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FAMILY BUSINESS NEWSLETTER

Cakes By Edith Bakery: A Family Recipe for Success

Since she was a teenager in Michoacan, Mexico, Edith Gallegos dreamt of making cakes. After immigrating to the U.S. in 1995, Edith began making and selling cakes out of her home. She gained so many customers, her home kitchen became too small to meet the growing demand for her delicious cakes. Together with her husband, Jorge Lopez, she opened Cakes by Edith Bakery in 2007.

Today, the family business is doing more than creating delicious baked goods — it's keeping Mexican traditions and culture alive. With two locations in Utah, Cakes by Edith Bakery is known for creating exquisite custom cakes as well as traditional Mexican pastries and breads, including caramel-filled churros, conchas, Mexican corn bread and puff pastries.

Daughters Alma and Diana Lopez grew up working in the business, where their parents' passion became their passion. The sisters went to college and earned degrees in business to help support the growth and success of the family business.

"We literally saw our parents give their entire soul to this bakery and realized that we need to help them," Diana says. "We saw how much effort and passion my parents put into the bakery, and we grew that passion with them as well."



High-quality products and excellent customer service are key ingredients in the success of Cakes by Edith Bakery, owned and operated by the Lopez family. Pictured, from top left, are Jorge Lopez and Edith Gallegos Lopez; from bottom left, George Lopez, Alma Lopez and Diana Lopez.

Diana and Alma helped their parents open a second location in 2021, nearly doubling profits and the number of employees. They also built a digital presence for the bakery, leveraging eye-catching photos and online ordering.

Edith and Jorge's son, George, a high school student, is also contributing to the family business as a part-time cashier.

"George is a natural salesman," Alma says. "He takes his role as quality control very seriously and has provided a lot of input on the taste of our pastries."



Edith attributes the bakery's success to high-quality products, affordable prices, consistency and excellent customer service. The family also focuses on giving back to the community through programs like Utah's Latinos in Action. They visit local high schools, for example, to speak about entrepreneurship and the value of a college education.

One key to working together as a family has been kicking off each week with a meeting.

"We have meetings every Sunday as a family and we discuss the things we've been doing during the week," Edith says. "We set goals, and we talk about what we want to improve."

Their advice for aspiring business owners? Treat the business like another member of your family.

"You have to be willing to give it your all because if you have a business, it's like your baby," Diana says. "You have to be committed 100% to the business because no one else is going to get it up and running."

It's also important to have a thick skin.

"A lot of people will say negative things or try to bring you down but if you know your worth none of that will stop you," Alma says.

Edith's motivation for opening the bakery was to have a secure, stable income for her family. Fast forward 17 years, and Cakes by Edith Bakery provides jobs for 18 employees.

"If you have a dream, go for it," Edith says. "You work more, but you're happy because it feels like you're not working. Be the best at whatever you decide to sell or make."

As for Alma and Diana, they plan to keep building upon their parents' entrepreneurial dreams.

"It's a family legacy and we want to continue it, further it, and eventually get my parents out of the business so they don't have to work as much," Alma says.

Seeking the Gold: Striving for Balance While Delivering Peak Performance in the Family

By Stephanie Brun de Pontet

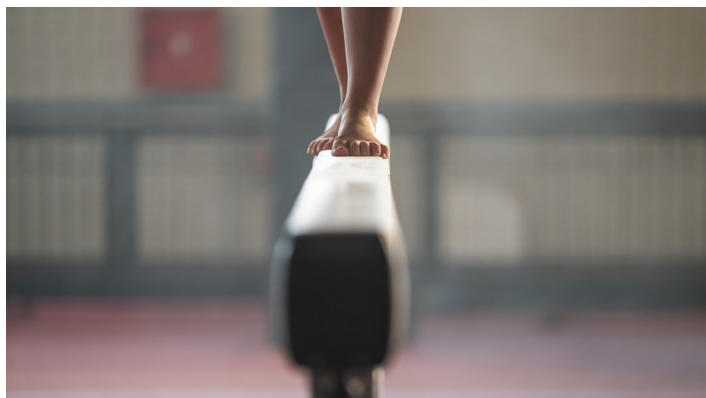
As we reflect on the 2024 Paris Olympics, it is natural to admire the skill, dedication and drive displayed by the athletes competing. We often overlook the fact that these top performers must have access to prestigious coaching and the best equipment, and that they must devote hours to practice. This requires a significant investment from an early age, and not just from the athletes.

An Olympian needs the financial, physical and emotional assistance of his or her family in the pursuit of the gold.

The athlete's family provides critical support to facilitate the Olympic dream. They share in the athlete's journey. In much the same way, family support and commitment are often the vital ingredients in an entrepreneur's successful business venture and requires the efforts of the entire family.

A parallel between family business leaders and elite athletes is the singleness of purpose that must be applied in order to achieve their successes.

In North American culture, we put athletes and business leaders on a pedestal and expect them to live up to extraordinary standards of heroism. Although world-class athletes are trained to handle this pressure, the burden of delivering on their potential and everyone's investment in them can be intense. Family business leaders can feel the same pressure to live up to other's expectations. For example, a family business successor may feel pressure to make good on the investment of training they have been given and live up to the standard of performance set by their parents' generation, while simultaneously carving out their own style and approach to leading the business.





Another parallel between family business leaders and elite athletes is the singleness of purpose that must be applied in order to achieve their successes. Athletes must commit extensive time, resources and emotional energy to the pursuit of their sport. As a result, they have few reserves to invest in anything else. This limits their identity to the role of being “the athlete.” In much the same way, an entrepreneur must often focus so singularly on business that they neglect everything else, including the family for whom they are building the business.

Athletes and business founders often struggle with retirement because they have been cast into one professional role. If not the “athlete” or the “business leader,” neither they, nor those around them, know who they might be. Retirement from a valued career represents a meaningful life transition that can be challenging for most people, but it is even more difficult for those whose identity is tied totally to what they do. Sports psychologists report that athletes whose identity is exclusively tied to their athletic role struggle more with retirement than those who maintained a greater balance in their lives while they were training and competing. The same is true for family business leaders. Those whose

identity has been entirely consumed by their role in the family business find retirement harder than those who developed outside interests over the years.

Considering the parallels between elite athletes and business leaders should remind us of the challenges that entrepreneurs face in investing time and effort in pursuits and commitments outside the business. But it should also underscore how important striving for balance is in a family business. Not only will having an identity separate and apart from the business ease the eventual transition to retirement, it may also provide a competitive advantage while the leader is still in charge of the company. Having a more balanced sense of self may also serve to buffer the pressure inherent in intense competition. This will enable the athlete and the business leader to deliver peak performance when it counts, and that is the most important thing to anyone striving for the gold.

Stephanie Brun de Pontet, Ph.D., is a principal consultant of The Family Business Consulting Group and a recognized expert on the topic of continuity planning.

Family Ownership Strategy: Generating Family Currency

By Robert DeAngelis and Michael L. Fassler

As families and their family businesses evolve on their multi-generational journey, there is a transition from the entrepreneurial phase of the founder to the longer-term family enterprise stage that carries the family business into the future. Many founders of family businesses started with a “right place, right time, strike while the iron’s hot” mentality. During the entrepreneurial phase, founders often rely on instinct with minimal formal planning. The ownership and business strategies, while not explicitly defined, are inherently connected and focused on serving the founder’s and their immediate family’s interests.

As the family business transitions from the centralized authority of a founder to being governed by a group consisting of parents, siblings and cousins, it’s important for the family to focus on developing and implementing a family ownership strategy. This strategy aims to build family unity and is a hallmark of achieving multi-generational continuity.

Put simply, the family group’s functioning and success become more influential in perpetuating the enterprise than any individual’s capabilities, including the founder. Determining how the family ownership group will function well is the essence of a family ownership strategy to build what we call **family currency**: the intangible and nonfinancial investment made, and value received by the family and individual family members. This is the emotional connection between individuals, family members and the enterprise itself.

Family Ownership Strategy

A **family ownership strategy** to grow family currency involves identifying and periodically renewing a family’s intentions for their enterprise. This includes clarifying their purpose for working together, defining the relationship between the family and their enterprise, agreeing on how the family will work together as a group and behave toward one another, and determining the family’s goals for the continuity of their wealth. They also need to align their expectations for matters such as enterprise **growth**, how much **risk** the family group wants to take, what is an appropriate rate and level of **profitability**, and how will the enterprise provide **liquidity** to individual family owners.

Growing family currency in the face of an increasing amount of diversity as the family grows is naturally

challenging. An increasing number of family members brings geographic dispersion, an array of talents that may or may not apply to the family’s enterprise, and varying personal dreams and goals, to name a few aspects of diversity. A well-developed and articulated family ownership strategy builds family currency and provides support and guidance to family business leadership.

Why Family Ownership Strategy and Family Currency Matter

Let’s start with a tangible business reason. To the extent a family can build family currency through the implementation of a family ownership strategy, families can effectively reduce the cost of equity capital since more engaged and unified owners are more likely to desire to keep their capital employed in the family’s enterprise and be supportive of business leadership. All other things being equal, the lower the cost of equity capital is, the more valuable the enterprise becomes in terms of financial currency. Building family currency in turn builds financial currency.

Another tangible reason for this is clarity for family business leadership. In one situation, a client approached us about working with the business leadership team to develop their business strategy. During our initial discussion, we asked, “A business strategy in support of what?”, as well as “What does the family ownership group want to accomplish with the business, and what do they expect from the business?” The CEO paused thoughtfully and said, “I am not sure. Perhaps we should know that.”



The result of this discussion is that the business strategy project was put on hold as the family ownership group came together to develop and articulate their family ownership strategy. With the family ownership strategy in place, the business leadership team was in an optimal position to develop a business strategy that supports achieving what the family wants in a way that meets their expectations. In effect, having a family ownership strategy helps ensure that the business will function in service and support of the family.

A tangible family reason for developing a family ownership strategy is that it opens opportunities for family owners, whether working in the business or not, to participate, contribute, positively influence family relationships and build family currency. An important element of relationship building is to engage in meaningful and purposeful work in service of others, as in the broader family. Doing so can bring joy to individual family members as they work in support of their family.

“By participating in the working group that developed the family ownership strategy recommendation for the full ownership group, I can now see how I can contribute even though I do not work in the business,” one family owner shared. “This brings me a lot of energy for our family’s and business’s future.”

When to Start Developing a Family Ownership Strategy

The work of developing the family ownership strategy is that of the family. The matriarch of one of our clients once said during a family meeting, “We can hire the *what* and the *how* (business strategy), but only the family can decide the *why*.”

When a founder and their spouse start considering the passing of ownership to the next generation, it can be a great time to begin considering a family ownership strategy. When this happens, the founder and spouse establish an ownership group with forethought and planning as to why and how the group will function, which can increase the odds of achieving multi-generational continuity of their enterprise and wealth. Often, however, ownership starts to pass to siblings, driven by an all-out focus on estate planning and too little forethought as to how the family ownership group will function. This frequently results in setting precedents and practices that eventually come to be seen as unfair and challenging to sustain once the influence of the founder and their spouse wanes.

Consider a scenario where a sibling group that owned a private-label food manufacturing enterprise had never addressed a family ownership strategy and eventually could not agree on one. They were ambivalent about keeping or selling the business, had not given any

thought to transitioning ownership, and had not engaged the third generation in developing plans for the future.

Over time, the lack of a clear family ownership strategy led to a decline in the family currency, resulting in a lack of interest from the third generation and continued divisiveness among the siblings. The family’s cohesiveness deteriorated, leading to the business leadership team, a combination of family and nonfamily leadership, struggling to articulate and execute a coherent business strategy. As a result, in the later sibling stage of the business, family relationships deteriorated further, the company’s performance continued to drop and the business was eventually sold at a significantly diminished value.

What does the family ownership group want to accomplish with the business, and what do they expect from the business?

Let’s contrast this with another situation with a family-owned wholesale distribution business. A sibling group, influenced by the founder’s foresight, involved the siblings in formulating their family ownership strategy early on. This proactive approach allowed the cousins to contribute to the family’s ownership strategy in the latter sibling stage. Despite only a small fraction of the more than 40 family members working in the business, implementing their family ownership strategy and the resulting family currency has helped keep the family unified and their capital together.

This, in turn, has enabled the business leadership team to develop and implement a business strategy that aligns with the family ownership group’s expectations. As the family CEO stated during their latest round of strategic planning, “Clarity about our family’s ownership expectations puts our leadership team in a great position to figure out how to meet those expectations. After all, if we did not know what our family’s owners expect, meeting their expectations would be nearly impossible.”

Building a Plan for Family Currency

At times, certain family owners in subsequent generations will need direction in finding paths to engagement. Below are some examples of elements of family ownership strategy goals that family enterprise systems use to create family currency. These examples may be different from the roles of parents or grandparents, where the investment of family currency occurred naturally due to the hands-on involvement and associated investment of “blood, sweat and tears.” In those cases, failure wasn’t an option, nor was the investment of family currency. Subsequent generations may continue those traditions but often find new and different ways to put their fingerprints on the family enterprise system.

Family Ownership Strategy Element or Goal	Family Currency Investment	Family Currency Return
Engaged Family Discussions	Purposeful sharing regarding the challenges and successes	Shared understanding based on first-hand experience and modeling for the future
Family Member Internships	Young adults invest time and take personal risks working in the business	A lifelong connection to the business, deeper understanding and a sense of pride
Family Member Employment	Personal investment in gaining valuable education and/or outside experiences	Continued personal development and a deep contribution to business successes
Family Senior Leadership	A commitment to high-level personal and professional development	Direct family business leadership with shared values, culture and brand
Awareness of Family, Owners, Board and Management Roles	Dedication of effort to understanding the complexity of family enterprise systems	Opportunity to see varying paths for all members to contribute in the future
Family Board Members	Developing skills for the stewardship roles needed by a functioning director	Putting “fingerprints” on the family enterprise’s future goals, strategy and results
Family Meetings	Work together with other family members to organize purposeful family gatherings	Build memories, connections, and practice decision-making and communication
Family Education Process	Learning and skill development related to family, ownership and business topics	Foster connections, shared experiences, cultural awareness and a shared vocabulary
Family Policy Development	Engaging with other family members to develop policies	Fairness process, joint decision-making, communication, relationship building
Family Governance Processes	Serving and supporting structured family governance processes	Develop and share a “unified voice” for the family via the governance process
Individual — Civic, Charitable or Philanthropic Involvement	Individuals invest time, talents or personal finances in the community	Developing as a person while feeling pride and joy related to having given back
Collective — Civic, Charitable or Philanthropic Involvement	Collective process that engages family members in investing in community efforts	Create connections, shared experiences of joy, giving back, family/business pride
Conversations on Family Ownership Responsibilities	Thoughtful and serious attention to the “who” and “how” for future ownership	Increased likelihood of longevity resulting from filling roles with skilled family owners

Comparison of Family Ownership Strategy to Business Strategy

The focus of the family ownership strategy will differ from that of the business strategy. The family ownership strategy should focus on the investment and return of family currency:

- Addressing a 10- to 30-year time horizon.
- Focusing on developing paths for ongoing family stewardship opportunities, family connections and family harmony.
- Measuring success by the nonfinancial ways in which individual family members' lives have been enhanced as a result of their engagement with the business systems — whether in support of the business, by interacting within the family or through efforts to give back to society.

In contrast, the focus of the family business strategy should include the following:

- Addressing a two- to five-year timeframe.
- Considering future business markets, products, services, investment and human resources.
- Measuring success with value creation and financial measures like profit, growth, margin, and cash or debt levels.

Elements of the family strategy also may influence business strategy by doing the following:

- Offering guidance to business leaders regarding family currency goals, family vision, mission and values — the “whys.”

- Stating goals for family members' engagement in governance or employment roles in the business, or offering other goals related to financial or nonfinancial matters.

Conclusion

As you consider strategic planning for your family enterprise system, ask yourself whether the process includes two separate but connected paths:

1. The development of a family ownership strategy to build family currency; and
2. The development of a business strategy to build financial currency.

Your efforts will ensure that the words “family business” remain closely connected under your watch and will allow succeeding family leaders to do the same.

Your children and grandchildren will appreciate your planning to invest their own “currency” into the family's enterprise. To the extent that future generations experience a life well lived, it may have been made possible by the return on their investment into the family systems and the resulting family currency, which contributed to their sense of self and gained wisdom.

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For questions or comments, we'd love to hear from you. Contact National Bank of Arizona at (480) 384-5043.

