Reducing Transaction Costs in Charitable Giving in Germany

Researchers:

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Sector(s): Finance

Location: Munich

Sample: 30,000 recent opera attendees

Target group: Adults

Outcome of interest: Charitable giving

Intervention type: Information Nudges and reminders

AEA RCT registration number: AEARCTR-0001359

Partner organization(s): Bavarian State Opera House, Economic and Social Research Council (ESRC)

There is minimal evidence on how important transaction costs, such as the inconvenience of responding to a mailing, are in deterring people from charitable giving. Researchers partnered with the Bavarian State Opera House in Germany to evaluate the impact of a variety of communications strategies on the frequency of donations. They found that including a pre-filled bank transfer form in the letter substantially increased the response rate, perhaps because this lowered the effort required to make a donation. Providing non-responsive donors with a reminder to donate also proved relatively effective, but featuring slogans prominently on envelopes had no effect.

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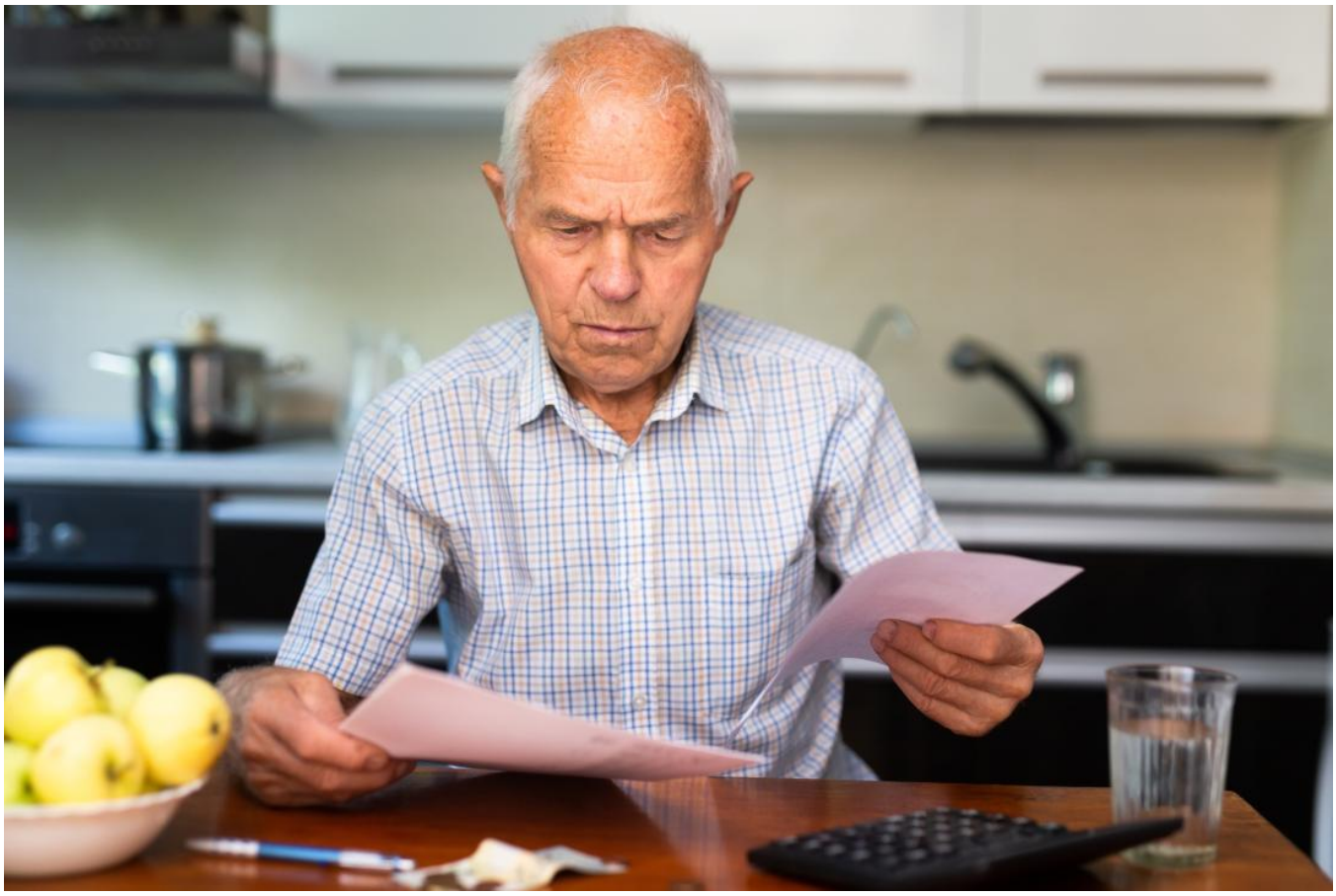
In 2002, more than US$241 billion were given to charities in the United States, and 75 percent of charitable giving came in the form of private donations.[1] In large-scale fundraising campaigns based on direct mailings, less than 5 percent of individuals typically donate to the charitable cause. Organizations often depend on the support of outside donors to finance their mission, but fundraisers are divided as to the most efficient means of attracting donations. The disagreement arises in part because there is minimal evidence on how important transaction costs, such as the inconvenience of responding to a mailing, are in deterring people from charitable giving.

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The Bavarian State Opera House was founded in Munich, Germany in the 17th Century.[2] In recent years, the Bavarian State Opera house has invested in the musical education of children to ensure that appreciation for the operatic art form does not disappear in future generations.

The Opera's most recent project is entitled "Stück für Stück" and strives to provide a musical education for school children from socially disadvantaged areas. Although the Bavarian State Opera has never previously used mailouts as a form of fundraising and the practice is not common in Germany, the program "Stück für Stück" will be partially funded by the individual donations received in response to a mail solicitation. The average recipient of the Opera's solicitation had purchased 6.3 tickets at an

average total cost of over 400 in the year prior to the mailout.



An elderly man checking his mail.

Photo credit: Shutterstock.com

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Researchers conducted two separate experiments to investigate the effect of individual transaction costs on charitable giving.

In the first experiment, 5,000 letters designed to elicit donations to support "Stück für Stück" were sent to individuals randomly selected from the opera's database of customers who had purchased at least one ticket to attend either the opera or ballet, in the twelve months prior to the mailing. Six weeks after the initial mailing, two-thirds of all non-donors were randomly selected to be sent a follow-up letter reminding them about their opportunity to donate.

In the second experiment, 25,000 letters were sent to a separate random selection of former opera patrons. Each recipient was also randomly assigned to receive one of four different versions of the solicitation letter: 1) A comparison letter with a straightforward request; 2) A letter including the phrase "Bring Opera to the Children" in clear print on the front of the envelope; 3) A letter in a plain envelope that includes a pre-filled bank transfer form addressed to the opera house; and 4) A letter including the phrase "Bring Opera to the Children" on the envelope and a pre-filled bank transfer form.

The inclusion of "Bring Opera to the Children" on the outside of the envelope was included in an attempt to measure whether a clear and visible slogan would affect a recipient's probability of opening the letter. The provision of a pre-filled bank transfer form was intended to diminish the transaction costs faced by a recipient considering the choice to make a donation.

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First Experiment: Without a reminder, there was not a single donation made six weeks after the time of the original mail-out. In contrast, the response rate to the addressees who received a reminder lies between 1.5 percent and 1.7 percent. The fact that there are significant responses to the reminder letter suggest it is profitable for fundraisers to re-solicit donations rather than not send a reminder at all.

Second Experiment: Including "Bring Opera to the Children" on the front of the mailing had no effect on either the response rate (which stayed constant at 2.7 percent) or the average size of a donation (approximately US$90). In contrast, including a pre-filled bank transfer form resulted in a significant increase in the response rate (3.4 percent). The evidence that simple changes aimed at decreasing transaction costs can increase the response rate 26 percent implies that eliminating transaction costs entirely may be able to nearly double the rate of response.

Rasul, Imran, and Steffen Huck. 2010. "Transaction Costs in Charitable Giving: Evidence from Two Field Experiments." The B.E. Journal of Economic Analysis & Policy 10(1): 1-32.

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1. Huck, Steffen, and Imran Rasul (2010). "Matched Fundraising: Evidence from a Natural Field Experiment." CEPR Discussion Paper No. 8075. 1.

2. "History." Bayerisch Staatsoper. http://www.bayerische.staatsoper.de/355-bD1lbg-~info~geschichte~geschich. Accessed 26 November 2012.