

**UNIVERSITY OF FORT HARE**

**STRATEGIC MANAGEMENT  
BEC 325/325E**

**SUPPLEMENTARY EXAMINATION  
DECEMBER  
2024**

**Time:** DURATION: 3 HOURS  
**Subject:** BEC 325/325E  
**Marks:** 100

**Internal Examiners**

Dr M. Ford  
Mr S. Mfazi

**External Examiners**

Prof. H. Lues

**INSTRUCTIONS**

1. You have an additional 20 minutes' reading time.
2. Answer ANY FIVE QUESTIONS.
3. LABEL your ANSWER BOOKS correctly.
4. Enter the correct question number for each answer.
5. Enter the numbers of the questions answered on the front cover of your answer books.
6. Indicate the number of answer books handed in on the front cover of each book.
7. Write legibly.

Read the following case study and answer the questions that follow.

**Case Study: Discovery Ltd.**

Discovery Limited, established in 1992 by Adrian Gore, has become a hallmark of strategic innovation in the South African and global markets. Initially operating as a health insurance provider, Discovery has since evolved into a multi-faceted corporation that touches industries ranging from health and life insurance to financial services and banking. At its core, Discovery's success is built on an ability to identify and leverage unique opportunities in highly competitive and often complex markets, supported by a strong foundation of resources, capabilities, and organizational culture.

In its early years, Discovery's rise was largely fueled by the South African healthcare landscape's unique conditions, where demand for private medical insurance soared due to concerns over the inefficiencies of public healthcare. By offering a new kind of medical insurance that focused not just on covering illness but also on promoting wellness, Discovery carved a niche. From its inception, Discovery was guided by a vision to disrupt the traditional insurance industry. The company's introduction of Vitality, a program designed to incentivize healthy behavior, marked a significant departure from traditional models, emphasizing prevention over cure. Customers who engaged with the program could earn rewards based on physical activity, dietary habits, and regular health check-ups. It allowed Discovery to significantly differentiate itself from competitors by focusing not only on risk management and insurance coverage but also on improving the health of its members. Vitality encouraged clients to maintain an active and healthy lifestyle by offering rewards for regular exercise, healthy eating, and preventive healthcare.

As Discovery's leadership looked toward long-term growth, it recognized the importance of expanding and diversifying its offerings. In South Africa, Discovery launched Discovery Insure to apply its behavioral model to car insurance. Though not a direct acquisition, this move leveraged Discovery's internal expertise in health insurance and applied it to a different sector.

It has actively pursued strategic partnerships and alliances. In 2010, Discovery acquired Standard Life Healthcare and merged it with PruHealth. This acquisition allowed Discovery to grow its presence in the UK market, becoming one of the largest providers of private health insurance in the region. This deal also allowed Discovery to further integrate the Vitality model into the UK insurance market. Another example is the expansion in the U.S. through a partnership with John Hancock. The integration of Vitality into John Hancock's life insurance policies is a prime example of Discovery's international market development strategy. In the U.S., where health-conscious consumers are increasingly interested in lifestyle-based financial products, the Vitality offering proved to be highly attractive. Discovery has also established a presence in

China through its partnership with Ping An Health Insurance, aiming to integrate Vitality and health incentives into insurance models in this fast-growing market.

These partnerships have provided Discovery with access to new customer bases and distribution channels, allowing it to scale quickly and efficiently. By forming partnerships rather than engaging in expensive mergers or acquisitions, Discovery has been able to expand into new markets with relatively low risk. Similarly, its relationship with Apple has strengthened the integration of its Vitality program with popular wearable devices like the Apple Watch, making it easier for customers to track their health. These partnerships not only open up new revenue streams but also enhance Discovery's learning and innovation capabilities as it adapts to different market environments. Partnerships with hospitals, gyms, and retailers allow Discovery to offer clients discounts and rewards for participating in healthy behaviors. For instance, Vitality members may receive discounts on gym memberships, groceries, or even flights, thereby reinforcing the brand's wellness focus.

Its entry into the financial services industry with Discovery Bank in 2019, represented a calculated move to leverage its existing customer base while addressing a broader range of customer needs. By bundling financial and insurance products, Discovery can cross-sell more effectively and offer enhanced value to customers. Discovery Bank differentiated itself by operating as a digital-first institution, integrating wellness metrics from Vitality into its banking services. The bank's approach of adjusting interest rates based on customers' financial behavior was an innovative application of the behavioral data already collected through its insurance programs. Discovery's expansion beyond healthcare and into banking signaled its ambition to influence a larger portion of its customers' lives, but it also brought new challenges. As it ventured into financial services, Discovery faced stiff competition from both traditional banks and digital-first startups. Legacy banks like Standard Bank and FNB continued to dominate the market, while newer players like TymeBank and Capitec aggressively targeted the emerging middle-class segment with low-cost offerings. Discovery Bank's primary focus on higher-income customers, paired with the complexity of integrating health and financial data, required significant marketing and technical investments to build and sustain its customer base.

Moreover, Discovery's global ambitions created new layers of complexity. As it expanded its insurance operations into markets like the UK and the US, the company had to adapt its innovative business model to countries with different regulatory environments and healthcare systems. The launch of VitalityHealth in the UK was met with initial success, but the company had to navigate the intricacies of the National Health Service (NHS), which functions differently from the privatized healthcare system in South Africa. Despite these challenges, Discovery continued to grow its international footprint by forming partnerships, including alliances with AIA Group in Asia and John Hancock in the US.

Externally, Discovery had to contend with significant changes in its operating environment. In South Africa, the government's planned National Health Insurance (NHI) program threatened to disrupt the private health insurance industry. Discovery's leadership responded by advocating for a model that integrated public and private systems, emphasizing that the company's wellness-focused approach could complement the NHI rather than compete with it. Economic challenges, particularly high unemployment and slow GDP growth, also put pressure on discretionary spending, making it harder for customers to afford private healthcare and high-end banking services.

A major innovation is its Discovery Health App, which integrates across its various services, allowing customers to track their activities, earn rewards, and manage their health. Discovery's approach to innovation is not just about technology but about creating a holistic ecosystem of services that support customer well-being, which is deeply embedded in its business-level strategy. Differentiation is further enhanced through its technology integration, with apps and devices like Fitbit and Apple Watch that track health and fitness metrics. These tools allow Discovery to personalize products and incentives, ensuring that customers are continuously engaged with the brand. This innovative approach helps Discovery stand out in an otherwise saturated insurance market.

These technological advancements have, however, further complicated Discovery's operating landscape as regulations surrounding data privacy and consumer protection tightened. Discovery had to navigate the legal ramifications of using this data to influence insurance premiums and banking interest rates. Discovery also had to stay ahead of rapid advancements in AI and fintech to maintain its competitive advantage, particularly as cryptocurrencies and blockchain technology began to threaten traditional banking models.

Discovery's focus on sustainability and social responsibility also played a key role in shaping its strategic direction. The company increasingly looked at its products through the lens of long-term environmental and social impact. In response to rising concerns about climate change and global sustainability efforts, Discovery began developing new insurance products that incentivized environmentally-friendly behavior. Customers who made energy-efficient upgrades to their homes or drove electric vehicles were offered premium discounts, aligning their behavior with global sustainability trends.

Internally, Discovery's organizational culture is often cited as a major contributor to its success. The company fosters a collaborative environment where innovation is encouraged at all levels, and employees are given the freedom to experiment with new ideas. The company cultivates a highly skilled workforce, driven by a culture that encourages creativity and bold thinking. Employees are incentivized to propose new ideas, with leadership empowering teams across various levels to experiment with

product enhancements and new service lines. These employees also have access to continuous training, ensuring that Discovery remains at the cutting edge of health, financial, and technological advancements. Decision-making is often decentralized, allowing for quicker responses to market changes. Employees are encouraged to embrace challenges, view failures as learning opportunities, and stay abreast of industry changes. However, with this decentralized approach comes the challenge of maintaining consistency across its various business units and geographies. The company's leadership has had to strike a delicate balance between empowering teams to act autonomously and ensuring alignment with the broader corporate strategy.

Among Discovery's key assets are its robust technological infrastructure and data analytics capabilities, enabling the collection, processing, and application of vast amounts of health and behavioral data from its members. For example, Discovery Bank is fully integrated with the Vitality platform, allowing for seamless customer experiences across financial and health services. Discovery also employs machine learning and AI to personalize customer interactions and predict health and financial outcomes, enabling targeted interventions that enhance customer loyalty. Discovery was the first insurance company to lead the integration of wearable technology (such as fitness trackers) with the Vitality program. Its investment in cloud-based infrastructure, cybersecurity, and data analytics enables efficient service delivery and innovation. Discovery uses this data not only to refine its insurance products but also to personalize customer experiences, fine-tuning wellness programs and offering incentives that align with individual lifestyles. This also poses a threat, however, since its reliance on cutting-edge technology to differentiate its offerings leaves the company vulnerable to cybersecurity threats and potential data breaches. In addition, its expansion into financial services, a highly competitive and regulated industry, exposes the company to greater scrutiny from regulators. Discovery has thus invested heavily in risk management systems to mitigate potential threats and ensure compliance with various legal frameworks in its operating regions.

Discovery is financially robust, with consistent revenue streams from its core businesses (Health, Life, Insure) and newer ventures like Discovery Bank. Their high-quality office spaces, both in South Africa and internationally serve as a hub for its operations, supporting local and global expansions. The company has strong relationships with investors and partners that provide the necessary financial backing for expansion and innovation. Discovery's focus on customer engagement through behavioral incentives (as seen in Vitality's rewards structure) is notable. The company excels in fostering long-term relationships by actively engaging with customers through digital platforms, personalized communication, and data-driven insights. This capability allows Discovery to offer tailored products that meet the evolving needs of its customers, contributing to high retention rates. Over the years, Discovery has built a reputation for innovation and ethical business practices. The company is trusted by

customers, governments, and international partners, which is crucial in highly regulated industries like insurance and banking.

The company's ability to adapt to market changes, technological advances, and customer needs has been crucial to its success. The company quickly responded to the challenges posed by the COVID-19 pandemic by enhancing its digital health solutions and integrating virtual healthcare into its offering. This agility is a key differentiator in the competitive financial services sector.

Discovery is a leader in product innovation, especially within the insurance and financial services sectors. Their most notable product development is the Vitality program, which incentivizes healthy behavior by offering rewards and discounts to clients who engage in wellness activities, such as exercise, healthy eating, and regular checkups. This unique offering integrates across Discovery's health, life, and even banking products. For example, Discovery Bank offers dynamic interest rates based on a customer's behavior, further linking their financial well-being to their physical well-being. In addition to Vitality, Discovery has introduced innovations like Discovery Insure, which rewards safe driving through telematics. This concept has transformed traditional vehicle insurance into an interactive product where customers are rewarded for maintaining safe driving habits, monitored through an app.

In South Africa, Discovery manages to continuously expand its customer base within the health and life insurance markets. The Vitality program helps drive deeper engagement with existing customers, encouraging them to purchase additional services (e.g., banking, investments). Discovery's competitive pricing and rewards system make it appealing to a broad range of customers, further increasing its market share. Discovery has found a balance between offering premium services and maintaining cost efficiency. By leveraging technology and analytics, it manages to provide high-value, personalized insurance products while keeping operational costs down. The rewards-based system of Vitality, which encourages healthier behavior, reduces

Discovery prides itself on its commitment to responsible leadership and sustainability. Adrian Gore, the company's founder and CEO, is deeply involved in shaping the company's values, which include promoting a healthier society and reducing the long-term costs of healthcare by focusing on preventive measures. Discovery's leadership promotes a culture of accountability and integrity, ensuring that all business practices align with ethical standards and regulatory requirements.

### **Risks and challenges into the future**

The company must always remain aligned with its strategic objectives while mitigating internal and external risks that could derail its growth trajectory. Discovery uses data analytics and market research to ensure they remain valid. If market conditions or

consumer behavior shift, Discovery's leadership can reassess and adjust the company's strategic direction. The company tracks their progress through key performance indicators (KPIs) that measure both financial outcomes and member health improvements. For example, the success of Discovery Bank is measured not just by financial metrics but by the number of customers actively engaging with wellness-driven banking features. Discovery operates in highly regulated markets where external factors such as government policies (e.g., the proposed National Health Insurance in South Africa), technology developments, and global economic shifts can impact the business. Discovery's leadership team closely tracks technological innovations such as artificial intelligence (AI), which can further automate and personalize its services, while also keeping an eye on economic conditions that could influence customer spending in financial services.

As Discovery expands into new sectors and markets, it faces strategic risks related to competition, technological disruption, and changes in customer preferences. The entry of Discovery Bank into the highly competitive South African banking sector, dominated by established players like Capitec and First National Bank, represents a strategic risk. Discovery mitigates this risk by leveraging its existing customer base, cross-selling opportunities, and integrating its wellness programs into banking services to differentiate itself in the market.

Discovery follows best practices in corporate governance, ensuring that its board of directors provides effective oversight and strategic direction. The company's governance framework is guided by the principles of transparency, fairness, responsibility, and accountability. Discovery's board is composed of both executive and non-executive directors, ensuring a balance between company management and independent oversight. The inclusion of independent non-executive directors is critical for maintaining objective decision-making, particularly in matters of executive remuneration, risk management, and strategic oversight.

The accountability of Discovery's executive leadership, led by Adrian Gore, is rooted in a culture of ethical leadership and long-term value creation. The company's remuneration committee ensures that executive pay is linked to both financial performance and non-financial metrics, such as customer satisfaction and social impact. This alignment encourages responsible leadership and discourages short-termism.

The board's audit and risk committees provide critical oversight of Discovery's risk management framework. These committees ensure that risk management processes are integrated into strategic decision-making and that potential risks are identified and mitigated proactively. The audit committee also ensures that Discovery's financial statements provide an accurate reflection of the company's financial health.

Looking to the future, Discovery faces a critical juncture. The company's leadership must continue to innovate while navigating an increasingly complex and competitive landscape. Whether in banking or insurance, its ability to balance risk with reward, maintain its customer-centric approach, and adapt to changing market conditions will determine its long-term success.

*Source: Case study adapted from various sources online, including Discovery website, ChatGPT and module textbook (Venter & Botha).*

**ANSWER ANY FIVE QUESTIONS:**

**QUESTION 1 [20 MARKS]**

Using the Porters Five Forces framework, conduct an analysis on the industry that Discovery operates within. In your opinion, how well is Discovery navigating the market and the challenges they face? What recommendations can you make for improvements?

**QUESTION 2 [20 MARKS]**

Apply the PESTELG framework to conduct an analysis of the environment within which Discovery operates. Use examples and information from the case study.

**QUESTION 3 [20 MARKS]**

Discuss the different corporate and business strategies that Discovery has applied over the years, using evidence from the case study.

**QUESTION 4 [20 MARKS]**

Conduct an in-depth SWOT analysis of Discovery's current situation using evidence from the case study. In your answer, you should discuss how they can overcome any potential threats in the environment by leveraging their strengths.

**QUESTION 5 [20 MARKS]**

Analyse Discovery's internal resources and capabilities with examples from the case study. Discuss how these are linked to the company's competitive advantage.

**QUESTION 6 [20 MARKS]**

Using the theory on responsible leadership, discuss the important aspects of Discovery's leadership that link to the theory. Use evidence from the case study to highlight your understanding of these concepts.

[10]

Discuss Discovery's organisational culture, and analyse how this links to their competitive advantage using evidence from the case study. [10]

**QUESTION 7 [20 MARKS]**

Discuss the company's approach to governance, control and risk. Include in your discussion an explanation of the different types of strategic control that Discovery has employed. Provide examples from the case study to highlight your understanding.

**End of Paper**

