The Role of Seed Money and Threshold Size in Optimizing Fundraising Campaigns: Past Behavior Matters!

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Fundraising appeals often announce that some funds have already been raised in order to reach the threshold. This article reports results from a field experiment examining the role of seed money in combination with threshold size in fundraising appeals across different targets. Based on a 2x3x3 between-subjects design we investigate charitable behavior of 25,617 households. Findings reveal a novel restriction of using seed contributions as well as the necessity of a communication differentiation by considering past behavior. We show that seed money works excellent when the threshold is high but with a low threshold it could have a baleful influence.

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EXTENDED ABSTRACT

Fundraising appeals often announce seed money by showing the audience that some funds have already been raised in order to reach the threshold. The technique is based on the theory of charitable fundraising proposed by Andreoni (1998). His theory predicts that publicly announced seed contributions will increase charitable donations. Seeking to contribute to the existing debate on the use of seed money, we investigated the role of seed money in combination with the threshold size and the type of the audience.

Academics attach more and more importance to the investigation of charitable behavior outside the laboratory because of the benefit of measuring real donation behavior instead of intentions. Recently, two studies on the use of seed money in direct-mail campaigns were examined in the field. First, List and Lucking-Reily (2002) tested three different levels of seed money based on a cold list of prospects. They found that 67% seed is the optimal level considering a threshold of $3,000. On the other hand, Rondeau and List (2008) found a 50% seed level as optimal with a threshold of $5,000 soliciting from a relatively warm list of contributors. The role of the threshold size in combination with the seed percentage, however, is never examined. Therefore, based on a field experiment, we test both optimal seed levels in combination with different threshold sizes for a cold list as well as a warm list of contributors.

Moreover, various authors identified moderating effects of past behavior on the effectiveness of different types of direct-mail campaigns (e.g., Rust and Verhoef 2005). Therefore, we do not only distinguish between prospects and past contributors but we also want to separate the more loyal donors from the less loyal ones based on transactional data. Knowing that past behavior could play a crucial role in the effectiveness of direct-mail campaigns, we would like to investigate the use of seed money in combination with the threshold size across real donor segments.

Taking the previous into account, we set up a 2x3x3 between-subjects design in a real charity context. Our design manipulates the level of the threshold (low versus high) and the percentage of seed money (no seed, 50% and 67%). Based on previous research, we expect differences between donors depending on their past behavior. Therefore, based on the charity database, we include three groups in the experiment. The first segment consists of prospects (i.e., the cold list), whereas the second group incorporates current donors with a lower loyalty score, and the last considers existing donors with a higher loyalty score. We calculated this score based on historical giving behavior. Starting from the original campaign, we created several smaller campaigns, each representing one of the six versions. The final campaign was sent to 25,617 households.

For each donor segment, we examined the persuasiveness of the different appeals on participation rate, gift size and overall revenue. In general we only found effects on the response of the campaigns and no effects on the size of individual contributions. Consequently the overall revenue was driven by the participation rate. We found that the use of seed money, regardless of the size of the threshold, is a good strategy in direct-mail appeals targeted at prospects and donors with a lower loyalty score. These results are in agreement with those reported by List and Lucking-Reily (2002) and Rondeau and List (2008). Moreover, we can conclude that the proposed optimal level in both studies, respectively 50% and 67%, are equally successful.

By contrast, when analyzing the most behaviorally loyal contributors, we neither found a main effect of seed money nor a main effect of the size of the threshold. Interestingly, we revealed a predominating interaction effect between the use of seed money and the size of the threshold. More specifically, when announcing a relatively low threshold, it is pernicious to announce seed contributions. On the other hand, seed money remains a good technique when the threshold is rather high. This finding appears to be somewhat in contrast with previous authors who consistently found that seed money is generally a valuable strategy. However, we want to remark that previous studies reached response rates much lower (i.e., below 5%) than we obtained in our loyal segment (i.e., around 15%) which suggests that this type of loyal segment is never studied before. Our finding suggests that the still required residual money should be set high enough to encourage the best donors. At the same time, we showed the need for incorporating past behavior as input for a differentiated communication approach across donor segments.

Our study has important implications on the academic literature of seed money in charity appeals. Especially when focusing on loyal contributors of the charity, we recommend considering the size of the threshold when investigating the role of seed contributions. Moreover, research on the effectiveness of fundraising campaigns should take into account past behavior of the target audience. The findings also have many practical implications. We demonstrate different effects according to the donor segment indicating a need for differentiation in the communication strategy as well as the importance of using the database. In general, announcing seed money is always a valuable strategy except when raising funds for a relatively low threshold. In this latter situation, it is more efficient not to announce seed money in appeals towards the best donors because of its detrimental effect.

Exploring other distinctions between donor segments (e.g., previous donation size and frequency) on the warm list would undoubtedly be a fruitful area for further research as would be to incorporate reactivation campaigns. Finally, it would be worthwhile to further explore additional levels of seed money and threshold sizes. In conclusion, this research is the first to demonstrate the effect of both seed money and size of the threshold on charitable contributions across donor segments. It reveals an important restriction of the announcement of seed contributions. Finally, it clearly shows the necessity of a differentiation in direct-mail appeals by considering past behavior of the contributors.

REFERENCES