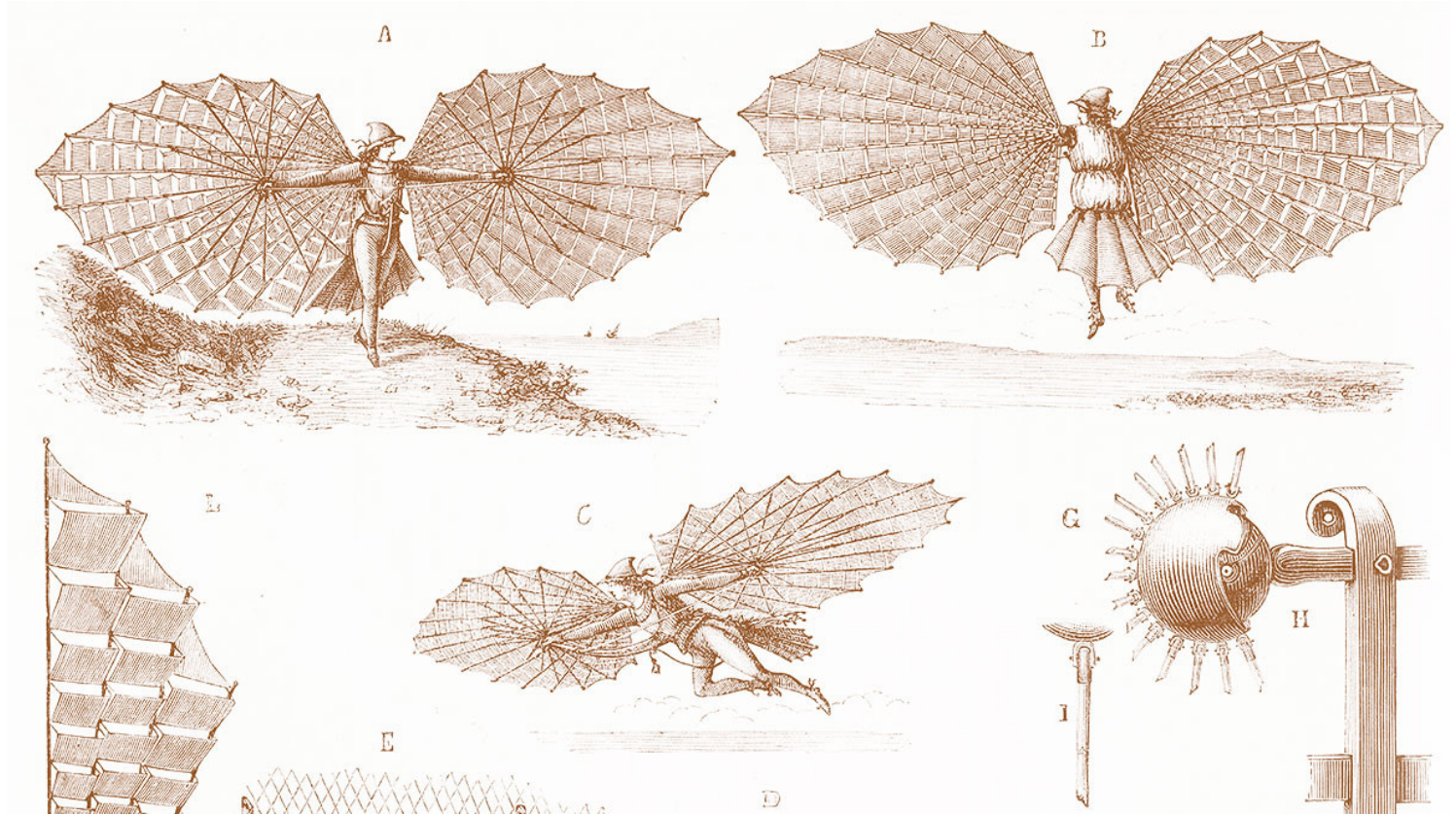


The Hidden Pitfall of Innovation Prizes

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Although companies use crowdsourcing more and more to fill their innovation pipeline, it is not so easy to get people to submit their ideas to online innovation platforms. Our data from an online panel reveal that 65% of the contributors do not come back more than twice, and that most of the rest quit after a few tries. This kind of user churn is endemic to online social platforms – on Twitter, for example, a majority of users become inactive over time – and crowdsourcing is no exception. In a way, this turnover is even worse than ordinary customer churn: When a customer defects, a firm knows the value of what it's lost, but there is no telling how valuable the ideas not submitted might have been.

Despite this limitation, companies still get a lot out of crowdsourced ideas. Encouraged by early successes, many now routinely use crowdsourcing contests to find fresh solutions to various problems, increasing the demand for innovators willing to share their ideas. PepsiCo, for instance, has already used contests nine times to crowdsource creative Super Bowl commercials for its Frito-Lay's Doritos brand, offering prizes of up to \$1 million for the winning submission. Other companies, including GE, DELL, and Starbucks maintain their own platforms on which they continuously source ideas from customers.

It is surprising, then, that crowdsourcing on popular platforms is typically designed in a way that amplifies churn. Right now, in typical innovation contests, rewards are granted to winners only and the rest get no return on their participation. This design choice is often motivated by the greater effort participants exert when there is a top prize much more valuable than the rest. Often, the structure is something like the Wimbledon Tennis Championship, where the winning player wins twice as much as the runner up and four times as much as the semifinalists – with the rest eventually leaving empty handed.

This winner-take-most prize spread increases the incentive to win and thus individual efforts. With only one winner, however, the others are left with nothing to show for their effort, which may significantly reduce their motivation to enter again.

An experiment we recently ran confirmed that the way entrants respond to this kind of winner-take-all prize structure. We invited a cohort of innovators to participate in two successive contests and randomly varied the incentive structure. Half of the participants were routed into winner-take-all contests, and the other half into contests with a multiple prize structure in which the top 20 innovators would receive a prize. Importantly, the total prize money was identical in the two conditions, so that winners in the multiple prize condition received only a fraction of the winner-take-all prize.

In line with the above reasoning, we found that winner-take-all contests yielded significantly better ideas compared to multiple prizes in the first round. Importantly, however, this result flipped when we invited the same cohort of innovators to participate again in the second subsequent contest. While 50% of the multiple-prize contest chose to participate again, only 37% did so when the winner-took-all in their first contest. Moreover, innovators who had received no reward in the first contest showed significantly lower effort in the second contest and generated fewer ideas. In the second contest, multiple prizes generated better ideas than the second round of the winner-take-all contest. Confirming these findings, we found similar effects in an empirical investigation of over 260 contests and 6,000 innovators from the open innovation platform Atizo.com. Most importantly, these data show that innovator churn can be reduced by the addition of more (albeit smaller average) rewards.

These motivational affects suggest that participation, creative effort, and quality may depend not only on the given contest's incentives but also on how much individuals have learned to enjoy the task itself. Rewards are not only motivating in their own right, but can also function as symbolic communication. For example, in the case of an insurance agent who receives a publicized bonus for making the most sales, contest prizes symbolize achievement. Receiving a reward is an essential motivator for innovators in contests. It's not just about the money – it also signals recognition for competence, positively influencing innovator's intrinsic motivation, a key driver of creative performance.

Therefore, companies that run multiple contests successively should be aware of how the rewards influence individuals' motivation beyond a single contest. Reward feedback can be used as a strategic instrument, particularly by companies hosting contests among a defined and loyal group of individuals (such as their customer base). Providing positive feedback to highly-able individuals helps to keep them motivated and available for future challenges. Multiple prizes can help generate higher quality over time, as they can selectively retain more high-performing innovators and encourage their creative efforts.

The good news for cost-sensitive companies is that innovators can also be retained through other forms of feedback besides rewards, as our analysis of the Atizo data reveals. Other non-monetary positive feedback, such as encouraging comments or ratings, can have similar effects. These techniques are important, because alleviating innovator churn helps

companies interested in longer-term success of their crowdsourcing activities. Getting crowdsourcing done well calls for a trade-off between short-term results and long-term engagement. Over the long haul, our research suggests that you’ll get more bang for your prize bucks if you spread them around a bit.

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