with Steven.

Binh's son Michael, 30, entered in 2004, after earning a bachelor's degree in business from UCLA and working in the information technology industry for several years. He was named purchasing director because of his experience and negotiation skills. Binh's daughter Laura, now 25, joined a few months later, after a period of travel following her graduation from UC-Santa Cruz. "We had a vacant spot in marketing," recalls her uncle Andrew. "She didn't have experience, but she has the personality for it, and it was open, so we decided she would try this first. We found that her natural skills were in P.R., so she became our new P.R. manager."

Michael and Laura's brother Hugh, 28, who began working at the company in 2004, oversees warehouse operations and inventory. Wholesale sales manager Joe Pickens, 34, who is married to Tom's daughter Jennifer, started in 2003.

"Of course, there was lots of pressure from the first generation to enter the business," says Mark, who holds a bachelor's degree in business from San Francisco State. "But growing up in the U.S. with so many options, I wanted to look at them. The bakery business is not the most glamorous. It has long hours -- waking up early -- and took away our social life when we were young."

After college, Mark worked at banks and an auto-body shop but realized the family business would yield greater opportunities. Even at his young age, he notes, "I find myself sitting in meetings with presidents of large companies, much bigger than ours, going to dinners and functions. I'm at the level of older executives, usually the youngest of a group. This opportunity was given to me by my parents and uncles. If I weren't part of this family, I couldn't climb as fast. But you have to prove that you can do the job, or else you have to leave."

Unlike their parents, the second generation is paid at market rates. They are regularly evaluated informally by Andrew. "We all have full power to do what we think is best for the company," says Michael. "We don't have to go through layers; it is just one step to the CEO, who is our uncle. He gives us the freedom to improve the company any way we want to -- to take risks."

The succession decision will be made jointly by the five brothers, but Andrew will take a leading role. "They are already fighting for supremacy," Andrew says. "I want to train them early and groom the ones who are the best to be leaders. Not necessarily the ones I like the best, but the one who cares about it most, has the talent and the patience to take the business ahead."

Mark admits that currently, none of them is ready. "The biggest challenge for us in learning is that it is overwhelming," he says. "We are learning every part of the business and want to be completely prepared. Andrew is teaching us a lot. He lectures to us, and involves us in meetings with large customers, and talks to us by e-mail and in lunches every week. This keeps us all on the same page. There might be a 15-year interview process before succession to leadership."

"The next generation is very westernized, but we are a close family," Andrew says. "They all care for the business, and I work very closely with them. I want them to know that we have to be unselfish or we will not grow the business -- nobody will look up to you."

Part of his training regimen involves keeping a record of the next generation's accomplishments. "My brothers ask me every day about how they are doing," Andrew says, "and I let them know who is going well." He gets together with each one individually and schedules weekly lunches with all of them together. "I want them to see what I do every day, and know the reasons for how we will diversify and grow," Andrew says. "We sit down individually or all together and talk about how to work together as a family or with non-family members. I make sure we care for each other, and they learn how not to forget the bigger picture."

What's next for Sugar Bowl Bakeries? The company is growing fast but manageably -- at a rate of more than 30% a year. Nine out of the last ten years, it has moved up in the *San Francisco Business Times*' list of the region's fastest-growing

companies. The Lys envision their company reaching \$100 million in sales, with expansion occurring primarily in product development and manufacturing rather than retail.

They see several major transitions ahead. If they raise capital by attracting outside investors or going public, their tight family control will have to give way to the need to respond to other owners. This also means challenges for the second-generation family members as they move into leadership roles. There may be pressure to recruit talented leaders from outside the company. The two generations will have to develop the infrastructure and levels of organization suitable for a larger business. This may strain their informal systems of communication and execution. But they make it clear that whatever direction they go, their family and its values will continue to play a central role.

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## SIDEBAR

### **Ly family values**

Why have the five Ly brothers been able to overcome conflicts that often destroy other family businesses? From our conversations, I have distilled a set of values that are embedded deeply within the family's DNA. These values are reflected in the Lys' family stories, which they tell each other regularly. They emphasize their connection to their heritage and history.

**Respect for parents:** All of the Lys' values hearken back to the Confucian ethic of respect for parents. The Ly brothers discuss with their children the example set by their parents, who harbored a deep respect for all people and a sense of partnership within the family. They are careful not to disappoint their parents because they are aware of the sacrifices the parents made for them.

**Unity:** The family operates as one unit, pooling money and working together. They see the business as being run for the benefit of the whole family, and for the next generation. Even before they came to the U.S., this value was deeply ingrained.

**Sacrifice for the next generation:** Each generation respects the sacrifices their elders made on their behalf. Family members understand that individual sacrifices and pooled resources enable the family as a group to achieve goals that otherwise would not be possible.

**Respect for differences:** The brothers' parents taught them all to cooperate -- to respect and listen to each other. They respect individual differences and are committed to taking the time to resolve conflicts optimally.

**Building for the future:** The Lys don't rest on their present success. They don't take money out of the business unnecessarily; they invest in the future to make sure everyone can be a part of it. They live simple lives and invest in the American dream.

**Communication and informal structure:** The company has a flat structure, with few layers of management. Everyone is in continual communication with each other.

Decisions are made quickly, and everyone is informed. The brothers, the second generation and the key managers talk several times a day about operations, projects and progress.

**Accountability to family:** Each family member must set an example, out of respect for their parents' sacrifices. The next generation seems to have little sense of entitlement; they feel that the family's past success carries with it an obligation to continue it. Leadership and advancement are determined by success and capability, not one's position in the family, representing a slight departure from Chinese tradition.

**Focus on innovation:** The business is sharply focused on customer service and innovation through new products. The Lys are continually developing new products in cooperation with their customers, and they can create and manufacture a new product in a matter of weeks.

—D.T.J.

### CALLOUTS:

'Since there are high stakes for everyone, you have to do a lot of due diligence, so that you don't betray family members or your employees,' says CEO Andrew Ly.

'If I weren't part of this family, I couldn't climb as fast,' says second-generation member Mark Ly. 'But you have to prove that you can do the job.'