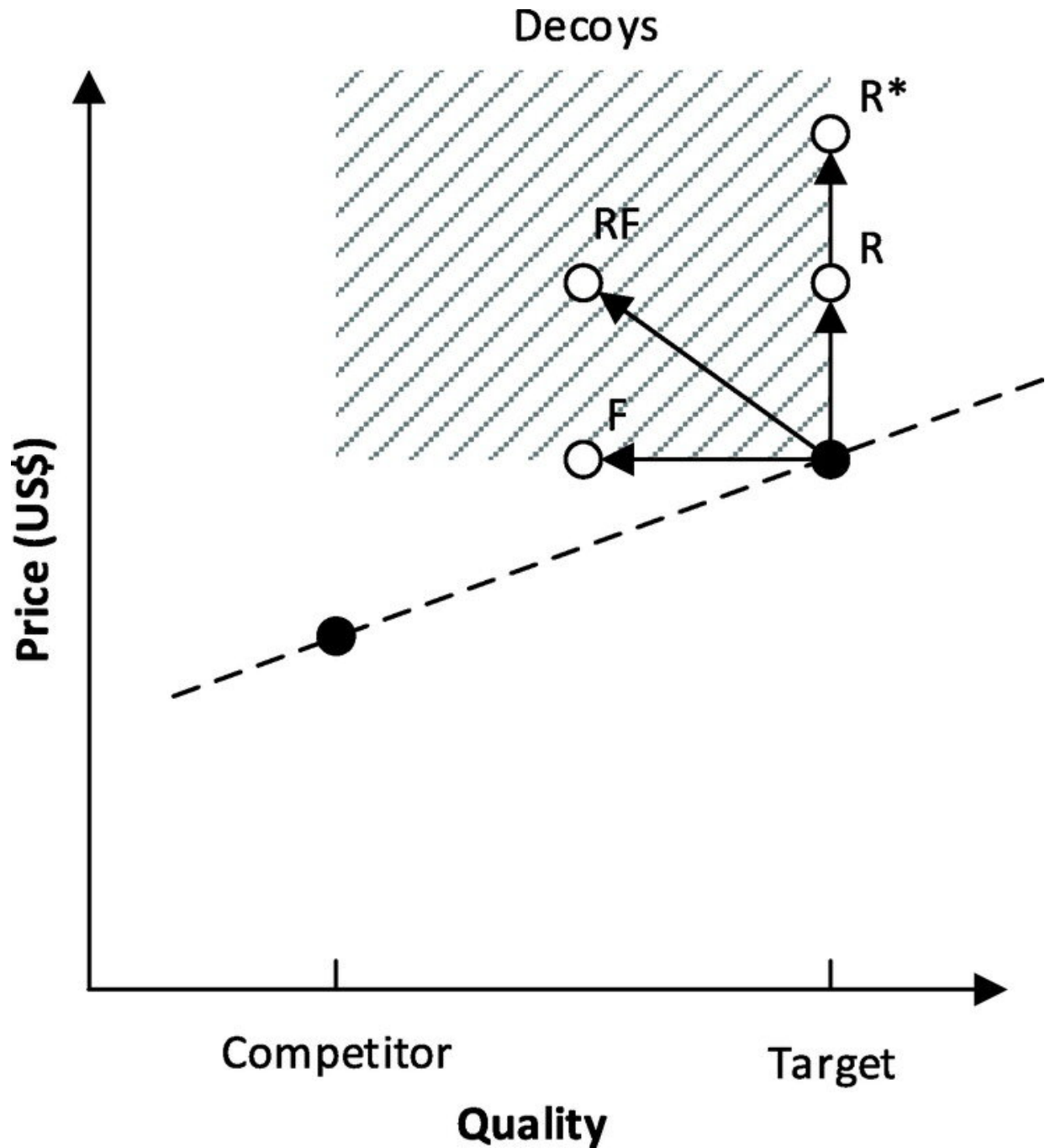


Adding a 'decoy option' may give extra boost to crowdfunding

November 29 2022



The Possible Attribute Space for Decoy Options. *Note:* The term R represents the range (price) increase, R^* is the extreme range (price) increase, F is the frequency (quality) decrease, and RF is the range increase and frequency decrease. Credit: *Information Systems Research* (2022). DOI: 10.1287/isre.2022.1152

Imagine walking into an ice cream shop and scanning your options. A sugar cone with one scoop is \$3. A second scoop comes out to \$4, but for just 50 cents more, you can get a large waffle cone with three scoops. Some people may not want that much ice cream. But for many, it's hard to pass up a good deal.

Adding a third option to make something else (usually the higher priced item) more attractive is a common marketing strategy. But since the 1980s, scholars have been debating whether this attraction effect via a "decoy option" actually works in real-life settings.

Findings from a new, in-depth study bolster the argument that decoy options can shift [consumer preferences](#). It's also the first to test this approach in digital markets where billions of people make choices every day.

The researchers randomly assigned 4,000 participants to eight experiments based on reward-based crowdfunding campaigns, including one on Kickstarter with a real Swiss watchmaking company. Their findings, published in *Information Systems Research*, show the attraction effect shifted preferences from a low-priced to a high-priced reward by as much as 28%.

"That's a significant jump that can turn an entrepreneur's project into a reality," said Abhay Mishra, associate professor of information systems and business analytics at Iowa State University and co-author of the study. "Our findings can help inform artists, innovators and creatives to make smarter, more effective reward menus to reach their fundraising goals."

In reward-based crowdfunding markets, entrepreneurs set a fundraising target with a deadline for their project. Backers choose from several reward menu options, pledging a certain amount of money to receive a

product or sample of the to-be-funded project. Whether the entrepreneur gets any of the funding and the backers receive their rewards depends on the project successfully reaching the fundraising goal by the set date.

Mishra and his co-authors explain in their paper that reward-based crowdfunding is emerging as a significant source of alternative funding for entrepreneurs, pointing to Kickstarter as one of the biggest examples. The platform's most recent metrics show 21 million people have contributed over \$6.7 billion to around 223,000 successfully funded projects.

"There are lots of entrepreneurs, project creatives who may not have access to traditional sources of funding through institutions, loans, others. If we can make funding available to more people through non-traditional sources, we could have a better economy worldwide," said Mishra.

The experiments

To test whether decoy options impact consumer preferences, the researchers designed experiments with increasing levels of complexity.

One experiment presented participants with a hypothetical music album crowdfunding project. It included a description of the music, album art and two items in the reward menu (i.e., pledge \$3: get 5 songs; pledge \$10: get 12 songs.) Around 60% of the participants chose the lower priced option.

When the researchers repeated the study with a fresh group of participants, they included a decoy option (i.e., pledge \$10: get 10 songs.) Recognizing they could get two more songs for the same price, over 70% of the participants chose the "pledge \$10: get 12 songs"

option.

In another experiment, the researchers swapped out the number of songs in the reward menu for nonnumerical rewards (i.e., a low-priced digital download; a high-priced CD plus a digital download) and then added the decoy option (i.e., a CD for the same price as the CD plus a digital download). Once again, adding a decoy flipped the majority of the participants' preference.

Others included [economic incentives](#), a hypothetical campaign for a book and even a real Kickstarter campaign in collaboration with a Swiss luxury watchmaker.

Through the eight experiments, the authors found buyer preferences changed 19-28% in different settings with decoy options.

"Other researchers have expressed some skepticism about the attraction effect in the real world, but our study demonstrates the decoy option can be a powerful tool to influence consumer purchases on digital markets and platforms," said Mishra.

Sneaky or helpful?

Mishra emphasizes the attraction effect only works if someone does not have a strong preference. Someone who despises reading a book on a screen is not going to be swayed by a decoy with a digital download option.

He also pushes against the idea that using decoys is unethical, especially in crowdfunding settings.

"I am predisposed to liking certain types of books and art, and if there's some sort of creative content that I want to enjoy, moving from a lower

priced offering to a higher priced offering in the reward-based crowdfunding setting increases the likelihood that the project will get funded, and I will get to enjoy the content," said Mishra.

Mishra adds, people don't like being pushed into something they see as solely benefitting the seller, but they don't mind being nudged toward something that feels like the best option. It's why people take advantage of two-for-one sales at the [grocery store](#), add extra items to digital carts for the free shipping, and sometimes splurge with a waffle cone.

More information: Markus Weinmann et al, The Attraction Effect in Crowdfunding, *Information Systems Research* (2022). [DOI: 10.1287/isre.2022.1152](#)

Provided by Iowa State University

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