On Using the Lottery in Crowdfunding Platforms: Implications for Fundraising and Backer Behavior

by

Mr Zuyin (Alvin) Zheng
Fox Business School
Temple University

Date : 29 January 2019 (Tuesday)
Time : 10:30 am - 12:00 noon
Venue : ISOM Conference Room 4047, LSK Business Building

Abstract: Crowdfunding aims to collect small investments from a large number of backers to support a project by fundraisers. Since crowdfunding projects typically attract a small number of backers, this study examines the role of the lottery—a new backing mechanism used to attract backers in crowdfunding platforms, besides the existing reward and donation backing mechanisms. We hypothesize how the lottery (1) affects project-level crowdfunding outcomes, and how these effects vary over time; and (2) shapes individual-level backer behavior. We empirically test our set of hypotheses using data collected from a reward-based crowdfunding platform in China. First, the results from project-level analysis show that, although the lottery does help to attract a higher number of backers for a project, it also reduces the total money raised by the project and thus the probability of reaching the funding goal. Specifically, while the lottery incentivizes people who would otherwise not fund the project to become lottery backers, it also cannibalizes prospective rewarders and donors by encouraging them to opt for the (cheaper) lottery. Notably, both the incentivizing and cannibalizing effects of the lottery are stronger in the earlier stages of a project’s fundraising cycle. Second, our individual backer-level analysis shows that the lottery has larger effects on (a) backers with higher prior tendencies to be donors than rewarders, (b) backers with higher prior backing frequency, and (c) backers with lower prior average backing amount. Our study contributes to three streams of literature, crowdfunding, lottery, and philanthropy. It also informs practitioners on how to leverage the lottery as an alternative probabilistic backing mechanism in crowdfunding platforms.

Bio: Zuyin (Alvin) Zheng (郑祖荫 in Chinese) is a job candidate majoring in Management Information Systems, Fox Business School, Temple University. Alvin’s research focuses on how to retain customers, facilitate engagement and promote value-creating interactions in online environments, such as online labor markets, crowdfunding, and mobile apps from the perspective of platform design. He uses quantitative methods including econometrics, field experiments, and natural experiments to answer real-life business questions by closely cooperating with industry practitioners. His current research falls into two main streams: two-sided platforms and app economy. Your participation is warmly welcomed!