

Cause marketing: Altruism or greed?

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(PhysOrg.com) -- Companies that join with social causes to sell products not only enhance their image but also improve their bottom line, say University of Michigan researchers.

"Cause marketing, in which firms donate part of the proceeds from sales of certain products to a specified cause, is now a strategy adopted by hundreds of firms to increase sales for a wide variety of products, from coffee to cars," said Aradhna Krishna, the Winkelman Professor of Retail Marketing at Michigan's Ross School of Business. "But it is often associated with price increases, as well."

A few well-known examples of cause marketing include Project Red, which encompasses several companies such as the Gap, Motorola, Apple, Converse, Dell, Microsoft, American Express and others to raise money for the Global Fund to fight AIDS, tuberculosis and malaria; 3M's Post-It Super Sticky Notes imprinted with pink ribbons to help fund cancer research and treatment; and Snapple's bottled water sales to help build playgrounds in poor communities.

In a new study forthcoming in [Management Science](#), Krishna and Uday Rajan, an associate professor of finance at Ross, found that cause marketing can increase sales—but can also raise prices—of the cause-related product, as well as of other products that the company sells.

One underlying reason for the price increase that Krishna and Rajan identify is the additional benefit that consumers get from buying a cause-related product. Consumers feel good about the firm selling the product,

and also about themselves when they purchase such a product. Further, consumers can even feel good about buying a different product from the firm, one that is not related to a cause.

It's this spillover effect to a company's other products that can make cause marketing worthwhile, the researchers say. In fact, even if a firm is unable to increase the price of a cause-related product enough to compensate for the donated money or if it simply ties a low-selling product to cause marketing, it can still increase its profits—as long as consumers feel good about buying the company's other products.

Moreover, firms that raise prices on both a cause-related product and other non-cause products earn higher profits than if they don't participate in cause marketing at all. In addition, companies will never place their entire portfolio or product line in a social cause campaign.

"Firms can use cause marketing to increase prices and profits, but should be aware of the implications of placing different products on cause marketing," Rajan said. "For public policy officials and consumers who may believe that cause-marketing firms are more caring firms and are genuinely interested in helping others, it may be insightful to understand that cause marketing also allows [firms](#) to increase their prices and profits."

Provided by University of Michigan ([news](#) : [web](#))

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