
When to Change a Winning Strategy



By Laurence Capron , INSEAD

By Laurence Capron & Will Mitchell

Companies tend to repeat what has worked for them in the past. In our research on the telecom industry, for example, we found that the great majority of the executives we surveyed preferred internal development to external sourcing when they needed to develop differentiated products and services. We get similar results in other industries, though the preferred growth mode may differ.

The reliance on a single growth mode is misplaced. The other key finding from our research is that firms prepared to grow in diverse ways outperform the ones that narrowly focus on one single mode. Specifically, we found that firms using multiple modes to obtain new resources were 46 percent more likely to survive over a five-year period than those using only alliances, 26 percent more likely than those using only M&A, and 12 percent more likely than those using only internal development. To succeed, therefore, managers have to learn when and how to abandon the strategies they have grown up with.

The latest firm to learn this lesson is the pharmacy chain **Walgreens**. Its story starts like many success stories do: An innovative concept coupled with a first-mover advantage, enabling a rapid physical expansion and generating increasing returns to scale. Walgreens was a pioneer in the “self-service” format that is now ubiquitous in general-purpose pharmacies, and it became the largest self-service retailer in the country through the green-field development of new stores and distribution centers.

But by the end of the 1990s, the company had run out of steam. Its business model was looking out-dated as the Internet and mail order channels became more important. Pharmaceutical benefit managers (PBMs) were also growing in strength and aggressiveness. There was a larger focus on generic drugs and generic drug leaders. And there was new domestic competition from stores like Target and Wal-Mart, as well as growth in emerging markets.

Walgreens initially responded to these challenges an internally-focused strategy. It created its own PBM and started an online pharmacy in addition to opening almost 1,000 new stores in the U.S. so as to increase coverage. The strategy had moderate success at first: Sales and assets grew gradually, while profitability remained stable and even grew slightly. But it was hard work and returns soon started falling off.

So in 2005 Walgreens started to break with its traditions. Over the past seven years, it has made a series of acquisitions and alliances to expand into new US regions and new product lines. In parallel, the company has divested activities that were no longer part of its growth strategy – including selling its PBM business, relying instead on contracts with other PBMs to supply drugs to their members. Walgreens has continued to use internally-driven growth where appropriate, but the change in its growth strategy is helping Walgreens to reposition itself in a dynamic environment.

This change in Walgreens’ approach to growth has finally started to pay some dividends. After ten years of lagging the sector and, more importantly, archrival CVS, the company’s share price has come back to life this year, posting a 20% rise in July.

The Walgreens story shows the dangers of becoming reliant on one growth strategy, even a successful one. When the environment changes, as it inevitably will, it is difficult to learn how to use new modes of obtaining key resources quickly and well. It has taken Walgreens almost a decade to learn how to use acquisitions and alliances to complement its internal

development strength.

The moral of the story is that it is better not to fall into the trap of being reliant on a single growth strategy. Sustained profitable growth requires a balanced portfolio of growth strategies and the management capabilities to implement them. Firms that do not carefully weigh competing paths, but instead dutifully replicate a preferred past method — no matter how diligently they pursue it — will often stumble and fail. They will lose ground to firms that pursue more disciplined and multi-faceted approaches of reviewing, selecting, and balancing the different growth paths.

As for Walgreens, time will tell whether it maintains the discipline. The company's latest move — [taking a 45% share in European health and beauty group Alliance Boots for \\$6.7 billion](#) — has raised some eyebrows in the financial community: it is a surprisingly big bet on Europe in the midst of the euro crisis. But perhaps the bigger long term risk is that the company will fall into the trap of becoming too reliant on big acquisitions of this kind going forward and forgets the virtues of the other pathways to growth.

Laurence Capron is the Paul Desmarais Chaired Professor of Strategy & Director of “M&As and Corporate Strategy” Program at INSEAD. Will Mitchell holds the Anthony S. Fell Chair in New Technologies and Commercialization at the University of Toronto. They are coauthors of the book [Build, Borrow, or Buy](#).

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About the author(s)

Laurence Capron is an INSEAD Professor of Strategy and the Paul Desmarais Chaired Professor of Partnership and Active Ownership. She is also a programme director for the INSEAD Executive Education [M&As and Corporate Strategy](#) programme.