

eBay auction items affiliated with a cause command higher prices, study shows

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Non-profits, companies and individuals seeking an alternative way to raise funds for their respective causes might consider selling a product.

It's long been assumed that people are willing to pay more for an item if they know a portion of the proceeds will go to charity. Evidence from a recent study conducted by two professors in the Olin School of Business at Washington University in St. Louis confirms consumers are willing to pay a premium for a good cause.

The professors collected data from eBay auctions. They looked at regular auctions on eBay and at auctions run through its "Giving Works" program where sellers choose to donate part of their earnings to a non-profit of their choosing.

By collecting data from eBay on the prices that similar items commanded, Brian P. McManus, assistant professor of economics, and Daniel Elfenbein, assistant professor of organization and strategy, found that products connected to a charity command higher prices than unaffiliated products.

"Suppose shoppers at eBay are looking for iPods," McManus said. "They may find two iPods that are essentially identical, except one is associated with a charity. The difference in the realized prices for the iPods will contain information about what value consumers place on charity-linked products."

On average, McManus said, these products have an estimated premium about 5 percent higher than identical items with no connection to a charity.

"When you ask consumers, they are eager to verbally express a willingness to pay higher prices for a charity item," McManus said. "But until now, there has been very little research, however, showing that people will actually follow-through with their stated intentions and pay more."

To a point ...

The results, reported in the working paper "A Greater Price for a Greater Good? The Charity Premium at eBay Giving Works," indicate that people do seem willing to pay more for a good cause. But they aren't willing to do so overwhelmingly.

The research indicated that the little bit extra that people are willing to pay diminishes as the auction item gets more expensive. It's as if people have in mind a maximum donation that they are willing to make to a charity, the researchers said. As the auctioned item's price rises, that

maximum becomes a smaller percentage of an item's price.

McManus said that the eBay charity premium might be constrained further because bidders determine prices while sellers select the charities. Bidding may be less aggressive if the seller's charity is an unpopular one.

The research results are very informative for non-profits as well as companies like Gap Inc., with its (PRODUCT) RED campaign that donates profits from sales to the Global Fund to help women and children in Africa affected by HIV/AIDS.

"The Gap has probably put a lot of resources toward its (PRODUCT) RED campaign," McManus said. "For this to be worthwhile, the campaign should stimulate demand. If it doesn't, then the Gap and the celebrities in the ads might have supported their causes more effectively through different activities."

The research results also indicate that there is value in non-profits selling retail items to raise money.

Source: By Shula Neuman, Washington University in St. Louis

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