Cause Marketing: Product Pricing, Design and Distribution

Corporate social responsibility (CSR) has emerged as a global trend incorporating business corporations, states, international organizations and civil society organizations. A survey of Fortune 1000 company senior executives reveals that 86% believe CSR is either very or extremely important to the mission of their firms\(^1\). There is a growing debate in boardrooms on what obligations firms have to be socially responsible, and what impact it can have on the bottom line. In this paper, we study one type of CSR initiative, cause marketing (CM), which is a company’s promotional campaign with the dual purpose of increasing profitability while bettering society.

Cause marketing is the practice of donating proceeds from product sales to designated charitable causes (Varadarajan and Menon, 1988). For example, many firms have had breast cancer related marketing campaigns in October, which is the Breast Cancer Awareness Month: In 2014, Macy's ran a CM campaign where they donated $3 to the National Breast Cancer Foundation for every bottle of Marc Jacobs Pink Honey perfume that the company sold.\(^2\) Product Red is another charitable project that involves multiple firms, e.g., Apple, Gap and Beats Electronics: Special edition products (e.g., red iPhone, red Gap T-shirt, and red Solo2 headphone) are made and portion of sales from those products are donated to the Global Fund, a public-private charity, to fight AIDS, malaria and tuberculosis in Africa. Other CM examples include Nabisco's campaign that linked cookie sales to donations to the World Wildlife Fund, and Warby Parker’s “Buy a Pair, Give a Pair” program in which the US eyewear company works with a handful of partners worldwide to ensure that for every pair of glasses sold, a pair is distributed to someone in need.

\(^1\)http://apps.prsa.org/intelligence/PartnerResearch/Partners NYU SCPS/CorporateSocialResponsibility.pdf.
\(^2\)http://mblog.macys.com/think-pink-5-ways-you-can-support-breast-cancer-awareness-this-month
In this paper, we build a stylized model to study firm's pricing decisions in a CM campaign and its implications on the total donation amount to the participating charity. In the base model, there is a firm making and selling a product. In a CM campaign, the firm donates part of the sales revenue to a charity for each unit of the product sold. An important feature of our model is that consumers are heterogeneous with respect to their preferences for both the product itself and the social cause. It has been empirically validated that people have different levels of prosociality (Kraft, et al., 2017). According to the survey conducted by Cone Communications, 64% of Americans say they are inclined to support social and environmental issues.

Although cause marketing is often associated with price increases to make up for the donation cost (Krishna and Rajan, 2009), e.g., a Gap Red T-shirt is priced at $28.00 which is $11.50 more than most Gap T-shirts, we find that an increase in product price may not be an optimal strategy with CM. In practice, there are some cases when a firm offers a price discount along with a CM campaign, for example, Macy's annual Shop-for-a-Cause sales. Our results provide a possible justification for this type of pricing strategy. Furthermore, although many people have the concern that there is often too much of a disconnect between the causes firms support and the brands and products they sell, a higher degree of firm-cause fit may decrease the total amount of funds a charity is able to raise through a CM campaign, because the firm may choose to be less generous in terms of the donation amount for each unit of product sold.

We further extend our base model in two ways: First, we consider the case when the firm is able to design a new version of the product (e.g., red iPhone) and link it, instead of the regular version, to the social cause. In practice, some firms (e.g., Apple) choose to implement the CM

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campaign with a special edition of their product, while others (e.g., Warby Parker) make donations without making a new product. We find that the optimal product design decisions in a CM campaign depends on the size of the prosocial customer segment in the market.

Second, we also extend the base model to a supply chain setting, as we find that CM has been adopted by firms at various stages of a supply chain, including both downstream retailers (e.g., Macy's) and upstream manufacturers (e.g., Nabisco). Our results show that supply chain structure has significant effects on the social outcome of a CM campaign. Specifically, ceteris paribus, a firm in a decentralized supply chain may help to generate more donations via CM compared to the centralized scenario. The double marginalization problem, despite often being criticized as the cause of inefficiency in a decentralized supply chain, may provide firms with incentives to adopt CM to improve sales revenue, and thus generate social benefit. We also identify conditions under which the downstream retailer or the upstream manufacturer will make more donations to the social cause in a CM campaign.

Reference

