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## Lifebushido: The Challenge of the Microsourcing Labor Markets

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“We are growing, but in this new area, I think that we can double our business during each of the next few years,” asserted Steve Kantor, President of Lifebushido, as he paused eating his breakfast croissant. Kantor was meeting a potential investor at his favorite Washington DC French pastry café. It was early in 2011 and cold outside. The windows were steaming.

He continued: “Every businessman wants to grow his business rapidly, but for most, this is just a fantasy. I found a niche that is now about to go into hypergrowth. I have done the research. So, the dilemma I have now is how to scale my business model so that I can double the growth every year.”

This case is about a small American firm in a new part of the sourcing industry. The case takes place in 2011.

The case was developed by Prof. Erran Carmel as a foundation for class discussions and learning. It is based on actual companies and events, though some minor details have been disguised or stylized.



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This version was created on April, 2011 (v 3-3).

A Teaching Note is available (for free) directly from Prof. Erran Carmel of the Kogod School of Business at American University, Washington D.C. USA.

## Corporate Background

Lifebushido was founded by Steve Kantor in 2006. The name is derived from the Japanese term “bushido,” meaning the *way of the warrior*. Kantor is a serial entrepreneur. In 2004, after selling his successful CRM software product company, Kantor took a year-long sabbatical and reflected on untapped areas of business for his next move. He came to the conclusion that there was an enormous reservoir of untapped resources in America with part-time workers, students, and stay-at-home moms, all of whom were eager to participate in work that was challenging and that could be done easily from home.

Kantor further realized that this was a broad model, and he needed a beachhead in one industry. He chose real estate agents. “Real estate agents is our beta test,” he explained. Kantor’s microsourcing business currently specializes in providing part-time virtual assistants for top real estate agents. The real estate brand is called Best Agent Business. In essence, like the other Microsourcing sites described later, his Microsourcing platform filters and aggregates a dispersed workforce of individuals. “We are an aggregator of talent.” Kantor said. On top of this, Lifebushido layers software, training, process, management consulting, and peer review.

## What is Microsourcing?

Microsourcing takes place when *buyers source small projects or fractional tasks from a dispersed and fragmented global workforce of small providers*. Microsourcing is still a small slice of the global sourcing landscape, yet hundreds of thousands of firms and individuals around the world buy and sell microsourced services every year. Hence, it is the “long tail” of sourcing. It is clear that microsourcing drives down costs and delivers rather quickly. It drives down costs because of the huge global supply of providers. It delivers quickly to customers because this contingent workforce is virtually 24/7.

Microsourcing is also commonly called *crowdsourcing*. Crowdsourcing became a popular buzzword via a 2006 Wired article with the rise of Web 2.0 concepts such as wikis (e.g, Wikipedia) and others.

## The Work of A Real Estate Agent

When Kantor set up the business, he carefully analyzed the market to see who would need to microsource work. He identified real estate agents. The potential market is substantial. In the USA, 2010, there were more than one million agents (based on membership in the National Association of Realtors) down from a pre-crash peak of roughly 1.3 million in 2007.

A real estate agent acts as a middleman / consultant in a retail market transaction between the seller and the buyer. For example, an agent representing a seller would help the seller prepare the house for market, help set the price, show the house, negotiate with the buyers and see the deal through to the formal deal “closing.” By regulation, the parties to the transaction must pay a commission to the agents of both the buyer and seller.



Agents devote much effort to marketing themselves to potential clients. Marketing activities include website creation and update, mailing lists, and even video production.

Most agents do all their administrative tasks by themselves. But an elite group of agents do a high volume of business and have many transactions per month. This elite agent group is Lifebushido's market, since these agents are overwhelmed and are eager to source lower-level tasks. In the course of doing his analysis, Kantor decided to write a book called *Billion Dollar Agent – Lessons Learned*. The title refers to the top agents who each sell one billion dollars during their careers. Writing *Billion Dollar Agent* helped Kantor to understand the business models of the very top 100 agents (of the one million in the USA), and, as a result, enabled him to create a platform that delivers those services to the 100,000 real estate agents who make over \$100,000 per year.

## Current Business Model

Within a few years from launch, Lifebushido became one of the largest service providers of *virtual assistants* to real estate agents. By the end of 2010, the firm had 60 regular clients. These were not clients that were simply “tasting” virtual assistance but rather clients who fall into the category of recurring revenue. Most were on the regular plan of \$995 per month. The billable hourly rate was \$20 an hour. Kantor emphasized: “I want recurring revenue, not one-off projects.”

Lifebushido was growing nicely. It grew 40% in 2009, during the unfavorable American real estate recession year, and 70% in 2010, when the industry began to slowly recover.

## Labor/ Supply-Side

The company has been able to be highly selective in its hiring practices. Since its founding, it spent nothing on recruiting advertisements, but over 5,000 people have inquired for a job, over 1,800 completed a very detailed application process, 300 were hired, and 100 are currently on payroll. The payroll at the end of 2010 was 100 “assistants.” Kantor noted that cumulative paid wages, since the company founding, was about one million dollars.

In 2009, the company began a process of collaboratively using current workers' rankings of potential candidates to select new workers. Each worker rates the candidates. All rankings are funneled into spreadsheets, and the best candidates are selected.

In early 2011, more than half of the workers were in the United States. In Lifebushido terminology, they were “USA staff.” The remaining workers (less than 50%) were outside

the United States. In company jargon, these were called “Global.” Most of the global workers were in India and Philippines (in all, five countries were represented).

For 2011, Lifebushido is targeting for 50% of the workers to be global. “The inhibitor to growth of Microsourcing is not supply, but demand,” Kantor pointed out.

US-based wages are not disclosed by the company, but the company source explained that they are within the same band as its US home-based competitors. Global workers are paid lower wages relative to American workers, as is customary in this industry.

Workers work on a fairly flexible basis. Tasks are broken into small units. The most common billing unit is for a task of only two hours. Most workers work 10 to 15 hours per week. The retention of staff has been high. The core staff leadership consists of 15 assistants, most of who have been with the company for several years. Most of this core leadership has been with the company for several years.

## Organizing the Work Process

“We build up teams around ‘guilds,’ and we have built up good support systems primarily around wiki-based, community-based site.” The workers are global, so they are working most hours of the day.

Kantor explains that many of Lifebushido’s workers are doing tasks that they really enjoy doing, tasks that they have intrinsic motivation to do. Consequently, workers focus on work that they like and do very well and are not dealing with the work that they find less appealing.

He pays close attention to new business ideas. “Our goal is for people to discover and focus on their unique talents,” said Kantor. He added that the company’s vision is similar to that in Daniel Pink’s recent book, *Drive*. Kantor ruminated, “I was also inspired by the recent book of noble prize-winning Muhammad Yunus, *Creating a World Without Poverty: Social Business and the Future of Capitalism*. I think that some of the lessons of microcredit/micro-finance can be applied to my business and to microsourcing to create a better world.”

## The Microsourcing Competitive Landscape

The microsourcing sites that launched in late 1990s and early 2000s were vWorker (formerly Rent A Coder), eLance, and guru. Later came TopCoder. And more recently came the aggregators, a.k.a. the crowdsourcers: LiveOps, Cloudcrowd, uTest, Clickworker, and others.

Liveops operates on-demand call centers using a dispersed labor force. In 2010, it was said to have 20,000 independent at-home agents ready and available. Liveops software automatically route calls to the best-performing agents available. Liveops promises to “...have the agents you need when you need them—without paying for them when you don’t.” One of the company’s vertical specialties is licensed insurance agents.

CloudCrowd provides “on-demand business processes outsourcing...by breaking large, high-volume projects into small tasks which it distributes online” to its dispersed labor force. In 2010, it was said to have 18,000 workers ready and available. Some of the company's vertical specialties include: “data cleansing and verification, proofreading and editing,

content generation, translation, internet research, and categorization and filtering.” The company calls its offering Labor-as-a-Service, a play on the buzzword of SaaS (Software as a Service).

CloudCrowd has developed and refined a methodology of peer review and parallel work for maintaining quality. Each task is checked for accuracy through a series of escalating peer reviews. Each worker earns an individual Credibility Rating. This determines the levels of task at which each worker is assigned. The company's software can manage the parallel work, verification, and rating,

In response to the investor’s inquiries about competition, Kantor reassured his audience that he regularly examines his competitive landscape. “Our business model is to target small business entrepreneurs with revenue of \$100,000 to \$10 million and have them gradually outsource 10% to even 100% of their labor costs to Lifebushido.” Regarding competition, he stated, “Our competition is less with the Elance and Guru marketplaces of the world, because they are focused on projects, their transaction costs for the client is immense. Our competition is *the entrepreneurs’ time*.”

## The Next Stage For Lifebushido?

“Look,” said Kantor, “I have lots of options right now. Now that I’ve refined the process, I can try to go to even smaller recurring revenue streams. Lifebushido can be profitable with an account that's just \$495 a month. We will continue to expand our Best Agent Business brand within real estate agent market more rapidly and we are now ready to expand into our true target market of small business entrepreneurs.” He continued, “I can go after my competition. Or, and this has greater potential, or, I can begin to capture other verticals.”

Kantor emphasized his lean advantage: “My gross margins have target of 50% with net profit of 20-30% before taxes. The net profit target is similar to margins of firms like Infosys, Tata, and Wipro. By operating as a virtual company, Lifebushido achieves a 5-10% cost structure improvement over regular physical office business models.”

Near the end of the conversation, Kantor added, in another play on the buzzword of SaaS (Software As A Service), “Just like Salesforce had clarity of focus on *No Software*—providing Software as a Service (Saas), our goal for our small business entrepreneur clients is to consider *No Employees* and leverage Lifebushido as Business as a Service (BaaS).”

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