



*Partnerships Built on Agile Solutions*

## Partnership with Star: The Flexible ODC

### Why an ODC?

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At Star Software, we know that, in addition to cost containment, one of the key business incentives for outsourcing IT projects is to achieve flexibility in staffing. It often happens that peak workloads require more people than the client wants to keep in their permanent team.

While balance can be achieved by outsourcing individual projects as they arise, this ad hoc approach is often not enough. Companies with recurring development needs require continuity and constancy. They require an Offshore Development Center (ODC).

However, decisions to setup an ODC are often hindered by the perception that the ODC model requires major, long-term financial and management commitments by the outsourcing company. Companies widely assume that they must be prepared to commit significant capital to an ODC, its infrastructure and its staff, over the very long term to fully realize its advantages. We at Star are changing that perception.

*We have modified the common ODC model to combine complete flexibility with traditional ODC strengths. We call our ODC approach **FlexODC (The Flexible Offshore Development Center)**.*

### FlexODC

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Like the traditional ODC, **FlexODC** provides:

**Stable Staff.** A permanent ODC team accumulates business knowledge and technical expertise related to the client's technology over an extended time frame.

**Custom Operational Set Up.** Hardware, development tools, office facilities, communication links, additional contract clauses, and other operational features are tailored to the client's needs.

**Discounted Rate.** Since the client commits to 100% utilization of the core team, we offer very competitive rates for the ODC's permanent staff.

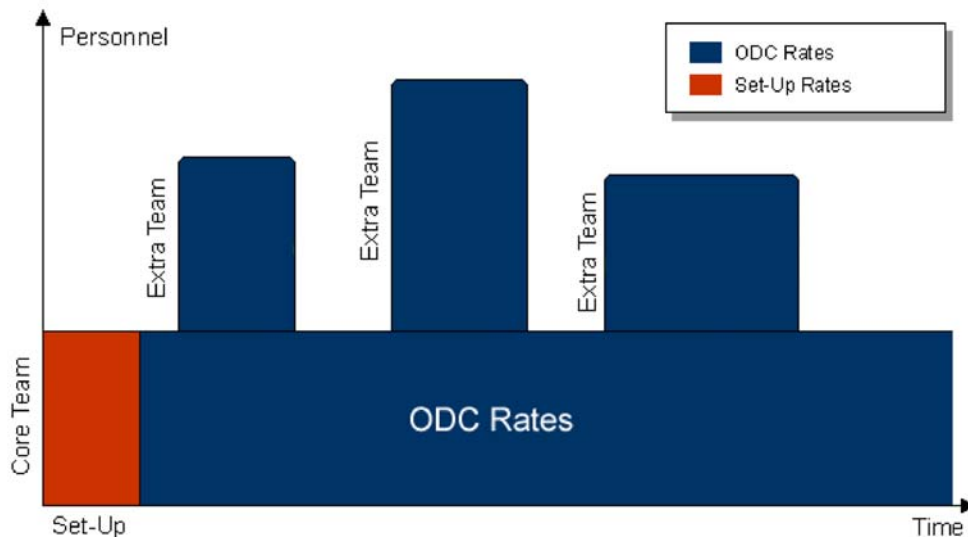
But, enhancing the traditional ODC, **The Flexible ODC** also provides:

**Extra Personnel Option.** At peak times, we are able to staff the client's ODC with extra personnel. Fifty percent of the effort is billed at the same rate as the core team, while the remaining 50% will be billed at our standard commercial rates.

**Flat FlexODC Rate.** Following discussion of typical project team mix, we establish a flat rate for each specialist ODC member. This rate will be valid for an extended period of time, typically for one year or until drastic changes in client's business require its renegotiation. This pricing model differs from Time & Materials and greatly facilitates budgeting and risk management. We effectively take on a share of the client's risk associated with changing staff requirements. Our research indicates that our flat rate policy is unique in the industry.

**Technology Risk Sharing.** If an emerging new technology requires considerable re-staffing of the existing team, we apply the same principle of cost sharing with the client. We will hire extra personnel with required skills, allocate them in the ODC, arrange for smooth transition of business knowledge from old team members, and charge only 50% for the new team members during the transition period.

The following diagram depicts a typical FlexODC life cycle:



We have deployed the traditional ODC model successfully for several clients over many years. For many of them, their dedicated ODC within Star has become an integral part of their operation providing a low-cost virtual extension of their IT organization. Based on this experience, we created **The Flexible ODC**, a unique business model applicable to companies of all sizes.

## FlexODC Underlying Principles

The foundation of the Star business concept is its focus on service and its dedication to the customer's satisfaction. Our mission is: generating value for our customer by developing high quality tailored software on time and within budget.

We believe in a win-win strategy based on long-term and enduring corporate relationships with our customers. Absent such quality relationships, successful offshore IT outsourcing is next to impossible. Indeed, misunderstanding or mistrust may prevent even the simplest software project from being successful. Close personal ties and shared responsibility between the client and the service supplier form the basis for overcoming almost any challenge.

The FlexODC concept is all about long-term partnership built on mutual trust, with a customer and Star teaming up and promoting healthy human relations throughout the team.

**Mutual trust.** This means open, honest communication, transfer of responsibility from the customer to the provider and joint control over the project's economics, including costs, time, quality and scope. We view all the people involved in the project as members of one international virtual team united by the same goals, constraints and expectations.

**Teamwork.** We strive to understand our customer's business and welcome changing requirements, even late in development, if it contributes to the customer's added value. We expect frequent and accurate feedback from the client. Simplicity – the art of maximizing the amount of work not done – is also essential. We follow this principle with respect to design, development, and communication.

**Healthy Human Relations.** We strongly believe in importance of good personal relations between team members on both sides. We build projects around motivated individuals, give them the environment and support they need, and trust them to get the job done. We are tolerant towards human error, and, if a problem arises, we strive to solve the problem, not to point fingers.

**Special Attention to Staff Hiring, Training and Retention.** We ensure stability and continuity of ODC staff and provide appropriate training and coaching of new staff.

**Process Improvement.** We invite regular feedback from our clients regarding the ODC's overall performance and we conduct 360 degree-reviews concerning teamwork efficiency. At regular intervals, the team reflects on how to become more effective, then tunes and adjusts its processes accordingly.

**Joint Problem Prevention and Earlier Resolution.** We organize regular meetings of key personnel from the client and Star and strive to flush out and fix problems in performance and relations early.

**Focus on Communication.** We believe that communication between Star ODC management and the client's dedicated personnel is critical to the success of software development in the ODC. Apart from standard communication means (through e-mail, telephone, fax, teleconferencing, personal visits etc.)

we welcome an extended presence of the client's representatives in our offices to play the role of the "customer on-site" for our development team.

## The FlexODC Value Proposition

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**Significant Cost-Savings.** FlexODC rates are up to 20% lower than our standard prices. That allows our customers to *save up to two thirds* of their IT costs (comparison is based on data from the recent salary survey conducted by "Software Development" magazine). No heavy capital investment is required to establish an Offshore Development Center. Our ODC annual rate is only \$35,000 all-inclusive per specialist working offshore.

**Transparent Pricing.** FlexODC offers friendly pricing practice with no hidden costs, as HRM and other supporting functions are transferred to Star Software. The customer is able to precisely control the economics of offshore projects. At the client's request (provided the operation exceeds 20 people on the core team) we may set up separate accounting for the ODC and work on a cost-plus model.

**Lower Business Risks.** FlexODC is a "long term and enduring" concept. The customer considerably reduces business risks associated with selection of a new vendor, contract and requirements negotiations.

**Accelerated Project Start-up.** The customer saves time on new project initiation and communication of requirements, since customer-specific knowledge is retained within the team.

**Secure Stable Core Team.** Once a team of engineers is selected for the ODC, all key personnel shifts are to be confirmed by the customer. This practice enhances security for the customer and assures that the customer-specific business and technology know-how will stay within the ODC.

**Dedicated Infrastructure.** If deemed necessary, Star will implement a dedicated ODC infrastructure conforming to special customer requirements (e.g. we will use configuration tools as advised by the client or establish dedicated secured VPN communication channels between the ODC and client offices).

**Tailored Working Process.** To ensure smooth collaboration with the client, we are prepared to establish client-specific working process or tailor our own CMM-compliant procedures to the client's requirements. Star Software received a CMM Maturity Level 3 rating by a Motorola GSG assessment team in 2003.

## FlexODC: Other Important Issues

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### Pilot Projects and the ODC

We understand that before a client decides to establish an ODC with us, we need to work together for some time on ad hoc projects. We accept pilot projects as well as Fixed Price projects regardless of their size and duration. It is perfectly ok to place a short, labor-intensive project with us. We will try hard to prove ourselves worthy of becoming the client's long-term partner. If the customer comes again with another project, we always attempt to allocate the same key personnel to offer continuity as provided in the FlexODC model.

### Quick ODC Set-up

Our advanced HRM process allows us to establish an ODC consisting of up to 50 developers at short notice. Usually we need from 4 to 8 weeks depending on the required skills.

### Solid infrastructure

At Star Software we are continually investing in our infrastructure. We now have three ultra-modern offices in the center of St.-Petersburg with a total space of 3000 square meters. These offices provide workplaces for 200 full-time employees (more than 300 computers, including workstations, servers, testing PCs, etc). Each workplace features a modern PC (Pentium II or higher), a SUN workstation or Mac with up-to-date software installed, a telephone, and shared access to a high-speed printer.

All the computers in each office are networked with 100Mbit capacity. The networks are secured with firewalls; server rooms are equipped with security and climate-control systems. The offices LANs, interconnected with 6Mbit channels, are united into a WAN. Two of the offices have 3Mbit fiber channel Internet connections with a potential capacity of 100Mbit and one has 1Mbit connection. Virus protection for MS Exchange folders and file servers is ensured by McAfee software. Secured communications with the client can be organized via VPN-enabled equipment (Cisco) or highly secured direct communications through ISDN line (128Kbit), which can also be used for backing-up Internet connectivity.

All the offices are equipped with modern multi-channel digital PBXs. The facilities include meeting and teaching rooms with TVs, video, and slide projectors. All the offices are equipped with a key pass security system.

### Comprehensive security policy

In addition to technical aspects of security, we pay special attention to human-related security issues. Our policy in this area embraces a set of measures to protect critical data from intentional or unintentional breach of confidentiality. Employees' contracts have a special section on confidentiality. People are allowed to work in the office only. The version control system discourages keeping a whole project on a local machine. Computers used for integration are under special control and supervision. At a client's request we arrange for non-disclosure agreements to be signed directly between the client and our personnel involved in the client's project.

### Substitution of key personnel

We prefer to uncover any quality problems together with the client as early as possible. Therefore, we encourage the client to report any people-related problems immediately when they arise.

With this policy in place we are able to identify problems caused by someone's failure in skills or expected performance before the project suffers. In this rare case, we will simply replace the disqualified person at our cost.

### Additional contract clauses

**Non-compete.** We appreciate the customer's desire to prevent Star from entering into agreements with the customer's competitors.

**Individual NDA.** In addition to general Non Disclosure Agreements between Star and the customer, individual NDAs can be signed between the customer and each Russian member of the ODC team.

## Further Development of the ODC Model

To conclude this presentation of Star's FlexODC concept we should mention that there is a potential for its further development. If the customer plans to maximize their exposure in Russia and decides to spin off their own offshore company based on our ODC, we will respect such intention and will help the client to implement it. We are open to discuss a joint venture with the client or a buyout of the ODC. If the client so decides, we can also offer professional assistance in setting up their affiliated legal entity offshore.

## About Star Software

Star Software is a leading Russian software-outsourcing provider specializing in the implementation and maintenance of information systems. On November 15, 2002, CIO Magazine named Star Software among the Top Three Offshore Software Developers in Russia. See [www.cio.com/offshoremap/russia.html](http://www.cio.com/offshoremap/russia.html)

Star offers particular expertise in database-intensive applications, migration of legacy systems to web-based environments, application maintenance and software localization. For corporate Knowledge Management solutions, Star Software offers proprietary data mining tools based on NLP (Natural Language Processing) techniques.

Former and current clients of Star Software include CSC/Denmark, IBM/Tivoli, Millennium Pharmaceuticals, Contex Scanning Technologies, STAC, Tupperware, Foss Electrics, LISA (Localization Industry Standards Association) and UNU (United Nations University). Among the end-customers for the developed software are Berghof Muhlhausen, Hugo Boss, Adidas, Schreyer, Danish Ministry of Labor, Danish Ministry of Tax and Customs, and many others.

## Star Software: Contact information



**Address:** P.O.Box 70, St. Petersburg 197101, Russia  
**Phone:** +7-812-327 9900  
**Fax:** +7-812-327 9865  
**E-mail:** [info@Star-sw.com](mailto:info@Star-sw.com)  
**Web:** <http://www.Star-sw.com>