Since the term ‘dumb pipe’ became popular a decade ago, telecom companies have had to contend with massive disruption in their industry, and the transfer of enormous value to the internet and technology sectors. Early internet-based offerings like Skype were followed by enthusiastic uptake of WhatsApp and other Internet 2.0 products, taking traffic and revenue away from telecom companies’ traditional phone calls and text message services.

For VEON – one of the world’s largest mobile telecom companies – the threat posed by new digital competitors to its traditional business model was clear. Even clearer was the choice facing it. The company could either continue to lose business to these new entrants or respond by adopting their techniques and attitudes to re-engage its consumers.

In 2016, VEON launched its digital strategy to transform itself into a global digital communications business, driven by data. Data collection relies on user trust and consent and VEON knew the user interface was going to be critical to success. It also had to compete with the offerings of the tech giants that had invested massively in building frictionless user interfaces. VEON’s first task was therefore to design, build and launch a mobile app, with a unique user interface to front a data-driven customer engagement platform. The app was not only a self-care app for mobile services (ie an app for airtime top-up and account management) – a well-worn path for telecom companies – but gave a central place to messaging, curated third-party content and a marketplace of

**VEON at a glance**

With annual 2017 revenue of USD9.5 billion and a customer base of more than 240 million people, VEON is one of the largest telecommunications companies in the world. Founded more than 25 years ago, and headquartered in Amsterdam, it is a Nasdaq and Euronext Amsterdam-listed company that offers voice, broadband, data and internet services to customers in 12 markets including Russia, Italy and Pakistan.
The digital champion should have the full trust of the team. Ideally, what’s needed is someone who can be part coach, part facilitator and champion, helping to flush out the good ideas.”

Tom Levine

Brand channels and offers. The ambition was to become a platform that connected upstream digital content and service providers with downstream retail customers. To make the platform even more attractive, VEON’s networks ensured customers would not use up their mobile data allowances when accessing it. And to emphasise the shift in focus, the VimpelCom Group was given the name of the product – VEON – and a radical new brand identity.

The drivers of this transformation are not unique to VEON. Disruptive competitors, the importance of data and learning to re-engage with customers are issues faced by all industries as they undergo their own digital transformation. Challenges similar to those dealt with by VEON will be relevant to the legal and business teams of VEON’s peers and other international corporates responding to digital disruption.

Establishing the operating model

Establishing the most effective deployment model for its new customer engagement platform presented VEON with its first significant challenge. After wide consultation among the digital business to understand the short and long-term objectives for each team, two detailed operating models were defined, and a recommendation was put forward for the digital leadership to consider.

The first option was to deploy the platform as a telco product. VEON Digital – a newly created business unit – would build and provide the platform as a B2B service to VEON’s licensed national mobile phone companies (OpCos). Each OpCo would then publish the app in its market and manage the relationships with the end-users and with content and service providers.

The alternative was to follow the “OTT model”, the same way over-the-top content and services providers offer the product directly to end-users anywhere in the world, from a central platform accessed over the Internet. In this model, VEON Digital would publish the app and manage all end-user relationships directly. In addition, commercial partners, including those that intended to provide content and services through the app, would deal directly with VEON Digital.

VEON opted for the more agile and efficiently scalable OTT model. Crucially, the creation of a single global platform enabled the company to collect customer data in a single location. The OTT model also facilitated VEON’s ‘compliance by design’ strategy. The principal aim of this was to set up data flows from the outset to successfully navigate the different regulatory environments applying to telecom and Internet services. First, data flows had to allow VEON’s OpCos to comply with local regulations and licence obligations governing the use of their customer data. Moreover, the OTT model allowed VEON Digital to compete on a level playing field with its digital rivals which generally enjoyed a more flexible data privacy regime.

Key takeaways – lessons in digital transformation

Compliance by design: An early understanding of data regulation and data flows allows the product team to discover new opportunities to combine and analyse data. That means richer, more competitive products that win the trust of customers and business partners.

One colleague’s transformation is another’s disruption: Recognise that digital transformation will meet internal opposition and tackle it from the outset. Invest time in explaining the strategy and seeking advice; back this up with employee targets and incentives aligned across the entire organisation.

Pragmatic contracts: Adopting balanced and reasonable terms and taking a pragmatic approach to partnering, allows you to focus business and legal resources where they have most strategic impact.

Allen & Overy partner Tom Levine says that developing a robust ‘compliance by design’ strategy can help businesses navigate through national regulatory frameworks to boost the success of a digital transformation programme.

“Whether you are a pharmaceutical business, a financial services firm or a telecom company, the chances are that pure-play digital competitors disrupting your industry have never had to work with a local set-up, and have always been global.”
“Getting that new corporate structure right to compete on a multi-jurisdictional basis, and designing that structure so that the minimum amount of data is subject to local regulation, is critical,” says Levine.

Maximising the data opportunity

The crux of the practical challenge was that data gathered by the global digital platform and data held by the existing telco businesses were subject to different types of regulations and required different consent relationships with customers.

VEON had to develop a technical solution that clearly distinguished data managed centrally by VEON Digital from the data managed locally by each of the OpCos in its telecom business. If permitted by local data rules or customer consents, these two data categories could be carefully combined or jointly analysed.

The intersection in this Venn diagram, however, is not static. It changes when different data retention periods and purpose limitations are applied. The rules are different in each country, resulting in variable requirements for the solution and operating model.

Understanding the regulatory and operational consequences of VEON’s operating model became one of the most complex risk management issues that the VEON Digital legal team had to address.

The key to getting this right lay in careful mapping of planned data flows at the outset, and then designing these data flows around the rules and good practice. VEON Digital was able to manage complex and often conflicting data regimes because the priority was to articulate very carefully how data flowed within the technical design and platform architecture.

“Don’t underestimate how difficult that is to achieve in practice. Even software developers and system architects struggle to articulate data flows and data location in a platform built in the cloud, with multiple software-as-a-service components,” says Kirwan. “It is also a two-way conversation. Sometimes you have to convince your engineers to achieve the same outcome but through different means. You have to demonstrate compliance in your architecture as well as in your articulation of the data flows and controls. Once you have done that, all the product questions about compliance with specific data handling rules become much easier to answer.”

The result was a bifurcated data management model that provided regulatory and operational clarity. Data from the new global platform would be held and controlled by VEON Digital. Its users would be invited to give consent via the app and could withdraw this at any time by updating their privacy settings. The data of subscribers of the telecom business, on the other hand, would remain with the OpCos. These customers would be asked to give consent to different data uses as part of mobile service terms and conditions. That clarity achieved “compliance by design”, allowing VEON Digital to build new services, while reducing friction for users and helping with things like disaster recovery planning and communication with regulators.

Levine says: “Whatever your model of dealing with partners, there is huge value in getting a proper understanding of your data flows early on. That understanding allows you to find new opportunities to improve functionality, security and compliance. This makes a better product and facilitates collaboration with potential business partners for data monetisation relationships.”
A NEW DIGITAL BUSINESS CAN TRANSFORM – OR DISRUPT – YOUR EXISTING BUSINESS
A pragmatic approach to partnerships is often essential to succeed in a digital environment.”

Tom Levine

Partnerships over procurement

The creation of VEON Digital also led to a transformative shift in the way the new business thought about commercial contracts and managed its business partnerships. The traditional approach used by the procurement teams of large organisations, where lengthy negotiations and the use of purchasing leverage to impose terms are often the norm, was simply not practical in the digital world. Speed, flexibility and agility could often be more valuable than imposing terms on business partners.

In order to empower VEON Digital’s business development team to sign agreements with local and international partners, the legal team developed a pared-down, standard form agreements with balanced terms and conditions translated into local languages. These supported the entry-level business product and were presented as ‘click-through’ terms during an online registration process. The business team was encouraged to avoid negotiation and hold to the standard terms, except for strategic partners. After early resistance and pushing for exceptions, the benefits of this discipline quickly became clear. Not only could VEON Digital contract at scale and speed with a diverse community of business partners, but the business team could focus effort where it had greatest strategic impact.

The reasoning behind this decision was straightforward and commercially compelling. “In the digital world, you need to act at scale and quickly, with speed as the prize. Resources are limited and you have to focus them where they have most impact. Accepting much more balanced terms, making sure each protecting clause really deserves its place in your standard agreement – choosing either the belt or the braces – is sometimes uncomfortable for big companies used to wielding power,” explains Kirwan.

Levine adds: “A pragmatic approach to partnerships is often essential to succeed in a digital environment. Being agile does not mean closing deals by accepting any terms presented or doing business with partners on the back of a few emails, but if you’re going to be agile, you’re going to have to come up with a set of terms that are smart, simple and uniform.”

Transformation or disruption

A new digital business can transform – or disrupt – your existing business. For VEON, this meant a tension between its mature, successful and regulated national businesses on the one hand, and an inexperienced, less-regulated, international business tasked with doing things differently. Usually, this tension is seen among independent companies: the garage start-up has little to lose and is trying to ‘move fast and break things’ while the big corporate has assets, a reputation and people on the ground, all at risk if regulators or other stakeholders are displeased. A digital transformation project needs to manage this tension. The relationship of communication providers to law enforcement authorities illustrates this challenge. Telcos have specific, well defined, obligations to cooperate with national agencies that can be subject to privacy and security safeguards. The obligations for OTT service providers are different and rapidly evolving. VEON Digital operated at the intersection of these two regimes, and its legal team had to manage conflicting national and international laws and expectations.

Careful attention had to be paid to clearly communicating the responsibilities of both the OpCos and VEON Digital to all...
Managing incentives and goals to create a common set of priorities between the traditional parts of the organisation and the new digital functions is essential.”

Tom Levine

Getting intellectual property right

As with any tech startup, VEON had to protect its new intellectual property, in the form of copyright in software and the rights in its new brand. Care had to be taken to ensure IP rights were held correctly within the organisation. IP issues are commonly understood, but the specific challenges in a digital transformation arise from trying to achieve IP protection against the backdrop of a multijurisdictional, fast-paced environment, and fluid collaboration with a number of different creative talents.

VEON Digital moved early to establish a central IP ownership vehicle and appropriate IP assignments and licences in all contracts. Kirwan says: “The challenge comes in keeping abreast of all the IP issues when everything is happening at full-speed, in all directions. Getting the framework right at the outset is critical because rectifying mistakes and transferring IP rights later on is a costly drag on business momentum.”

Dealing with human factors

The differences between established and new businesses can also be reflected in employee motivation. Failing to align the goals and behaviours of the people working in the traditional business units with those of the newly created operation can undermine a digital transformation programme. VEON’s senior management recognised the importance of this issue from the outset and took steps to ensure that the teams in the local OpCos understood the strategy behind the new digital platform and supported it at all levels. VEON Digital and the legal team responded with wide use of workshops, bringing together central and local teams to explain product and
deployment strategy and to seek local advice on implementation issues. They quickly learnt that these time-consuming, physical meetings proved good investments—execution speed increased, and friction decreased as a result. VEON also underpinned collaboration and partnership between its new global digital business and the national OpCos by aligning their respective sales targets and incentives. Traditionally, each OpCo was targeted and incentivised based on its national business. VEON Digital, by contrast, is an international business working in partnership with OpCos to bring the product to consumers in their country. If the board had not addressed this issue at an early stage, the priorities of the national OpCos could have clashed with those of the digital business. “For example, for an OpCo, investing in the promotion of an international company’s new product might not be the most obvious thing to do when its target was to increase sales of domestic connectivity,” says Kirwan. Levine agrees that addressing goals and incentives in a digitalisation programme should be a top priority for the senior management of a traditional business building an innovative digital unit. “Managing incentives and goals to create a common set of priorities between the traditional parts of the organisation and the new digital functions is essential. But there is no one-size-fits-all approach to this issue,” says Levine. “You need to have incentives that are different and aligned to the objectives of the digital function. These may well be different to the incentives for everybody else but they still need to be compatible with the overall goals of the parent organisation.”

Meeting the digital challenge

The digital disruption shaking up large parts of the global economy shows no sign of slowing. The question facing many businesses across the world is how best to address this fundamental change. VEON’s carefully managed transformation into a global digital communications company illustrates the strategic vision, detailed planning and scale of organisational effort needed to pull off such a major change programme. VEON’s experience offers valuable insights for any organisation looking to tackle the digital challenge successfully.

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