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Cause-related marketing of products with a negative externality

Gilles Grolleau [b,d], Lisette Ibanez [c], Nathalie Lavoie [a,*]

[a] Department of Resource Economics, University of Massachusetts Amherst, 80 Campus Center Way, Amherst, MA 01003, United States
[b] Université Bourgogne Franche-Comté, ESC Dijon-CEREN, 21000 Dijon, France
[c] INRA, Montpellier SupAgro, 2 place Pierre Viala, Campus INRA SupAgro, Bat. 26, 34060 Montpellier Cedex 1, France
[d] Supagro, UMR 1135 LAMETA, 34060 Montpellier, France

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ABSTRACT

Firms increasingly develop partnerships with non-profit organizations (NPO) to support a cause and improve their corporate image. This type of Corporate Social Responsibility, called cause-related marketing, commits firms to fund associations that encourage environmental protection, international development, and other causes by donating part of their profits. In this article, we argue that when cause-related marketing is applied to products with a negative externality, these a priori win–win arrangements can generate adverse and unexpected effects. We consider a vertical differentiation model integrating two assumptions. First, consumers may perceive the firm's contribution to be higher than the actual donation. Second, consumers who value highly socially responsible behavior may prefer not to consume rather than consuming products that aren't socially responsible. In this set-up we identify several possible counter-productive effects such as the likelihood of increase of the externality and the crowding out of direct contributions. We also draw policy and managerial implications.

1. Introduction

In everyday shopping decisions, consumers are increasingly confronted with "cause-related" products. In cause-related marketing (CRM), firms "join with charities or 'causes' to market a product or service for mutual benefit" (Krishna, 2011). In this context, a purchase by consumers triggers a donation by the firm to a non-profit organization. Well-known examples are the Yoplait "Save Lids to Save Lives" campaign, which promises to donate 10 cents to the Susan G. Komen for the Cure foundation for each yogurt lid returned by consumers; the Endangered Species Chocolate corporation, which donates 10% of its net profits to environmental organizations that help endangered species; and the 'Drink 1, Give 10' campaign of the French mineral-water bottler Volvic in partnership with UNICEF, for which each liter of bottled water purchased triggers a donation equivalent to ten liters of drinking water to people in African countries. Consumers typically respond favorably to cause-related product — "80% [of Americans] are likely to switch brands, about equal in price and quality, to one that supports a cause" (Cone, 2010). Furthermore, 47% of consumers report frequently or occasionally purchasing products based on the causes they support (Bonetto, 2014).

These partnerships have raised significant funds for non-profit organizations and increased bottom-line profits for businesses. Although it is difficult to quantify cause-marketing spending, IEG's numbers put corporate-cause sponsorship at $1.92 billion in 2015, predicted to grow to $2.00 billion in 2016 (Cause Marketing Forum). The literature on cause-related products include studies on emblematic programs (e.g., Pink Ribbon, RED) and has investigated reasons motivating businesses and not-for-profit organizations (NPO) to engage in these partnerships and their consequences for each partner, including consumers (e.g., Varadarajan & Menon, 1988; Strahilevitz & Meyers, 1998; Berglind & Nakata, 2005). Considerable attention has been devoted to practical dimensions shaping the effectiveness of these business deals such as the 'fit' between causes and businesses (e.g., Pracejus & Olsen, 2004).

The work of Fraser et al. (1988) suggests that cause-related products could provide an "anchor price" for donations in cases where people refrain from donating to charities because they have difficulties estimating a socially acceptable donation amount and fear donating an inappropriate amount (Dhar, 1996). Briers et al. (2007) argue that a low-priced exchange product may signal a donation price that is lower than the perceived donation price in mere donation settings and may legitimize small contributions. This strategy renders most excuses for noncompliance (e.g., "We can't afford to help.") inappropriate and make refusal socially embarrassing (see also Cialdini & Schroeder, 1976).

* Corresponding author.
E-mail addresses: grolleau@supagro.inra.fr (G. Grolleau), ibanez@supagro.inra.fr (L. Ibanez), lavoie@resecon.umass.edu (N. Lavoie).

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Departing from the usual win–win perspective of these arrangements (but without negating it), we argue that, in some cases and for a subset of products, cause-related products can lead to adverse and unanticipated effects. While the positive effects of cause-related marketing for causes and firms and several success stories have been well documented (e.g., Basil et al., 2008; Berglind & Nakata, 2005), we focus our analysis on the less well documented cases of cause-related marketing with adverse effects. Some unintended effects of cause-related marketing (e.g., the privatization of charities that are most attractive to consumers without being the most important ones) have been developed by Stole (2008), but the analysis is mainly conducted at a macro-level. The author argues that these practices are mainly "window dressing, a way to improve public image while detracting attention from a business's own role in undermining the public safety net." If firms improve their image and increase sales of the product itself, and also the sale of their other products by carrying a cause-related product, consumers may consume more than initially, leading, under some circumstances, to an increase of overall consumption: this possible effect seems to be strongly related to the kind of product marketed (Bougherara et al., 2005). Another side effect concerns global donations. Using experimental evidence, Krishna (2011) shows that "cause related marketing doesn't always increase total money raised for the cause". Buying a cause-related product is seen as a charitable act allowing consumers to buy more and donate less overall. When consumers care about signaling their altruistic behavior through purchase rather than through direct donations, firms may overinvest in Corporate Social Responsibility practices and related publicity, leading to lower overall donations and social welfare (Ghosh & Shankar, 2013).

In the framework developed below, we show that under some plausible circumstances, initiatives by firms to connect socially-responsible projects to their products might have negative side-effects when the product has a socially irresponsible aspect. For example, it contributes to pollution. The positive effect of the donation can be negated, for example, by the environmental degradation that may result from an excessive purchase of the cause-related product, and by a reduction in global donations. Indeed, because of cognitive and behavioral biases, consumers can behave in ways that can lead to counter-intuitive results.

The remainder of the paper is organized as follows. In the next section, we set up a model of vertical differentiation to explore the possible effect of crowding out of donations and the possible impacts on the environment due to cause-related products. As such, our model is unique in three ways. First, it is adapted to a product generating a negative externality, for example, polluting. This negative quality of the product is partially offset by a donation to a charity. Thus, in this model consumers with a high aversion for socially irresponsible products, do not consume. Second, consumers' perception of the donation associated with the product may differ from the actual donation made by the firm. This feature accounts for the different ways to label the donations on product packages, for example, as a percent of profits or revenues, as an item donated per product, etc. Third, it considers both direct and indirect donations to charity, and allows the possibility to crowd out direct donations through the purchase of cause-related products (indirect donations). We provide anecdotal and empirical evidence supporting the relevance of our behavioral assumptions. Section 3 discusses the circumstances under which the previously identified adverse effects are more likely to arise and stresses some policy implications. Section 4 concludes and suggests directions for future research.

2. A theoretical framework

Cause-related (CR) products establish new relationships between three categories of agents: manufacturers, NPOs and consumers. In our model, manufacturers and NPOs seek to maximize respectively profits and the cause they support under budget constraints. Consumers seek to maximize their utility under budget constraints.

We model CR products as creating a vertical differentiation from rival firms. There is vertical differentiation when, at the same price, all consumers agree that a product is preferable to another. For instance, according to Edelman's annual Goodpurpose study, "when quality and price of a product are deemed equal, social purpose has consistently been the leading purchase trigger for global consumers since 2008, design and innovation and brand loyalty aside" (Greene, 2012). Thus, we make the assumption that at the same price all consumers prefer a CR product to an otherwise identical product that is not bundled with a donation. We model two firms, firm 1 and 2. In the benchmark scenario, both firms sell an identical standard product. In the second scenario, firm 1 bundles a cause to its product.

We assume that the product (with or without the donation) has an inherent component that causes a negative externality, that is, the product has a socially irresponsible impact on society. The impact of the negative externality can worsen if the donation creates an increase in overall consumption. For example, CR marketing that encourages the purchase of plastic water bottles rather than drinking tap water, the purchase of small plastic containers of yogurt rather than larger ones, the purchase of paper towels rather than reusable ones, and the purchase of unhealthy products (e.g., fatty food, cigarettes, alcohol, etc.).

2.1. Demand side

According to a modified model of vertical differentiation (Mussa & Rosen, 1978), consumers maximize utility from a product and a numeraire good (i.e., a direct donation to a charity) subject to a budget constraint R:

$$\max U = u(x) + u(d) s.t. R = p \cdot x + v \cdot d.$$

x is the quantity of the product, $u(x)$ the utility derived from the product, d the quantity of the numeraire good, p the price of the product, and v the price of the numeraire (see also Ghosh & Shankar, 2013). Products can either be cause-related (x_1) or standard (x_2), and the numeraire d is a direct donation to a NPO. We assume that consumers buy one unit of either the CR or standard product ($x = 1$), or purchase nothing. The price per unit of direct donation is normalized to 1, i.e., $v = 1$. Thus, the budget constraint simplifies to $R = p + d$ and in the case of no consumption, the entire budget R is directly donated to the NPO. In this article, we focus on the case where consumers budget a donation to charity, and where cause-related products might crowd out these direct donations. We should notice that this negative side-effect of CRM will not occur for consumers who don't budget direct donations.

We assume the following functional forms: $u(x) = (A - \theta\alpha)x$ and $u(d) = d$. The marginal utility from consumption of the product has a component A that is constant and identical for both standard and cause-related products and across consumers. However, consumers are aware of the irresponsibility of their consumption. The term α, where $\alpha > 0$, represents the extent to which the product is socially irresponsible and decreases the marginal utility of the product. We will also refer to a socially irresponsible product as "polluting" henceforth.

Consumers are heterogeneous in their aversion for socially irresponsible products. The parameter θ measures the strength of consumer aversion for the socially-irresponsible quality of good. We assume that consumers are uniformly distributed on the interval $\theta \in [0,1]$ and the total number of consumers is assumed to be one. In contrast to the typical characterization of consumer preferences of Mussa & Rosen (1978) where a positive quality is assumed, θ can be interpreted as a willingness to accept a compensation for consuming a product with negative quality. The higher the θ, the higher the "compensation" needed for the consumer to buy. For example, the consumer with $\theta = 1$ has the highest degree of aversion and must experience a monetary compensation equivalent to α to buy a socially irresponsible product.