

Client Profile: Coast Citrus Distributors

By Ron Zollars



On Jan. 5, 1931 as elementary school students returned from winter recess, Lemon Grove Grammar School Principal Jerome Green stood at the front door of the school barring 75 students of Mexican-American decent from entering the building. For no apparent reason, the children were instructed that they would have to attend the Olive Street School which was substandard and in need of much maintenance and basic upkeep. The neighboring residents of the community were outraged by this admonition from the school district in its attempt to segregate Hispanic students from the Anglo-American children. This well-documented and historic event later became known as the "Lemon Grove Incident."

Subsequently the Mexican-American families banded together and refused to allow their children to return to the alternate, segregated school and instead decided to sue the Lemon Grove School Board. The class action suit was brought forth before the Superior Court of California on March 11, 1931. Judge Claude Chambers heard the case (Superior Court of

California, v. the Lemon Grove Board of Trustees) and later ruled against the district. Chambers demanded immediate reinstatement of the children to the Lemon Grove Grammar School. The sole student named in the proceeding, Roberto Alvarez who was 12 at the time, was selected from the group of 75 students to be the “poster child” named in the lawsuit because of his exemplary academic record.

Little did the citizens of the community at that time realize, this same enterprising young student, Roberto Alvarez, who valiantly stood up to help end racist segregation in the schools of Lemon Grove, eventually would build one of the largest and most successful wholesale distributorships of fresh fruits and vegetables in the U.S. and Mexico.

In 1949, Alvarez spent the \$700 he’d earned as a laborer to invest in fresh produce. He opened his family-run operation by selling his goods from the back of a pick-up truck and operated that way for several years before opening his first office to begin delivering to local stores. Coast Citrus Distributors, today a multi-million dollar business, supplies an abundance of tropical produce that include bananas, limes, papayas, mangos, apples, grapefruit, apricots, watermelons, cantaloupes and an assortment of vegetables to name a few. The company has numerous locations which include their headquarters in San Diego; three facilities in San Francisco; one location in Los Angeles; one in Texas; one in Florida; and a wholly-owned subsidiary in Tijuana, Mexico. The San Diego-based company is situated less than two miles from the international border crossing of Otay Mesa entering into Tijuana.

Isabel Freeland, vice president and chief financial officer who joined Coast Citrus in 1996 said that in the early days, growth was slow. The company needed to resolve a lot of challenges. “We were very heavily into servicing government contracts and they needed to centralize buying offices in Philadelphia”, said Freeland. “Coast Citrus used to service supermarkets Big Bear and Stater Bros. and all that needed to be centralized.”

The company sold 49 percent of its assets in 1989 to a public company hoping they were going to have similar synergy and growth because of their common interest. This however, never materialized. That was when the company hired Freeland to assist with diversification and to deal with the onerous task of working with the numerous and significant vendors. Many of the inherent risks today are gone and they have concentrated on being more direct and efficient by eliminating the middle people.

Coast Citrus’ mission statement reads: “To achieve unrivaled customer satisfaction by providing the highest quality, dramatic value and competitive prices.” It adds that its core values are: “An obsession to provide high quality and value; integrity and pride in everything we do; an intense desire for continuous improvement and growth; and a commitment to create a friendly, fun atmosphere, where participation and creativity are valued.” We asked Freeland to describe the work environment at Coast Citrus. “We don’t go much by titles around here,” said Freeland. “Internally we eliminate titles so everyone is on a level field and I encourage all employees to believe and act as one. The only boss we are accountable to is Coast Citrus.” She went on to say that they do not allow supervisors or any individuals to interfere with what is good for the customer and the company, regardless of their level.

“Employees are free to speak their minds without penalty,” said Freeland. The CFO is proud that the company is able to practice what it preaches. “We tried to implement as many recommendations from employees as possible. We never turn down any suggestion.”

Today, the company enjoys revenues of more than \$300 million with 413 employees – 193 union and 220 non-union. Although, she added that the employees are not viewed separately as being in the union- or non-union camp. She noted that in her 15 years since joining Coast Citrus she was aware of only one employee grievance – a remarkable statistic by any human resources standard.

The concept of setting up an ESOP structure was something that Freeland wanted to accomplish at Coast Citrus for some time, but initially this wasn’t possible. “We had a non-participating large partner – 49 percent owner. There was a shareholder agreement that limited the company from growing too rapidly and there were so many restrictions,” said Freeland. “So that was a problem. It was hard to operate. The agreement had been set up in 1987 without any consultant or financial person or someone who knew the operation so they put severe limitations on things such as acquiring assets.”

She went on to explain that anything over \$20,000 had required special approval. She stressed that in the case of Coast Citrus, you can’t have these types of delays that are critical to the continuity of business. “If a truck breaks down, you need to move quickly, get it fixed and get the produce delivered before the shipment of produce goes bad,” said Freeland.

The Alvarez family didn’t have the resources to buy the other partner out. All of the shares were owned by the founders Roberto and Margarita Alvarez, who at the time were both in their 80s. The couple had never done succession planning and their retirement plan didn’t include shares on the corporation. At their ages it appeared too late to try to do tax planning. About 10 years ago, Freeland had suggested setting up an ESOP but the timing didn’t seem right then.

“Due to the tough economic times, we decided we needed to plan and do things differently so the family reconsidered and accepted,” said Freeland. “Another determining factor was because we’d won a large contract to supply produce to all of the commissaries and military bases in California. We eventually lost that contract due to the 49 percent partner. We were told the reason we lost was because we didn’t qualify as a small business set aside, even though our partner had no involvement with the company and no interest. Strategically we wanted to be able to compete for those kinds of contracts. The time was right and the Alvarez family decided it was time to pursue the ESOP.”

At Coast Citrus, the employees are eligible to participate in the ESOP after completing 500 hours and/or three months of service. Currently the company is 70 percent employee owned. Freeland said that the employees were very excited when told about the implementation of the ESOP plan. She added that it was great to see their reactions. “We had a lot of employees that felt like they were already owners but now this was truly a reality,” said Freeland. “The overall work ethic has changed too. The employees seem to be taking more pride in cleaning up their areas. We want to keep that positive energy moving forward.”

In retrospect, Freeland feels pursuing the ESOP was a great thing to do for management and its employees. She said that employee ownership can help them recruit and more importantly, retain their current employees. “I think employee ownership is an additional benefit many other companies can’t provide,” said Freeland. “Our company has wonderful in-house talent – men and women who have grown here and moved up through the ranks – many have been with us 15 to 20 years and beyond. We want to retain those exceptional employees.”

In closing, Freeland said she wanted to acknowledge Roberto Alvarez as being a real visionary and a great role model for all employees. “We all learned so much and owe him a debt of gratitude for his management style, patience and trustworthiness,” said Freeland. “His wife, Margarita Alvarez also has been very gracious and flexible. She was instrumental in the ESOP because she sold part of her shares. We acquired 49 percent and the rest was from her. Her flexibility and generosity made it all possible. Now close to 90, Margarita, is still active, serving as corporate secretary and she continues to contribute a lot to the employees.”

The Alvarez family’s hard work, dedication and commitment to excellence have created a truly remarkable company and one in which all of its employees can be proud for generations to come.

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Photo caption: Isabel Freeland, vice president and chief financial officer at Coast Citrus