INTRODUCTION

It was February 2018 and Brazil was celebrating its biggest popular festivity: Carnival. The samba “schools” were waiting for the marks to be announced by the judging committees in Rio de Janeiro and São Paulo, which would define the winners in the respective cities. One of the great emotions of evaluating the parade of the samba schools is that the judges’ marks are given in a decimal scale of 0.1 points, which reduces the chance of a tie, which is the opposite situation to the one presented here in this case.

While the scores were being calculated, at the Fleury Group, one of the biggest players in the private diagnostic medicine market in Brazil, another decision needed to be taken by the executive director and the ten members of the board of directors: Would the company’s strategic focus be to generate profit or to grow?

The decision came at a critical time for the Fleury Group, which since 2014 had been facing one of the main symptoms of the crises that can affect the macroeconomics of a country: an increase in the unemployment rate. According to data from the National Supplementary Health Agency (ANS), around 70% of the private health care plans in Brazil are provided by companies as a benefit for their employees. Consequently, when the unemployment rate increases the number of those benefiting from having a private health care plan tends to decrease.

Since healthcare plan operators are the Fleury Group’s main source of revenue, it was becoming increasingly evident that if the company did not significantly transform the scope of its business and the services it offered its customers, it would be risking future growth and defining its performance in subsequent years as an institution that increasingly focused on a market niche.

The dilemma faced by Fleury’s executive director was that he needed to make a decision because the opinions of the ten members of the board of directors were evenly divided, with half favoring expanding the current businesses and the other half wanting to look for new paths for the company. Given the situation, various questions began to arise. If the strategic focus that year was directed only towards strengthening the current business, what risks would the company run? If the focus were only on identifying future opportunities, what would the risks be? What were the risks in reconciling strategies that would benefit both options at the same time?
THE FLEURY GROUP

When it was created by physician, Gastão Fleury da Silveira in 1926 in the center of São Paulo, Fleury’s laboratory had only four pieces of equipment: a microscope, an oven, a centrifuge and an autoclave. Gastão himself performed all of the blood count processes by hand, one of the few clinical analysis tests carried out on the site at the time.

Looking back now, it is difficult to imagine that by 2018 the Fleury Group would have become one of the biggest players in the private diagnostic medicine market in Brazil, offering around 3,500 types of tests, supported by more than 8,800 employees and 2,200 physicians in various Brazilian states. It is also a public company, with shares traded on the New Market segment of Brazil’s official stock exchange (B3).

The Fleury Group’s business ventures

In 2018 the group had four main lines of business: patient service centers, diagnostic operations in hospitals, a reference laboratory, and dental imaging diagnostics, the first two being the biggest in terms of percentage of revenue, as shown in Table 1.

### Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Fleury brand</th>
<th>Regional brands</th>
<th>Brand a+ São Paulo</th>
<th>Rio de Janeiro brands</th>
<th>B2B</th>
<th>Revenue (R$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>60%</td>
<td>20%</td>
<td>0%</td>
<td>4%</td>
<td>16%</td>
<td>935</td>
</tr>
<tr>
<td>2011</td>
<td>53%</td>
<td>16%</td>
<td>0%</td>
<td>15%</td>
<td>16%</td>
<td>1,226</td>
</tr>
<tr>
<td>2012</td>
<td>43%</td>
<td>8%</td>
<td>7%</td>
<td>25%</td>
<td>17%</td>
<td>1,688</td>
</tr>
<tr>
<td>2013</td>
<td>45%</td>
<td>8%</td>
<td>9%</td>
<td>17%</td>
<td>22%</td>
<td>1,856</td>
</tr>
<tr>
<td>2014</td>
<td>50%</td>
<td>8%</td>
<td>9%</td>
<td>17%</td>
<td>16%</td>
<td>1,879</td>
</tr>
<tr>
<td>2015</td>
<td>50%</td>
<td>8%</td>
<td>8%</td>
<td>17%</td>
<td>16%</td>
<td>2,097</td>
</tr>
<tr>
<td>2016</td>
<td>50%</td>
<td>8%</td>
<td>9%</td>
<td>16%</td>
<td>16%</td>
<td>2,300</td>
</tr>
<tr>
<td>2017</td>
<td>50%</td>
<td>8%</td>
<td>10%</td>
<td>16%</td>
<td>16%</td>
<td>2,587</td>
</tr>
<tr>
<td>2018</td>
<td>46%</td>
<td>10%</td>
<td>12%</td>
<td>17%</td>
<td>16%</td>
<td>2,880</td>
</tr>
</tbody>
</table>

Source: Adapted from the Fleury Group (2020).

Patient service units are responsible for providing private patients and the beneficiaries of private health plans with private diagnostic medicine services. This was the company’s main business in 2018, accounting for more than 80% of its revenue in the previous year. It is no wonder, therefore, that for many years the company has been investing in expanding its operations by acquiring laboratories and local brands.

The Fleury Group began acquiring other companies in the sector in different markets in 2001, its objective being to enter new regions, complement its service mix and increase its knowledge base. These acquisitions led to gains in scale and access to the public in other market segments. This was due to the operational efficiency that resulted from the standardization and optimization of the processes, which allowed Fleury to offer healthcare services that were more accessible to customers in the upper-intermediate segment, and because it was investing in the experience of the premium segment, through process differentiation and innovation.

By 2018 the institution had operations in six Brazilian states and the Federal District, and was operating in the premium and high-intermediate segments of diagnostic medicine with the Fleury Medicina e Saúde, Weinmann, a+ Medicina Diagnóstica, Labs a+, Clinica Felipe Matoso, Diagnoson a+ and Serdil brands. It also had operations in dental diagnostic imaging solutions.

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1 Based on Trivelin and Ortega (2006), and on information and data retrieved from www.grupofleury.com.br
under the *Papaiz* brand, which it had acquired in partnership with *Odontoprev* (49% interest) in the form of a joint venture. The diagnostic operations in hospitals, on the other hand – a business to business (B2B) model – involve clinical analysis, imaging and other specialty diagnostics in partner hospitals.

In 2018 the group provided its services to more than 20 renowned hospital institutions in the states of São Paulo, Rio Grande do Sul, Rio de Janeiro and Paraná, and also in the Federal District, through the brands, *a+ Medicina Diagnóstica, Fleury Medicina e Saúde* and *Weinmann*.

### Financial indicators of the Fleury Group

In terms of the main financial indicators, the company had grown in a sustainable way for almost ten years, as shown in Table 2.

<table>
<thead>
<tr>
<th>Year</th>
<th>Ebitda (R$ million)</th>
<th>Margin (%)</th>
<th>Operational cash flow (R$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>200</td>
<td>17.7%</td>
<td>123</td>
</tr>
<tr>
<td>2012</td>
<td>315</td>
<td>21.0%</td>
<td>167</td>
</tr>
<tr>
<td>2013</td>
<td>278</td>
<td>16.8%</td>
<td>210</td>
</tr>
<tr>
<td>2014</td>
<td>300</td>
<td>17.8%</td>
<td>286</td>
</tr>
<tr>
<td>2015</td>
<td>382</td>
<td>20.2%</td>
<td>369</td>
</tr>
<tr>
<td>2016</td>
<td>483</td>
<td>23.0%</td>
<td>540</td>
</tr>
<tr>
<td>2017</td>
<td>619</td>
<td>26.0%</td>
<td>530</td>
</tr>
<tr>
<td>2018</td>
<td>692</td>
<td>26.0%</td>
<td>701</td>
</tr>
</tbody>
</table>

Source: Adapted from the Fleury Group (2020).

Aware that almost all of the group’s revenue was generated by the patient service centers and the diagnostic operations carried out at other institutions, Fleury’s executive director and board members knew that they needed to think of alternatives that would sustain long-term growth, while preserving margins and cash generation. Before any decision was made, however, the operations of the company’s main competitors and the health services sector in Brazil had to be analyzed.

### FLEURY GROUP’S MAIN COMPETITORS

The private market for diagnostic medicine in Brazil in 2018 comprised some 16,000 laboratories, which generated revenue close to R$ 30 billion. Of this market, 25% was in the hands of the following groups: Diagnósticos da América S. A. (*Dasa*), the Fleury Group, Centro de Imagens Diagnósticos S. A. (*Alliar Médicos à Frente*) and Hermes Pardini. The laboratories (or brands) that go to make up each of the four main groups are shown in Figure 1.
Figure 1
Fleury Group brands and its main competitors

(a) Fleury Group

(b) DASA Group

(c) Alliar Médicos à Frente Group

(d) Hermes Pardini Group

Note: Other brands may have been acquired by the groups since 2018.
Source: Elaborated by the authors based on information from the Alliar Group (2021), Dasa Group (2021), Fleury Group (2021), and Pardini Group (2021).

Dasa Group

The Dasa Group, which is the largest player in diagnostic medicine in Latin America and the fourth largest in the world, offered more than 3,000 types of laboratory and diagnostic imaging tests in 2018 in more than 500 patient service units in Brazil. (see Figure 2B). The biological samples collected from the group’s patient service units were analyzed in 13 central laboratories, called operational technical centers. In addition to its own patient service units, Dasa Group offered support services to around 3,000 other laboratories in Brazil through its Álvaro brand, which is a leader in the market serving Brazil’s Unified Healthcare System (SUS) with the CientíficaLab brand, in the states of Espírito Santo, Minas Gerais, Rio de Janeiro, Santa Catarina, São Paulo and Tocantins.

2 Based on information retrieved from http://dasa.com.br/
Figure 2
Geographical distribution of Fleury Group’s units and those of its main competitors

Notes: The number of patient service units in each group may have changed since the information was retrieved. The numbers indicate the number of patient service units in each state of the federation in which each group has operations: BA = Bahia; CE = Ceará; DF = Distrito Federal; ES = Espírito Santo; GO = Goiás; MA = Maranhão; MT = Mato Grosso; MS = Mato Grosso do Sul; MG = Minas Gerais; PA = Pará; PB = Paraíba; PR = Paraná; PE = Pernambuco; RJ = Rio de Janeiro; RN = Rio Grande do Norte; RS = Rio Grande do Sul; SC = Santa Catarina; SP = São Paulo.


On March 31, 2017, Dasa Group was responsible for 11% of the revenue generated by the private diagnostic medicine sector in Brazil, which in 2018 comprised some 30 brands (see Figure 1B). These were the result of organic expansion complemented by the acquisition of companies in the sector, and were distributed across three levels of service for the private healthcare sector (premium, executive and standard), in line with the specific segmentation of private healthcare plans in Brazil.
Alliar Médicos à Frente Group

The Alliar Médicos à Frente Group, which is considered to be the third largest player in diagnostic medicine in Brazil, was responsible for 3% of the revenue generated by the private diagnostic medicine sector in the country in 2017. Founded in 2011, it was a pioneer in the use of teleradiology in Brazil and formed the first public-private partnership for diagnostic imaging in the country in 2015 with the creation of the Brazilian Diagnostic Network (RDB), in which it was responsible for the imaging services of 11 public hospitals in Bahia. In 2018, the Alliar Médicos a Frente Group had more than 5,000 employees, 900 partner physicians and was present in 10 states (see Figure 2C); this is the result of the more than 20 companies that go to make up the group (see Figure 1C).

Hermes Pardini Group

The Hermes Pardini Group, which is considered to be the fourth largest player in diagnostic medicine in Brazil, was responsible for 3% of the revenue generated by the sector in the country in 2017. Founded in 1959, in 2018 it had 68 of its own patient service units in Minas Gerais, as well as five more in São Paulo, the result of acquiring companies that were a reference in the sector, such as Cemedi, Biocod, Diagnóstika, Digimagem, Progenética, Laboratório Padrão, the Nuclear Medicine Center of Guanabara and Ecoar Medicina Diagnóstica (see Figure 1D and Figure 2D). It also had partnerships with approximately 5,000 laboratories in Brazil.

THE HEALTH SERVICE SECTOR IN BRAZIL

Following enactment of the Federal Constitution of 1988, which established health as a fundamental social right of all citizens, Brazil adopted a universal public health system, in addition to the services provided by the private sector. Since the SUS was set up, however, it has been struggling to meet the significant growth in demand, mainly because of low investment by federal, state and municipal governments. According to data from the World Bank, the private health sector in Brazil has expenditure equivalent to that of the government, but only serves about a quarter of the population.

Unfortunately, with the increase in the unemployment rate from almost 7% in 2014 to more than 12% in 2018, the health service sector has become more challenging, both in its public and private spheres, because the unemployment rate is inversely related to the number of beneficiaries of private healthcare plans; in other words, when unemployment increases, the number of beneficiaries of private health plans decreases. This is not only due to the discontinuation of private health plans as a corporate benefit, which represent almost 70% of all private plans, but also to the source of income being compromised, which brings financial pressures to bear on consumers, leading to default and the cancellations of plans, whether corporate or individual. This situation has led to an increase in the number of citizens who are demanding public health services, which are already responsible for attending almost three quarters of the population.

Two other variables that are driving the health service sector, the aging population index and the proportion of people aged 65 and over, have become a threat to the public sphere but an opportunity for the private sphere because of the need for health care, which increases as citizens age. Table 3 shows the history of the main drivers of the health services sector.

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1 Based on information retrieved from http://alliar.com/
2 Based on information and data retrieved from www.hermespardini.com.br
### Table 3
**Background of the main drivers in the health service sector**

<table>
<thead>
<tr>
<th>Year</th>
<th>Ageing population index(^a)</th>
<th>Proportion of the population that is 65 or older ((^b))</th>
<th>Penetration of private health plans in the population ((^c))</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>18.66</td>
<td>5.61</td>
<td>17.85</td>
</tr>
<tr>
<td>2001</td>
<td>19.23</td>
<td>5.68</td>
<td>17.86</td>
</tr>
<tr>
<td>2002</td>
<td>19.85</td>
<td>5.78</td>
<td>17.68</td>
</tr>
<tr>
<td>2003</td>
<td>20.52</td>
<td>5.88</td>
<td>17.76</td>
</tr>
<tr>
<td>2004</td>
<td>21.23</td>
<td>5.99</td>
<td>18.50</td>
</tr>
<tr>
<td>2006</td>
<td>22.74</td>
<td>6.22</td>
<td>19.88</td>
</tr>
<tr>
<td>2007</td>
<td>23.56</td>
<td>6.34</td>
<td>20.75</td>
</tr>
<tr>
<td>2008</td>
<td>24.45</td>
<td>6.47</td>
<td>21.65</td>
</tr>
<tr>
<td>2009</td>
<td>25.44</td>
<td>6.61</td>
<td>21.99</td>
</tr>
<tr>
<td>2010</td>
<td>26.54</td>
<td>6.78</td>
<td>22.99</td>
</tr>
<tr>
<td>2011</td>
<td>27.77</td>
<td>6.97</td>
<td>23.32</td>
</tr>
<tr>
<td>2012</td>
<td>29.14</td>
<td>7.17</td>
<td>24.01</td>
</tr>
<tr>
<td>2013</td>
<td>30.64</td>
<td>7.40</td>
<td>24.60</td>
</tr>
<tr>
<td>2014</td>
<td>32.28</td>
<td>7.64</td>
<td>24.85</td>
</tr>
<tr>
<td>2015</td>
<td>34.05</td>
<td>7.90</td>
<td>24.05</td>
</tr>
<tr>
<td>2016</td>
<td>36.00</td>
<td>8.17</td>
<td>23.09</td>
</tr>
<tr>
<td>2017</td>
<td>38.08</td>
<td>8.46</td>
<td>22.78</td>
</tr>
</tbody>
</table>

**Notes:**
\(^a\) The aging index is the number of people aged 60 or more for every 100 people under 15 in the resident population in a particular geographic area in the year in question.

\(^b\) The percentage values of the population aged 65 or more are calculated on the total population for the year.

\(^c\) The penetration of private healthcare plans in the population is presented by the number of Brazilians who have private health plans as a proportion (%) of the total population in that year.

Source: Adapted from the Brazilian Institute of Geography and Statistics (2018) and the National Supplementary Health Agency (2018).

Fleury’s executive director and members of the board of directors knew that in macroeconomic terms there was both an opportunity and a threat to the company’s business.
FLEURY GROUP’S STRATEGIC FOCUS FOR 2018

It was time to make a decision. The executive director and board members had already analyzed those businesses that supported the company’s profit generation, the strategy and operations of the group’s main competitors, and the threats and opportunities in the healthcare sector in Brazil.

As a publicly-owned company whose governance is the result of its corporate structure composed of Bradesco Seguros, shareholder doctors and minority shareholders from the free float market, Fleury’s strategic decisions has to be taken by a majority of the board of directors. The executive director encouraged the directors to start a new discussion about two strategic choices: nurturing the expansion plan for the current businesses, or extending the company’s operations to beyond the diagnostic process.

Strategic choice 1: to expand the current businesses

In order to achieve the Fleury Group’s expansion and growth needs, since the 2000s it has been investing in the acquisition of local diagnostic medicine companies – laboratory tests and diagnostic imaging – and in strategic alliances with institutions in the field. This strategy contributed to the organic growth of the group, to an increase in profitability and to an improvement in several operational indicators, such as the frequency of unprecedented diagnostic tests and high levels of customer satisfaction.

To continue nurturing the expansion plan of the current businesses, the first choice was to acquire a new brand with operations in Rio Grande do Norte for around R$ 90.5 million, thus expanding the geographical area of influence of the group and incorporating dozens of professionals who would contribute to the continuous increase in medical intelligence.

Strategic choice 2: to extend the company’s operation beyond the diagnostic process

Throughout the more than 90 years of its history, the Fleury Group has stood out in an innovative way on several fronts in the health sector. For example, in the 1980s and 1990s it was the first laboratory in Brazil to implement a computerized system for customer service, the first to bring together different medical specialties under the same structure – its concept of a diagnostic center - and the first company in the world to make test results available on the Internet, thus enabling doctors and customers to consult the history of the tests performed over the previous seven years.

In the 2000s the group inaugurated a teleradiology center, which made it possible for images to be acquired locally, nationally and internationally, and sent over the Internet for the laboratory to analyze and issue the reports. At the time, the company also invested in mass spectrometry for large-scale tests, and in 2016 started investing in structuring and accelerating its genomics area, the objective being to constitute the pillars needed for providing a service in personalized medicine.

In this context, the Fleury Group also signed an unprecedented partnership with IBM’s Watson Health Unit in Latin America for testing and validating an information tool to assist with medical decision-making in genomics: Watson for Genomics. Cognitive computing helps doctors identify drugs and relevant clinical trials based on the genomic alterations of an individual, with data drawn from medical literature. A summary of these innovations is presented in Figure 3.
Based on the company’s innovation profile, the second strategic choice brought up for discussion was the acquisition of a management services company in the corporate health area for approximately R$15.5 million. This purchase would situate the group in new links, such as primary health care, preventive medicine, and occupational health, thus creating the outline of something that could become a more complete platform in the future.

The decision

On that Ash Wednesday, when Beija-Flor in Rio de Janeiro, and Acadêmicos do Tatuapé in São Paulo were declared the champion samba schools in the 2018 Carnival, Fleury Group’s executive director presided over a strategic discussion involving the company’s ten board directors. Unlike the scores awarded by the Carnival judging committees, there was no final decision in the company, because half of the directors were in favor of expanding the current businesses and the other half favored seeking out new paths.

The decision makers who were present began to analyze the three possible scenarios: focusing only on growth; focusing only on profitability; or focusing on both. There were threats and opportunities in each of the scenarios they analyzed. What decision should the executive director take in this situation?
TEACHING NOTES

Profit or growth: what to focus on? The Fleury case

Abstract
This teaching case reflects the strategic choices of the Fleury Group in the face of the Brazilian economic scenario and the particularities of the private health services sector in Brazil. The teaching case invites the reader to reflect on challenges related to a strategic orientation for profitability, growth, or both. The Fleury Group serves as a rich source of information for academic analysis, especially about business strategy and organizational ambidexterity. Thus, this teaching case can be used in executive programs and graduate programs (specialization or leading to a Ph.D.), in themes related to strategy and innovation.

Keywords: Health services. Strategy. Profit. Growth.

Lucro ou crescimento: em qual focar? O caso do Grupo Fleury

Resumo
Este caso para ensino reflete as escolhas estratégicas do Grupo Fleury frente ao cenário econômico brasileiro e às particularidades do setor privado de serviços de saúde no Brasil, convidando o leitor a refletir sobre os possíveis desafios que emergem sob uma orientação estratégica para a lucratividade, para o crescimento ou ambos. O Grupo Fleury serve como rica fonte de informações para análises acadêmicas, principalmente no que diz respeito à estratégia empresarial e à ambidestria organizacional. Assim, sugere-se que este caso seja usado em programas voltados a executivos e em cursos de pós-graduação lato e stricto sensu, em temas ligados à estratégia e inovação.


Rentabilidad o crecimiento: ¿en qué centrarse? El caso del Grupo Fleury

Resumen
Este caso de enseñanza refleja las decisiones estratégicas del Grupo Fleury frente al escenario económico brasileño y las particularidades del sector privado de servicios de salud en Brasil e invita al lector a reflexionar sobre los desafíos relacionados con la orientación estratégica hacia la rentabilidad, hacia el crecimiento o hacia ambos. El Grupo Fleury sirve como una rica fuente de información para el análisis académico, especialmente en lo que respecta a la estrategia empresarial y la ambidestra organizacional. Así, se sugiere que este caso se utilice en programas ejecutivos y posgrados, tanto lato como stricto sensu, en temas relacionados con la estrategia y la innovación.

Educational aims

This teaching case is designed to meet some of the objectives in disciplines related to strategy and innovation, and to illustrate current and emerging growth horizons. In the former, the company has made every effort to keep its operations that generate revenue functioning: the patient service units. In the latter, the company has identified future opportunities for sustainable growth, such as its quest to become a health platform. These choices allow students to analyze whether the Fleury Group can be considered an ambidextrous company, that is, whether it is capable of reconciling actions to include both incremental and disruptive innovation.

The teaching objectives of this case are: to discuss the strategic position of the company being studied and draw up the basis of its theoretical framework; to prepare an analysis of a competitive strategy based on the data presented; to integrate strategy and innovation; to understand the concept of organizational ambidexterity; and to discuss the opportunities and challenges arising from focusing strategically on incremental innovation, disruptive innovation, or on both.

Recommended use

The teaching case was prepared so it could be used in programs for executives and on *lato sensu* and *stricto sensu* postgraduate courses, in disciplines related to strategy and innovation, and in customized in-company courses that deal with business strategy and, more specifically, that are based on the concept of organizational ambidexterity.

A suggested teaching plan

We suggest using the Harvard Business School method, which has four stages (Applegate, 1988, p. 3):

1. **Individual analysis and preparation** – Students should be told to read the case in advance and individually, so they can ask questions, and/or present their arguments and/or doubts. Students can be asked to read complementary articles, such as Chen (2017); Christensen, Raynor, and McDonald (2015); Lawson and Samsom (2001); O’Reilly and Tushman (2004); Porter (1979, 1996) at the teacher’s discretion, as long as it is recommended at least a week before applying the case.

2. **Small group discussions** – Small work groups can be formed, preferably in odd numbers, so that students can discuss the case and prepare a proposed solution. We suggest that this step should last between 20 and 30 minutes.

3. **Large group discussion** – This is the main discussion in the classroom, when students can present their proposals as active subjects of learning, with the teacher acting as a facilitator. This step is estimated to last 90 minutes.

4. **Finalizing the case** – The teacher should seek to generalize what has been learned and demonstrate the importance of applying theoretical concepts. We recommend that Porter’s concepts of strategy and competitive advantage be revisited, as should the success of Fleury Group’s strategy. The company’s mergers and acquisitions and the challenges organizations face when implementing the ambidextrous model should be discussed in depth. We suggest scheduling 15 minutes for this step.

Data source

This teaching case is based on true and reliable information about the Fleury Group, which was collected mainly from public institutional documents, interviews and articles (Guedes & Di Serio, 2013; Guedes, Di Serio, & Duarte, 2006; Trivelin & Ortega, 2006). For teaching purposes, however, the authors have created a problem situation that can spark the reader’s curiosity with regard to which direction to take for solving the case. As this is a debate in an academic environment, the problem situation does not compromise the exclusive teaching purpose.

It is worth mentioning that one of the co-authors of this study was an executive with the Fleury Group until 2017. All material was reviewed and approved by the company’s institutional relations department and by its investors before being published. Data from governmental and non-governmental institutions linked to the health area were also consulted.
Suggested questions for discussion

The possibilities for reflecting on the case and raising questions are not limited to those questions suggested by the authors. We indicate some, however, that can help when discussing the dilemma:

1. What led the executive director and the board members to explore new alternatives?
2. What are the risks for the company if the executive director and board members choose to focus only on those businesses that already generate revenue (patient service units)?
3. Can the Fleury Group be considered an ambidextrous organization? Analyze the application of this concept and explain it.
4. What difficulties may an ambidextrous organization face?

Analysis of the case

Questions 1 and 2: The motivation for exploring new opportunities and the risks associated with focusing only on current businesses.

The variables that drive the health service sector in Brazil are presented near the conclusion of the case, (see Table 3). One of the most important variables, the penetration of private healthcare plans in the Brazilian population, had been declining for at least four consecutive years, mainly due to the increase in unemployment in the country. As almost all of Fleury’s revenue is generated by businesses that depend on healthcare plan operators as a source of payment, it was becoming increasingly risky to keep focusing only on the core business.

It is also possible to carry out a competitive analysis of the Fleury Group based on Porter’s five forces model: rivalry between competitors (level of competition); the bargaining power of suppliers (level of dependence on them); the bargaining power of customers (level of dependence on them, which increases as the market becomes more competitive); threats/barriers to the entry of new competitors (level of difficulty new competitors experience for entering the market); and the threat of substitute products or services (existence of products or services with equivalent functions) (Porter, 1979, 2008).

Regarding the rivalry between competitors, it is possible to identify that the private diagnostic medicine market is quite fragmented, with many small competitors and only four large groups that stand out: Dasa, Fleury, Hermes Pardini and Alliar. It is also possible to see that a strategy that is common to these groups is acquiring other brands. These factors tend to exert downward pressure on margins and encourage companies to engage in cost-based competition, thus losing their potential for differentiation.

As a result of its size, which has been accumulated over more than 90 years, the Fleury Group has greater negotiating power with its suppliers, even when acquiring state-of-the-art equipment abroad. The structure of its client-base is complex, because the main contractors – and those that actually make most of the payments – are health plan operators, who have bargaining power thanks to their size; there are even complaints about the lack of criteria when it comes to the payments that are made and those that are turned down by the health plan operator. The end customer, however, who actually receives the service, is a trump card in Fleury Group’s favor, because they are made loyal in the high-end segment. There are even cases in which customers will select a particular plan solely because it has a Fleury Group company in its supplier network. The company also has other business customers – hospitals and laboratories – that are the result of the diversification of its services, which is yet another positive factor for the group.

As for the barriers to the entry of new competitors, the Fleury Group has various advantages: the high initial investment costs in the high-end market; a strong brand and reputation that are consolidated in the market; a proactive posture in launching innovations; a cost advantage because of its automated processes; and the acquisition of other companies in the same segment.

Finally, with regard to the threat of substitute products, we can see that there are “ring-fencing” practices, such as investments and partnerships in research and development (R&D); product and service differentiation and quality; and tradition in innovating and diversifying its product portfolio. Figure 4 summarizes the analysis of Porter’s five forces for the Fleury Group.
We notice that Fleury Group’s objective is to offer differentiated services with high added value and that are unique to its customers, but with a focus only on the high-end market – premium, and recently, high-intermediate. This means that based on the generic competitive strategies of Porter (1998) the company’s strategic positioning is focus; in other words, it seeks to operate in a specific market niche, where its costs are low and it can offer special products. This strategy, however, does not guarantee long-term competitive advantage, especially in times of macroeconomic crisis and profound technological changes in society.

Analysis of Porter’s five strengths for the Fleury Group, therefore, and data take from the drivers of the healthcare sector in Brazil (see Table 3) show that innovation in products and current markets does not support the company’s profitability and long-term competitive advantage, despite the group’s strengths – highly loyal customers in the high-end segment, high initial investment costs in the high-end market and the synergistic acquisition of other companies in the same segment. An analysis such as this provides support for assessing the reasons that drove board members to seek new alternatives.

On the other hand, according to Barney (1991), firms can obtain a competitive advantage thanks to the heterogeneity of the resources they generate and the difficulty competitors have of imitating them, which suggests that resources need to be valuable, rare and inimitable. Barney and Hesterly (2007) introduced the VRIO (value, rare, imitable and organization) model, with the aim of helping to identify resources and capabilities, in order to determine the degree of success that is associated with obtaining a sustainable competitive advantage. This model suggests four questions that managers should ask about a firm’s resources or capabilities to establish its competitive potential:

1. Valuable: Does the resource/capability allow opportunities to be explored or threats neutralized?
2. Rare: Is the resource/capability known to competitor firms?
3. Imitable: Do competitors have the ability to obtain or create the same (or similar) resource at a competitive cost?
4. Supported by the organization: Is the firm’s organizational structure ready to explore valuable and rare resources that are hard to imitate?
In answering such questions with “yes” or “no”, the competitive implications and the economic performance of the company can be analyzed (Barney & Hesterly, 2007), as shown in Box 1.

### Box 1
The VRIO Model

<table>
<thead>
<tr>
<th>Valuable</th>
<th>Rare</th>
<th>Imitable</th>
<th>Supported by the organization</th>
<th>Competitive implications</th>
<th>Economic performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Competitive disadvantage</td>
<td>Below normal</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Competitive parity</td>
<td>Normal</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Temporary competitive advantage</td>
<td>Above normal</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable competitive advantage</td>
<td>Above normal</td>
</tr>
</tbody>
</table>

Source: Adapted from Barney and Hesterly (2007).

It is possible, therefore, to apply VRIO to the present case study to identify possible sources of sustainable competitive advantage, as shown in Box 2.

### Box 2
VRIO applied in the Fleury case

<table>
<thead>
<tr>
<th>Resource/ Capability</th>
<th>Valuable</th>
<th>Rare</th>
<th>Imitable</th>
<th>Supported by the organization</th>
<th>Competitive implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results made available on the Internet</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
<td>Parity</td>
</tr>
<tr>
<td>Bar code identification</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Parity</td>
</tr>
<tr>
<td>Integrated medical centers</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Temporary advantage</td>
</tr>
<tr>
<td>Test result with history</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Temporary advantage</td>
</tr>
<tr>
<td>Quality &amp; reliability of the technical area</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable advantage</td>
</tr>
<tr>
<td>Innovation culture</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable advantage</td>
</tr>
<tr>
<td>Special high value-added services</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable advantage</td>
</tr>
<tr>
<td>Decision/ AI support systems</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable advantage</td>
</tr>
<tr>
<td>Able to expand by acquiring companies in the sector</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable advantage</td>
</tr>
<tr>
<td>Fleury Group’s reputation and brands</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable advantage</td>
</tr>
</tbody>
</table>

Source: Elaborated by the authors.

According to the analysis presented in Table 2, it is clear that the Fleury Group has developed several valuable, rare and difficult to imitate resources/capabilities, which are used by the organization in a systematic way. Perhaps the VRIO model is more suitable than Porter’s five forces today, since powerful new forces, such as information technology, globalization and deregulation were not considered by Porter (Isabelle, 2020). However, as Porter’s model is, generally speaking, a classic/mandatory subject in strategy, we recommend that teachers explore the analytical capacity of these models with the students, after carrying out the analyses suggested here.

In short, the following are worth highlighting:

1. Fierce competition in the private diagnostic medicine market in Brazil leads to cost reductions, competition for low costs, and patient demands for better service levels, which can lead to commoditization.
2. Incremental innovation is needed for maintaining the profitability of the current business.
3. In order to grow in a sustainable way it is necessary to invest in new markets and customers – not served and/or dissatisfied – that is, seeking disruptive innovation to achieve differentiation and a price that is higher than that of the competitors, and to be recognized by the market for the excellence of the service provided.
**Question 3: Organizational ambidexterity**

According to O’Reilly and Tushman (2004, 2013), in order for an organization to be considered ambidextrous, its executives must explore new opportunities for innovation while continuing to run their current business, a capability that is increasingly demanded in a market that is constantly suffering from profound and rapid transformations.

The company’s ability to execute its current business model (with a focus on profit) is called *exploitation*, while the ability to innovate or explore new business models (with a focus on growth) is called *exploration*. Focusing on the former requires a strategy, structure, process and culture that differ from those required for exploration. The main differences between exploitation and exploration are presented in Box 3.

<table>
<thead>
<tr>
<th>Box 3 Differences between exploitation and exploration</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alignment</strong></td>
</tr>
<tr>
<td>Strategic intention</td>
</tr>
<tr>
<td>Critical activities</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Competences</td>
</tr>
<tr>
<td>Structure</td>
</tr>
<tr>
<td>Controls and rewards</td>
</tr>
<tr>
<td>Culture</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Role of the leaders</td>
</tr>
</tbody>
</table>

Source: Elaborated by the authors based on O’Reilly and Tushman (2004).

It is no wonder that many companies fail when they try to be ambidextrous. They often focus only on the current business, thus running the risk of becoming obsolete, or focus only on future opportunities, which have less capacity for generating cash in the short term. For this reason, ambidextrous organizations need to have (senior) teams and managers who are able to understand and be sensitive to the needs of a variety of businesses.

A powerful way of thinking about innovation-driven growth is disruptive innovation (Christensen et al., 2015), which – for these authors – is associated with delivering more appropriate product or service features in a given segment, often at lower prices than those charged by established companies, which means that it betters an existing technology that is dominant in the market.

In order to help better understand the concept of disruptive innovation, the following characteristics can be useful: (i) disruptive, the process by which a company with fewer resources is able to challenge established companies; (ii) large companies focus on improving their products and services for the most demanding (more profitable) customers, exceed the needs of some segments, and ignore the needs of others; (iii) disruptive innovation starts with neglected segments, by providing a more suitable functionality, often at a lower price; (iv) those responsible for ensuring higher profitability in more demanding segments tend not to respond vigorously; (v) so disruptive players move on to high quality, offering the incumbent’s key customers performance, and serving the advantages that led to their initial success. When mainstream customers start adopting newcomers’ products, there is disruption.

According to Bower and Christensen (1995), leading companies in their industries fail to stay on top when they are surprised by changes in technology or in the market in which they operate. For the authors, the institutions that manage to establish themselves at the top are those that stay ahead of their competitors in developing and selling new technologies, provided they are capable of meeting the needs of the next generation of customers.

Considering the above in the context of the Fleury Group, the case had several disruptive innovations, such as the launch of its a+ Medicina Diagnóstica brand, which fits the definition of Christensen et al. (2015): disruptive innovation begins with entry into the lowest added value market and enables access to unexplored markets by way of an evolutionary process.
Based on these considerations, the Fleury Group can be characterized as an ambidextrous organization, because its critical activities focus on both incremental innovation (exploitation) and disruptive innovation (exploration) (see Figure 3). Other factors that also characterize it as an ambidextrous company are its operational skills, such as improvements/automation in the production process; its entrepreneurial skills, such as the reference laboratory, to which other laboratories send material from clients to be analyzed by the Fleury Group; and its leadership role in being visionary and engaging, which is exemplified by the public call for innovation projects in the medical field.

Since organizational ambidexterity is a stage that has to be gone through – it is not a momentary decision – and as the organization absorbs and consolidates innovations competitiveness becomes a journey, an exchange of internal and external interactions with customers is strengthened, which leads to organizational maturity. As a consequence, the accumulation of resources (see Table 2) and innovations (see Figure 3), in the medium and long term led to Fleury Group's sustainable competitive advantage, giving the company the possibility of standing out vis-à-vis its competitors, even at a time of economic crisis.

We see, therefore, that for more than 90 years the Fleury Group has developed the ability to work on operational efficiency, and improve existing products – in terms of their cost and quality – while seeking new markets to generate sustainable growth.

**Question 4: The challenges faced by an ambidextrous organization**

The main challenge to the success of an ambidextrous organization is in creating and maintaining an intense flow of information between the main market (mainstream) and the new market (new stream), and a connection with them. According to Kanter (1989), organizations are more effective when the different resources needed in the mainstream and in the new stream are recognized and managed autonomously. By managing the business units in this way, it is possible to balance the tensions of stability and change, as shown in Figure 5, because mainstream activities generate resources for developing markets in the new stream, which, in turn, are assimilated by the mainstream. This cycle is continuously improved, with constant communication between the two segments.

![Integrated innovation model](source: Adapted from Lawson and Samson (2001, p. 383)).
Here we return to the example of the acquisition of SantéCorp, which was presented in the case as the second strategic choice for 2018: to extend the company’s operations in the health sector beyond the diagnostic process. With the health management business, the Fleury Group would acquire/develop the ability to work with population data and, based on these data, identify patterns and act on the information to prevent undesirable health events, waste in the consumption of health services, or changes in lifestyle.

These actions, which are based on the clinical, laboratory and behavioral data obtained, would require the organization to establish a data analysis area that could identify patterns and trends, and act to modify the natural history of morbid health events in the population being helped. By taking advantage of the knowledge acquired in the new stream – the healthcare medicine market – to feed the mainstream – the diagnostic medicine market – and vice versa, the Fleury Group would become a more effective company.

On the other hand, if the different needs of the mainstream and the new stream are administered independently of each other, it is unlikely that success will be achieved, especially in a dynamic and turbulent environment, as is the case with the private diagnostic medicine market in Brazil.

The Fleury Group after 2018

The decision taken by the Fleury Group in 2018 was to reconcile strategies that would simultaneously benefit current operations, with the acquisition of the Natal Radiology Institute on March 1, 2018, and enable it to identify future opportunities, with the acquisition of SantéCorp on December 4, 2018. These acquisitions allowed the group to enter a new market, thereby strengthening its offer of products/services in the Northeast of Brazil. In the years that followed, implementing a strategy of providing healthcare services throughout the patient’s “journey” showed that the acquisition of SantéCorp was just the start of a new line of business.

This new front, which goes far beyond the diagnostic medicine link, has become progressively more technology-based, and involves data science and artificial intelligence for improving the protocols required for individualizing care even on a large scale, constituting a new brand, Saúde iD. This new venture, a pioneer in health, is known as the platform economy and operates in different market dimensions compared to the traditional business; investments are not in physical structures, but in technology, while services are not exclusively provided by the Fleury Group, which relies on partners that may even be competitors, which gives the company a much greater earning capacity as it meets the health needs of a growing market, even in places where the company has no presence.

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Profit or growth: what to focus on? The Fleury case

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