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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