The paper explores whether giving through the purchase of products that allocate a part of their proceeds to charity replaces direct charitable giving, and possibly leads to lowered overall charitable donations. The studies demonstrate reductions in charitable behavior following shopping where a percentage of sales is given to charity. The demonstrated reduction might be sizeable enough that less money is donated in settings where consumers can give through buying rather than giving directly. We follow the studies with a discussion of potential mechanisms underlying this effect and outline follow-up studies.

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Consumer Inferences about Hybrid Goods and Services from Pricing and Innovation

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As services become a key source of differentiation, a growing number of new products exhibit the inclusion of both goods and service components. Assuming that firms operate under budget constraints, the decision to introduce new services versus new goods for hybrid products becomes a key strategic variable. Three studies examine how consumers balance their desires for goods versus service innovation in hybrid products and under what conditions these preferences shift. Findings reveal that consumers prefer the locus of innovation to reside on the goods component and this preference is strengthened by positioning the hybrid as a physical product. However, designing for customization and social networking shifts preferences towards innovation of the services component. Further, pricing the two components differentially produces asymmetric effects of perceived benefits for each element of the hybrid. The results suggest that firms can design and price the goods and services components uniquely to maximize overall profitability.

The Good, the Bad, and the Red: Does “Giving” through Buying Replace Direct Giving?

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Product Red is just the latest in an ongoing procession of charitable promotions led by for-profit companies. Naturally, such activities are highly publicized and integrated with companies’ promotional activities, which leads some to doubt the altruistic intentions of the companies involved (Fry et al., 1982; Varadarajan & Menon, 1988) or even assume utilitarian motives for company donations (Strahilevitz & Myers, 1998; Bloom & Novelli, 1981).

Of course, whether or not the reasons for corporate donations are pragmatic, a dollar is a dollar, and donations stand to increase public well-being regardless of what motivated them. Further, common sense would lead one to assume that corporate donations increase the social salience of donations, potentially increasing donations overall. But what if corporate charitable leads people to feel that by buying charity-tied products they have “done their job” and need not contribute more? Could giving through buying actually replaces direct giving?

The possible substitution of direct charitable donation by “donation” through buying is especially pertinent in one particular kind of cause-related marketing: the donation of a percentage of sales or profit to charity (POS). Here, it is the consumer rather than the company who is directly responsible for the donation. Through buying a $20 Product Red sweater, the consumer might feel that they have given to charity and thus satisfy the “need” to give. The result might be a reduction in the overall sum transferred to charity, since psychologically the person feels they “gave” $20, while in fact they have only given the 5% of the price that is transferred to charity. Thus, a donation of $4 (5% of $20) feels greater than it actually is, and might substitute what would have been a greater direct donation (see Olsen et al., 2003).

The current paper explores the potential effect of projects such as “Red” on subsequent contributions. In two studies, we demonstrate the basic “Red” effect: charitable giving through a “percentage of sales” (POS) leads to a reduction in subsequent giving. Followups are planned to explore boundary conditions. Additional studies will further explore the mechanisms underlying the phenomenon: The “Red” effect could be due to (a) an overvaluation of sums donated through POS and/or (b) a satisfaction of the motives that would otherwise lead to donation behavior.

Study 1. Participants in this study (N=132) engaged in simulated online shopping on Amazon.com. Each participant was asked to imagine they had a gift certificate for Amazon.com, and continued to browse Amazon and list items that they would like to buy using the certificate. In one condition (control), no further instructions were given. In the other condition (POS), participants were informed that on the same day “Amazon has a special promotion where they give X% of their sales proceeds to United Way” (including gift certificate sales).6

Following the shopping task, participants were told that Amazon was also receiving donations for the Red Cross, and asked how much if anything they would want to donate. After some demographic questions, participants were also asked if they would want to donate books to the library for a local charity sale occurring around the time of the studies. A sub-sample (n=87) of participants were asked about willingness to donate to a local homeless shelter following a fire, another real event that occurred at the time of the studies.

Results and Discussion. Mean donations to Red Cross were lower for the POS condition (M=$7.08) than for the no POS condition (M=$11.39). In other words, participants contributed less to charity if they had previously purchased items proceeds from which were donated to charity. Note that the difference between the two conditions ($4.31) far surpasses the maximum proceeds donated through purchase (average $1.82). Thus, a POS promotion similar to Product Red resulted in reductions in overall levels of charitable donations.

6While these conditions were the same for the entire sample, the study was conducted in three different waves. For the first (n=37), the gift certificate was for $70 and the percent given for charity was 3%. For the second (n=50), the gift certificate and percent given were $50 and 2% accordingly. For the third (n=45), the certificate was also for $50 but the percent given was 5%. Since there were no significant interactions for date-wave and condition we collapse observations across waves, distinguishing only between percent-of-sales donation (Red) and no donation conditions.
Since the results contained outliers, the data was transformed using a log transformation. An ANOVA model controlling for self-perceived charitablety found a significant effect of condition on donation ($F(1, 122)=3.96, p=.05$).

Further support for the hypothesis that donation through buying would reduce subsequent charitable behavior was found through examination of the other DVs, though results here were directional but not significant. POS participants were less likely to want to contribute books (17.5%) than control participants (27%). Similarly, only 14% of POS participants expressed willingness to donate food cans to the local shelter, versus 36.4% in the control condition.

**Study 2.** The study aimed to replicate study 1 with a few alterations. First, a different merchant and shopping medium was used (catalog shopping for J Crew). Second, the subsequent, post-shopping trip donation opportunity was separated from the shopping trip by presenting it as an unrelated event occurring later on the same day. Third, another control condition was added where participants could donate directly during the transaction as part of their shopping trip (n=34). The certificate sum participants could spend in this task was greater than before ($200), and the percent donated was 5% for half the participants in the Red condition (n=16), and 10% for the other half (n=16). Due to shortage in participants only 13 participants were assigned to the original control condition, though condition assignment was random. Total sample consisted of 79 participants.

New measures were added as well. First, we measured the amount of money participants spent in the trip. This served to ensure participants indeed chose items and it also permitted a more precise evaluation of POS donations. Second, several attitude measures were taken regarding the retailer, the charity collaborating with the retailer, and POS and direct donation as charity raising efforts. Attitudes for each object were gathered using three 7-point semantic differential scales (Good-bad, warm-cold, like-dislike).

**Results and discussion.** Replicating the results of study 1, participants in POS conditions donated less (M=$10.83) than participants in either control condition (M=$14.45).

There was no significant difference between the two control conditions (p>.1), which suggests the reduction in donations following Red donation wasn’t merely due to the fact that in POS conditions participants had already donated whereas in the control condition they had not. Participants evidently donated less in POS than in either direct donation or no donation in all conditions, though these findings require replication.

The study also contributes in revealing potential boundary conditions on the Red effect: when the percent of sales given was high enough (10%), donations thorough the Red promotion ensured there was no reduction in overall donations over control. Further, the higher POS ensured no loss to the non-profit due to lower donations than in a parallel direct-donation situation. Donation in the shopping trip itself through either POS or direct donation was higher in direct donation ($13.89) than in the 5% POS condition ($9.07), but lower than the amount given to charity in the 10% POS condition ($16.81). In both cases donations come at the expense of the retailer, but might lead to higher sales given shopping that is not restricted to a particular sum as it was in our experimental task.

Attitudes towards the retailer did not differ between Red and control conditions. Attitude towards the non-profit for which donations were raised was directionally, though not significantly, lower in the Red condition (Δ=27 on a 7 point scale, p=.19). Attitude towards POS as a way of raising donations, however, was significantly lower in the POS condition: 5.13 vs. 4.34; $F(1, 77)=6.59, p=.01$. This suggests participants supported percent of sales donation in principle, but not when actually subjected to it, though further study is needed to ensure the robustness of this finding.

**Proposed studies.** The Red effect might be driven by an overestimation of donations given through POS promotions. People might bias their perception of the amount donated in the direction of the full sum of the purchase, rather than calculating the actual sum given to charity (Olsen et al., 2003). Since people might thus replace direct donation with a lesser indirect donation this might lead to an overall reduction in subsequent donations. This could be examined by asking for people’s estimation of the amount donated through POS.

An additional psychological factor that might lead to decreased donations following “buying donations” is a satisfaction of people’s selfish motivations for helping behavior (Harbaugh et al., 1998; Manner et al., 2002). If people are motivated to donate for reasons such as self-esteem (Crocker et al., 2003) or mood management (Cialdini et al., 1973; Bauman et al., 1981), satisfaction of these motives through selfish motivations for helping behavior (Harbaugh et al., 1998; Manner et al., 2002). When profit equals price: Consumer confusion about donation amounts in cause related marketing. American Economic Review, Papers and Proceedings, May 1998, 88(2), pp 277-82.


7 Differences were directional but not significant due to high variance and small sample size at the point of writing.