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## **Sugar Bowl Bakery is a family affair**

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When Vietnamese immigrant Andrew Ly and his brothers bought a San Francisco neighborhood doughnut shop in 1979, they were looking for a small business that could support their families.

Today the five Ly brothers still own the Sugar Bowl Bakery. Seven of their children and two of their children's spouses work there.

But the one-time neighborhood bakery now has revenue of \$44 million - with three industrial-scale manufacturing facilities that support more than 325 employees along with the Ly clan.

One of the largest food manufacturers in the Bay Area, Sugar Bowl is a classic rags-to-riches immigrant success story.

Arriving in the United States with little money and no English skills, the Lys transformed that small doughnut store into a wholesale bakery that supplies pastries to nearly all the hospitals and hotels in San Francisco, as well as major retailers such as Costco, Safeway and Starbucks.

And they've done this while maintaining a remarkable degree of harmony among family members working together.

"I never heard of five brothers running a business together," said Dennis Jaffe, a family business consultant and management professor at the Saybrook Graduate School in San Francisco. "Maybe two, maybe three. But five? That's incredible. And the next generation - there's certainly rivalry and competition, but it's not a destructive rivalry. It's everyone trying to do their best and shine."

Sugar Bowl Bakery's brand is hardly a household word among consumers. But many Bay Area residents have eaten Sugar Bowl's products without knowing it.

Had a cheese Danish at an Embassy Suites hotel in Northern California? That most likely came from Sugar Bowl. Nibbled on a fruit tart at a fundraising luncheon in a San Francisco hotel? Also quite possibly a Sugar Bowl concoction.

"There are very few companies - none - with the distribution capability and manufacturing capability of Sugar Bowl," said Vincent Venenciano, who handles Northern California purchasing for Hilton hotels, including the Doubletree and Embassy Suites chains. "There isn't anything a hotel can't purchase from them."

### **Frying doughnuts at night**

Doing business with giant companies like Hilton was far from the minds of the Lys when they arrived in the United States.

The Lys had made three unsuccessful attempts to flee Vietnam - in one, a companion was shot to death - after the Communists took over in the 1970s.

For their fourth attempt, they joined about 140 other refugees on a 14-by-4-meter boat that was raided three times by pirates before landing in Malaysia.

Once in San Francisco, the family started out with eight people in a one-bedroom Tenderloin apartment. The brothers and their wives worked as laborers, handymen, seamstresses and housecleaners. Andrew Ly - today the CEO of Sugar Bowl - took English classes full-time, then went on to study computer science and accounting while helping one of his brothers fry Vietnamese-style doughnuts at home at night.

In 1979, the brothers decided to take their doughnut recipe and buy a bakery.

"The idea of getting a bakery was to make sure we had decent jobs for family members, a way to make a decent living in this country," said Andrew Ly, 54.

The Lys raised \$40,000 from friends and family to buy the Sugar Bowl Bakery, a small coffee shop that grossed \$150,000 in annual sales and was run by a husband and wife on Balboa Street in the Richmond District. They started out selling doughnuts to Chinese restaurants, then branched out to serve neighborhood liquor stores and convenience stores. "I used to drive my wife to work and deliver doughnuts on the way," Andrew Ly said. "Before we got married, we had dates that were going around to pick up money and (doughnut) boxes."

Andrew Ly envisioned expanding Sugar Bowl by adding more doughnut shops - one for each brother to run. "I saw it like Starbucks, only with food," he said.

Finding capital to grow was a challenge. In 1986, the Lys wanted to buy a building in Daly City to house their back-office operations. They had \$90,000 in savings, but couldn't get a bank loan. Instead, they

arranged for the sellers to finance the deal, with a promise to pay the sellers \$2,246 each month for the next 10 years.

The Lys ultimately opened five additional neighborhood bakeries. But in 1993, their plans took an unexpected turn when several hotels approached them seeking pastries.

It was the start of an era of outsourcing in the San Francisco hotel industry, with hotels trying to control labor costs by using contractors for things like pastry-making and butchering. The Lys realized there were opportunities for them in wholesale baking for the food service industry.

"We got a big break with the hotels and decided to go that route," Andrew Ly said.

The family's next step was to expand into the large-retailer market. Many small food manufacturers start out by selling to local supermarkets and only later approach discount stores, but the Lys began by approaching Costco about six years ago. They tried several different products before finding success with packages of flaky Petite Palmier cookies and rich Petite Brownie Bites.

"We try, we fail, we try, we fail - but we're very persistent," Andrew Ly said.

### **'Not too corporate'**

The Costco account was critical to Sugar Bowl's growth - not only in driving its annual sales growth up into the double digits, but in teaching the Lys how to run an industrial-scale operation. Those skills later allowed them to approach other big retailers like Trader Joe's and Safeway.

"For Costco, you have to make the best quality products at the best price," Andrew Ly said. "Costco helped us increase our economies of scale to bring our prices down. They taught us how to be efficient."

Today, some of the Lys' pastries are sold under the Sugar Bowl brand, while others are sold under retailers' private labels.

The company operates three industrial-scale bakeries that together occupy 121,000 square feet - two bakeries near Cesar Chavez Street in San Francisco, and one in Hayward. It has a 58,000-square-foot bakery set to open in Hayward sometime in the next year.

At the existing Hayward bakery, employees turn out trans-fat-free doughnuts. In San Francisco, chefs create intricate petits fours and buttery breakfast pastries for the food service industry - up to 10,000 muffins per day - along with wedding cakes for individuals.

Nearby, conveyor belts and giant ovens churn out the even larger quantities needed for retail sales. Petite Palmier cookies march in neat lines down one conveyor belt like an endless army - 150,000 Palmiers per work shift, or nearly half a million per day.

Altogether, Sugar Bowl goes through 75,000 pounds of flour, 30,000 pounds of butter and 25,000 to 40,000 pounds of sugar each week.

As Sugar Bowl's wholesale business grew, the company gradually sold off its coffee shops. The brothers ceded operating authority to Andrew Ly, although they remain owners and on the firm's board. But even when they were working side-by-side each day, the brothers managed to avoid major rifts.

"Whatever you do, never sue your brothers," Andrew Ly said. "If we have a very heated argument, we walk away, get a glass of water or take a walk in the parking lot, and then we come back and discuss it. We always respect each other, the way we were taught by our parents."

And today, nine members of the next generation are working in middle management in the business, with a team of nonfamily professional managers.

Sugar Bowl probably wouldn't have been able to attract so many of the family's younger generation if it had remained a cluster of neighborhood cafes. But the shift to a growth-oriented manufacturing business created opportunities for the founders' college-educated children.

Laura Ly, the company's 28-year-old public relations manager, left a series of jobs in nonprofits and law to return to the family business. "I never thought I'd work in a bakery ... but there's a ton of opportunity," she said.

And Michael Ly, 33, left a technology career for Sugar Bowl because it offered him a chance to try on roles in different departments. "It's exciting when you're up to \$30 million or \$40 million and your customers are companies like Costco and Safeway," he said. "You're not too corporate, but you're not so small that you're struggling to get financing all the time."

One long-term challenge facing Sugar Bowl will be sorting through the ranks of family and nonfamily managers to groom an eventual successor to Andrew Ly.

### **Possible expansion**

A more immediate challenge is coping with the sharp rise in commodity prices that is plaguing all kinds of food manufacturers. Prices for flour and soybean oil are up, and rising gas prices mean that the cost of sending a truckload of pastries to the East Coast has jumped from \$5,000 last year to \$9,000.

One strategy for future growth under consideration by Sugar Bowl is opening a bakery on the East Coast, which would save freight costs. Another is diversification into health-focused foods.

To become less dependent on baking, the Lys created a sister company that will offer a beverage later this year called Vitamin + Fiber Water.

They also created a snack product called Crunchy Munchies that remains a work in progress: Initial sales were poor, and the company is revamping the packaging so it can charge a lower price.

Such setbacks don't discourage the Lys, whose persistence extends from their repeated efforts to flee Vietnam in the 1970s to their more recent efforts to work with major retailers like Costco.

"We came here as boat people, so we don't take things for granted," Andrew Ly said. "We work hard. We know this is the best country in the world if you work hard. Success is a journey, not a destination."

### **Sugar Bowl Bakery by the numbers**

**\$44 million:** 2007 revenue

**340:** Number of employees

**121,000:** Square footage of three existing manufacturing facilities

**58,000:** Square footage of additional bakery planned for Hayward

**1,000:** Number of silicone baking tins used to make Petite Brownie Bites

**10,000:** Muffins baked on a typical day

**450,000:** Petite Palmier cookies baked each day

**75,000:** Pounds of flour used each week

**30,000:** Pounds of butter used each week

Source: Sugar Bowl Bakery

### **Online resources**

For more information on Sugar Bowl Bakery, see [www.sugarbowlbakery.com](http://www.sugarbowlbakery.com).

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