

# Going with the dough



Keeping start-up costs low put Simply Splendid Donuts and Ice Cream on sound footing

CRAIG H. HARTLEY/HBJ

Rock Klam, left, and Danny Klam of Simply Splendid Donuts and Ice Cream: Decided that acquiring stores at bargain prices, remodeling and rebranding them was more efficient than building new.

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Forget about low-carb diets or trendy organic produce. Americans still love their donuts.

Office kitchens just wouldn't be the same without a near-empty box of the glazed breakfast treat. (Etiquette says you never take the last one.)

Pop culture even has its own donut-addicted poster boy, lovable cartoon buffoon Homer Simpson, who at the sight of one often murmurs his signature catchphrase "Mmmm. Donuts."

That pastry worship is why entrepreneurs Danny Klam and cousin Rock Klam started Simply Splendid Donuts and Ice Cream. Opening their first store in 2004, Simply Splendid Donuts' offering of fluffy, chewy treats quickly grew its customer base and attracted a robust business clientele, taking in \$650,000 in 2007 and \$750,000 in 2008.

But the Klams' secret to growth isn't just

making the perfect donut, the duo has developed a strategy of purchasing existing shops from owners looking to retire and then rebranding them to Simply Splendid. That reduces start-up costs and keeps the company with little or no debt on its books.

The local market, Danny Klam says, is good for acquiring new locations.

"There are a lot of baby boomers at the point of retirement," he says. "We can buy up these stores without taking up more debt." In this economic climate, Klam says, financing is hard to obtain anyway.

"A lot of people (in the industry) are first-generation immigrants and have become burned out on the business," Rock Klam says. "Their kids are educated and going to college and don't want to take on the responsibility of running the shops. They are going to do other things in the corporate, medical or engineering world."

So the cousins acquire the stores at bargain prices, remodel them and rebrand them as Simply Splendid.

The Klams have baking in their blood. When Rock Klam's father immigrated from Cambodia, he started out in the retail grocery business but soon moved into baking. It's his recipe the cousins use for their donuts.

Danny and Rock say they want Simply Splendid Donuts to live up to its name.

"Our consistency is important throughout all the locations, that's what keeps the customers coming back," Rock Klam says. "Our menu selection is not as vast as other places. We have some exotic items, but not too many to scare the customer off."

That philosophy extends to the sleek decor of their stores, whose warm, earthy tones feel more Starbucks than Shipley. Free Wi-Fi Internet rounds out the idea that Simply Splendid is more than a donut shop, it's somewhere to spend a couple of hours surfing the Internet on a laptop while munching on a japapeno, sausage and cheese kolache.

Danny and Rock Klam financed their first

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## STRATEGIES

# DOUGH: Company owners aim to take on national chains with 10 area stores by 2012

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store, on Barker Cypress, through the previous owner for \$65,000, taking over the lease and purchasing all its equipment.

But after about a year of successful operation, the Klams realized they needed to expand if they wanted to achieve their goals. When the opportunity to purchase a second store arose — another owner was looking to retire — Danny and Rock researched the market and made their move. They acquired the Jones Road location in the same turnkey-style as the first, financing it with the owner.

“Once we moved forward with the second store is when we realized we could grow the Simply Splendid name,” Rock says.

When it came to opening the third Simply Splendid Donuts in 2006, however, the duo took a traditional approach. They pitched their business plan to Bank of America, financing a complete new build in a new complex.

While the store was a success, the pair came to the conclusion that building new wasn't the most efficient way of growing, especially in an era of tight credit.

“That was a turning point. We sat back and thought about it and said, ‘We aren't going to sit and spend this money, time and effort to build a location and build on more debt instead of acquiring an existing location,’” Rock Klam says.

The Klams had found their strategy going forward. Now the cousins say they're positioning the company to take on national chains by expanding to 10



area stores by 2012.

Today, Danny and Rock enjoy a brisk business and a long list of regular clients.

Simply Splendid Donuts supplies the break rooms of the Houston Zoo, Superior Energy Services Inc. and De Vry University and is considering opening a store at the University of Houston. The Klams also expect Simply Splendid's expansion to include Midtown and downtown locations, acquired through the purchase of existing shops.

“It is a very commonsense idea,” says Daniel Steppe, director of the Wolff Center for Entrepreneurship at Bauer College of Business at the University of Houston. “It's a clever way of starting up with not a lot of capital.”

The Wolff Center is a highly selective program within the Bauer College that trains up-and-coming entrepreneurs in business skills and leadership talent. Danny Klam is currently enrolled and



## SIMPLY SPLENDID DONUTS AND ICE CREAM

**BUSINESS:** Donut and ice cream shop  
**TOP EXECUTIVES:** Daniel Klam and Rock Klam, founders and co-owners.  
**FOUNDED:** 2004  
**EMPLOYEES:** 12  
**REVENUE:**  
 2007: \$650,000  
 2008: \$750,000  
**WEB:** www.ssdonuts.com

plans to graduate in May.

Steppe says Danny and Rock chose a tough industry to break into, but their natural business acumen has guided them well.

“Restaurants have a habit of people running it with a very large ego,” Steppe says. “But Danny never lost track of what he was trying to do, and that's led to success.”

Keeping start-up costs low by purchasing existing bakeries was the right strategy, says Steppe. But he also points out that Danny and Rock further cut costs by stocking their stores with furniture from wholesale liquidation companies. Restaurants have a high rate of failure, so it's easy for a

start-up to find quality furniture and equipment on the cheap if they know where to look.

“If you get a large commercial kitchen, it could cost you \$200,000 just for the oven,” Steppe says. “All the things you use to cook with are very expensive, which is why when you look around, restaurants are some of the most risky businesses to get into.”

Moreover, making permanent modifications to leased space can be wasteful in the long term, Steppe says.

“In the leasing world, if you permanently attach something to a building, it becomes the property of the owner,” he says. That can complicate the lease agreement and increase costs when the business wants to move, he says.

Daniel Klam says the Wolff Center program gave him his acute business sense, which is why he decided to return the favor, offering a \$1,200 scholarship to a worthy student at the Center. Steppe says the offer was surprising, considering Klam was still in school himself when he established it.

“I didn't know anything about it until the (university's) scholarship committee called me up,” Steppe says. “I said, ‘Are you sure you've got the right guy?’ He was a still junior in college, but he went and just did it on his own.”

That generous, get-it-done philosophy, Steppe says, is the mark of a good entrepreneur, and will spell success for Danny and Rock in the future.

“Danny does things,” he says. “He sees the value of giving back to the community.”