Chapter 17
Does the Internet Increase Fundraising Revenues of Nonprofit Organizations?
An Economic Analysis

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ABSTRACT

Nonprofit organizations have been using the Internet for disseminating information about themselves, interacting with potential donors, and fundraising. In this chapter, we focus on online service providers for nonprofits (OSPNs) that bring donors and nonprofits together in an electronic environment to help them find a suitable match. We investigate the effects of OSPNs on the outcomes of fundraising markets by developing an economic model. We compare the total net revenues of nonprofits competing for donations in two different settings: while nonprofits in the first market use both the traditional fundraising techniques and the services provided by OSPNs, those in the second market implement the traditional method only. We derive analytical conditions under which the first setting provides better outcomes than the second one can generate.

INTRODUCTION

Nonprofit organizations constitute one of the largest economic sectors in the United States. It is larger than banking and electronics sectors with accumulated assets of almost $1 trillion (Jansen & Katz, 2002). Total donations to an estimated 1.3 million nonprofits in the United States rose to $240.72 billion in 2003 (Silverman, 2004), and they are projected to reach $25 trillion over the next 50 years (Lowell et al., 2001). Most nonprofits are small-sized institutions with annual budgets of less than $100,000. Nearly 700,000 of them are public charities and the remaining are private schools, foundations, hospitals, and religious organizations. The nonprofit sector is generally characterized by mission-driven services. Each nonprofit differentiates itself through its mission statement, which identifies the nature of people's needs that the nonprofit attempts to serve, such as education, hunger, homelessness, or unemployment. Moreover, the mission statement embodies

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certain beliefs about the management culture of the organization (Hackney & Pillay, 2002).

Traditionally, nonprofits have been using various forms of fundraising techniques, including on-site visits, direct-mail appeals, or phone calls to reach donors. However, many donors and nonprofits using these traditional methods are not able to make informed decisions since they cannot easily access comprehensive and accurate data about one another due to information asymmetry inherent in traditional fundraising environments (Tempel, 2003). Moreover, the cost of information exchange between the parties is high (Meehan, 2001). By offering a source of complete and transparent information, the Internet is evolving into a ubiquitous digital platform for allocating and optimizing resources throughout the nonprofit sector. The Internet enables nonprofits to reach and serve more people without barriers of distance and national borders, decreasing traditional advantages of location in a global market. Moreover, it enables donors to access more comprehensive financial and performance data on nonprofits, leading to better evaluations by prospective donors. In this chapter, we focus on online service providers for nonprofits (OSPN), which bring donors and nonprofits together in an electronic environment to help them find a suitable match. An OSPN maintains an online database of nonprofits and prospective donors. Nonprofits upload into this database all of their relevant information such as mission, location, expenses, assets, and liabilities. Donors, on the other hand, may specify the reason for their donation and indicate the maximum amount of donation they wish to make on the OSPN website. Donors and nonprofits can search this database and find a suitable match according to their needs and specifications. The OSPN may also facilitate the transactions between the parties by offering digital payment systems.

Given all the promises of OSPNs discussed so far, our goal in this chapter is to investigate possible effects of OSPNs on fundraising markets by developing a nonprofit duopoly model based on spatial competition. Using this model, we compare the total net revenues of nonprofits in two different market settings: nonprofits in the first market use both the traditional method and the services provided by OSPNs, while those in the second market employ only the traditional method. We then find analytical conditions where the first market setting generates better outcomes. Our analytical setup utilizes all of the following well-known economic models: (i) duopolistic spatial competition model based on Hotelling's (1929) classical linear city model, (ii) informative advertising model developed by Grossman & Shapiro (1984), and (iii) implicit price of a public good adopted from Okten & Weisbrod (2000).

A BRIEF SURVEY OF ONLINE SERVICE PROVIDERS FOR NONPROFITS

Many different forms of OSPNs exist (Ozcelik, 2008). For instance, GuideStar (www.guidestar.org) maintains an online database with financial and program information of more than a million nonprofits. Global Giving (www.globalgiving.com) provides an online platform that allows nonprofits to post their social projects on the website for funding. The posted projects are categorized according to their theme or region so that potential donors can browse and make an instant donation using their credit cards. Donors Choose (www.donorschoose.org) is another online medium where teachers can post a school project that needs funding.

In order to help nonprofits comply with government regulations and assist donors to make informed decisions, several online evaluation, accreditation, and seal programs for nonprofits were also launched recently. These programs evaluate and rate nonprofits by using different standards as explained below, leaving it up to donors to choose their own criteria when deciding on a donation. For instance, the online