

## GRUPO CAVIRO: THE VALUE OF GRAPES<sup>1</sup>

*At Caviro, we have found that protecting the environment, increasing farmers' income, and caring for people and society are all perfectly compatible. You don't have to choose. Thus, sustainability is not only necessary but also profitable.*  
**Carlos Dalmonte, Chairman of Caviro**

*"No part of the grape should be thrown away. Everything adds value."*

That was the motto at Caviro, Italy's largest wine cooperative. Since its inception, Caviro not only produced wine but also managed many of the fruit's by-products, creating value through and through. Caviro had developed a unique circular economy model by which it recovered almost all the waste generated by the supply chain. Simon Pietro Felice, the group's CEO, called it: *"actual circular economy."*

This comprehensive management of organic waste from harvesting and winemaking perfectly complemented wine production. Not only regarding the environment and the circular economy model but also in terms of revenue and profit.

For example, during the pandemic, the revenue from alcohol marketing had more than offset the drop in wine consumption outside the home. In a scenario of high energy prices, self-generation from renewable sources also helped control costs.

However, as Simon Pietro said:

*"Our main goal is to continue growing in the wine market. Being circular and sustainable ensures that we can do this in line with market trends. Also, the by-product and renewable energy side of the business boost our growth – a growth that does not harm the environment or society."*

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<sup>1</sup>This is a case of the Research Division of San Telmo Business School, Spain. It has been written by Professor José Luis García del Pueyo, of San Telmo Business School, in collaboration with research assistant Carmen Gómez González, and is intended as a basis for class discussion only and not to illustrate any judgment on the effective or ineffective management of a specific situation.  
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The cooperative faced the challenge of conveying this commitment to the members, as Simon Pietro explained:

*"Because those who can do business keeping society, the environment, and health in mind will have a better chance of lasting."*

## THE CONTEXT AND THE WINE INDUSTRY

In 2022, the wine sector was still suffering the economic and social consequences of the pandemic. The future remained uncertain: supply chains were not yet adjusted, raw material and energy costs had risen, and there was significant volatility and uncertainty. The conflict between Russia and Ukraine had aggravated this situation. Nevertheless, the overall picture continued to be marked by a strong trend toward the globalization of the wine market.

As the restrictions of the pandemic were gradually lifted, customers returned to restaurants, and travel and tourism recovered for the benefit of the service sector. The manufacturing industry was still hindered by materials and equipment shortages. There was also the unknown of inflation, which was very high in 2022, and whose future evolution was unclear. Moreover, Italy expected a poor harvest, a circumstance that would raise prices. This cost increase would be difficult to pass on to retailers, whose margins were already under high pressure.

World consumption of bottled wine in 2021 was the same as the previous year in terms of volume but had seen a 6.1% growth in value. As for the formats consumers chose, in the Italian mass market (GDO) 0.75-liter bottles continued to grow by 4.7% in volume and 9.7% in value and reached sales of almost 1.5 billion EUR in large-scale distribution. Conversely, there was a decline in 1.5-liter bottles (-12.2% in volume), large formats (-11%), plastic-packaged wines (-11%). Boxed wine consumption also fell, albeit less than other formats (-3.7%). Bag-in-box formats continued to grow.

In terms of sales volume (exceeding 500 million liters of bottled wine in 2021), boxed wine and other everyday formats, including bag-in-box and plastic-packaged (with an average price of 1.52 EUR/liter), were at the base of the pyramid with a market share of 36.9%, closely followed by glass-bottled everyday products (average price of 3.37 EUR/liter) which had a market share of 36.4%. Occasional wines sold in glass bottles (with a much higher average price of 7.12 EUR/liter) had a smaller share of 26.8%. These trends were reversed when analyzed by value instead of volume.

Almost half of the 1.86 billion EUR worth of packaged wines that large-scale retailers sold in 2021 were occasional bottled wines (51.6 %), while the total share of everyday wine categories shifted to 33.2 % for glass bottles and 15.2 % for cartons.

## GRUPO CAVIRO

Founded in 1966, Grupo Caviro was a cooperative of 29 members, including 27 local wine cooperatives and 12,000 producers in 7 Italian Regions (Veneto, Emilia Romagna, Tuscany, Marche, Abruzzo, Puglia, and Sicily) and boasting a total of 35,200 hectares of vines<sup>2</sup>. See Exhibit 1 for member locations in Italy. Grape production in 2021 was 660 thousand tons (approximately 9.4% of Italy's grapes) for total sales of 193 million liters of wine. The cooperative's mission was to *"add value to the winegrowers' grapes, guiding them towards producing varieties of interest while being attentive to quality and reducing environmental impact."*

Over the years, Grupo CAVIRO had grown into a relevant industrial company. However, it remained mindful of its agricultural roots, retained its cooperative core, and prioritized the members' wine production. In the early years, membership was limited to local cooperatives based in Romagna, which focused on Trebbiano and Sangiovese grapes aimed at the high-volume table wine market. Simon Pietro recalled the company's history:

*"Romagna was not originally a wine region. With that starting point, our company sought ways to increase our members' income by being resourceful and using ingenuity. We decided to place our bets on creating additional value from by-products. Thus, our reasons for starting circularity had nothing to do with the environment. We did it because we were a very poor cooperative and made extra money by treating our waste. We took the by-products from all our vineyards and turned them into something we could sell to earn additional income."*

*The first product we marketed was alcohol. Then, we started with tartaric acid and so on; today, we even produce energy. Working with by-products was a necessity for the first 20 years, until 1986; wine sold at a very low value. We had to make hefty investments in the necessary technology to transform the by-products into sellable products."*

*Then, in 1983, something crucial for Caviro happened. That year we were approved to box our wine in Tetra Pak containers. And it was an instant success. I don't know of any other brand in the world that sold so quickly and maintained growth for so long."*

*Tetra Pak's proposition to Caviro was to pack wine in cartons. The packaging company was already working with other companies and packaging fruit juice and milk in cartons but had no experience with wine. We were not allowed to package wine in cartons. So, we went to the Ministry of Agriculture in Rome and asked for permission. They granted permission to do tests, and we got down to work. After many trials, we kept the wine boxed for one year. Then, the Ministry sent someone to try the wine, and it was in perfect condition. In fact, considering*

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<sup>2</sup> Of the 7 Italian regions where Caviro Sca had vineyards, Emilia Romagna had the largest share, with 47% of the total, followed by Abruzzo, Veneto, and Sicily, which together accounted for 46% of the total; the remaining vines were in the regions of Puglia, Tuscany, and Marche.