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Vallformosa: Competing in a market of giants

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On September 14, 2024, Marta Vidal, CEO of Vallformosa, was working with the company's chairman, Josep Graells, to prepare for a board meeting scheduled for the end of the month. Vallformosa, an established winery in the Penedès wine region (Barcelona), produced *cava* and still wines. The winery's strong recent performance was due to profound change that had transformed a company on the verge of collapse.

Cava was a sparkling wine produced using the traditional *champenoise* method, which generated its characteristic bubbles through a secondary fermentation process and bottle aging. The product was supervised by a denomination of origin regulatory council and restricted to a specific territory. The cava industry produced 250 million bottles a year, but it faced several threats. In recent decades, the market had not been growing in volume or value. Concerns included the generational renewal of growers, rising temperatures, fewer rainy days, and declining rainfall volumes, which increased uncertainty in an industry comprised of over 250 wineries.

Marta Vidal and Josep Graells were confident that they had made good progress in restructuring and organizing the Vallformosa project. They had saved the company and the jobs of its employees, but was that enough to secure its future? What growth strategy would ensure Vallformosa's long-term viability?

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Evolution of Vallformosa

In 1865, Francisco José Doménech founded the Masia la Sala de Vallformosa winery. Spanning 120 hectares, the vineyards were located in Vilobí del Penedès (Barcelona).

In the mid-19th century, phylloxera reached French vineyards, destroying most of the vines. In 1887, this North American pest also infected and devastated most of the vineyards in the Penedès region. Vallformosa became the nursery from which the Californian vines, an immune variety, were distributed throughout the Penedès region. In 1905, José Domènech Torné took over the business and acquired additional vineyards in the area. The wineries always maintained control over the winemaking process and held significant purchasing power over grape growers.

In the 1940s, Vallformosa began producing cava, marking the beginning of a new era for the winery. During the second half of the 20th century the Domènech Vidal family acquired more vineyards to meet growing market demand. In 1993, the vinification facility was expanded to process up to 10 million kilograms of grapes.

The Domènech Vidal family diversified and invested in various real estate ventures. The family operated through a holding company that encompassed three entities: Masia Vallformosa (owner of the winery facilities) and two real estate companies: One was the family's investment arm and the other owned the vineyards.

In 2008, the real estate bubble burst in Spain. The family holding company had operated with a centralized cash management system and, anticipating a quick economic recovery, the family used the vineyard properties as collateral for their debts. In 2011, the situation remained critical, and the family hired Josep Graells, a lawyer from Barcelona, to prepare a bankruptcy filing to dissolve the company.

After analyzing the situation of the holding company, Josep Graells believed there was a possibility of saving Masia Vallformosa, which owned the facilities and employed the winery's 120 workers. The solution Graells proposed to the three sibling heirs of the family was for the CEO, Vicenç Vidal—a trusted confidant of the family—to purchase the winery at market price, while the heirs retained purchase rights for five years. In 2012, Vidal acquired the winery for €200,000 and assumed responsibility for the debt, which totaled €12.1 million in long-term liabilities and €5.1 million in short-term debt. That same year, the winery had revenue of €10.50 million.

In 2016, the heirs of the Domènech family wanted to cancel the purchase rights. At that point, Graells decided to step in as a relevant shareholder and took control of the company. Vidal retained a majority stake, while two minority owners. The first task of the new board of directors was to restructure the company. Unlike its competitors, Vallformosa did not own vineyards.

In 2017, the market was stagnant, prices per bottle were falling, and most wineries were not profitable. Rising temperatures and prolonged periods of drought were altering production levels. The lack of generational renewal among winegrowers threatened the entire industry, as only 10% of growers were under 40 years old.

The transformation of Vallformosa (2017–2024)

In 2017, Graells proposed to Marta Vidal—the daughter of Vicenç Vidal—that she take over the management of Vallformosa. Marta had an extensive career in the banking sector and a deep knowledge of the cava industry, with which she had been connected since childhood, having

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grown up in the Penedès region. The goals she set with the board included organizing the company, reorienting it toward profitability, elevating the brand, and developing the team.

Since 2013, while still under the leadership of Vicenç Vidal, Vallformosa had begun to focus on the model of full product traceability. This meant overseeing the care of the grapes in the field and tracking their journey to becoming wine or cava.

The market did not recognize the value of Vallformosa's products. As a result, she spent time traveling to explain to customers the company's commitment to traceability and product quality. The goal was to achieve significant price increases, which ended up being around 50%. The second initiative focused on streamlining the company's on producing cava. Vallformosa stopped organizing weddings and guided tours for tourists at its facilities.

The third initiative was to overhaul the international sales team to align it with the new strategy. The fourth initiative focused on improving the efficiency of Vallformosa's operations. Marta's team implemented a new production system based on lean methodology, which significantly boosted operational efficiency. In addition, Vallformosa restructured its balance sheet, with particular focus on inventory valuation.

These early changes resulted in increased sales, reduced operating costs, and better business performance (see Exhibit 2). Vallformosa also worked to strengthen its relationship with farmers, who were its main suppliers. The company carried out a gradual overhaul of its senior management team and middle management to align them with the new strategy.

Betting on the quality of the region

Graells' vision was to develop a different kind of company. Vallformosa did not own any vineyards, so it had to buy the grapes it needed from around 400 farmers. In 2017, Graells considered two options. The first was to continue with the traditional business model in the sector, which involved processing only 30% of the grapes internally and producing the remaining volume of cava with base wine purchased from cooperatives. The second was to redefine the winery's relationship with key stakeholders, aiming to earn the trust of suppliers while ensuring quality and sustainability across the entire value chain.

Vallformosa chose the second option and began signing long-term contracts with growers, purchasing no more than 60% of their production and paying 5%-10% above the market price for grapes. The goal was to build a relationship of trust with the growers. The integration of farmers was a critical factor in ensuring product quality and moving towards a circular economy approach.

To strengthen the relationship with growers, the winery founded the Vallformosa Club in 2017, offering various benefits to farmers. These included technical, administrative, and legal advice to help professionalize their operations; discounts on leisure activities; and the organization of sports activities, family events at Vallformosa, and cultural trips to other wine regions.

Vallformosa also established the Winegrowers' School, where 200 growers were trained. The school was open to growers who did not supply Vallformosa.

Raising the value of the brand

To enhance the value of the Vallformosa brand, the company focused on improving both the quality and traceability of its products. 100% of the still and sparkling wines sold by the winery

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