

THE INFLUENCE OF ORGANIC PRODUCT CLASSIFICATION ON CHARITABLE CONTRIBUTIONS EMBEDDED IN RETAIL PRICES

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Abstract. Research on embedding direct charitable contributions into purchase transactions through increasing product price has revealed mutual benefits for charitable organisations and for-profit companies. This process is referred to as the embedded premium (EP). The potential for this type of mutually beneficial cause marketing has been shown to apply to a wide range of products. The fastest growing product classification in the United States, organic products generally cost more than their non-organic alternatives. The basis of this research is to examine if organic products enhance the utility of EP offerings. Eight different organic and non-organic food products are presented in a 64-block, single choice set design to a national sample of consumers with choice options between current market price and current market price plus 5% price premium with entire premium going directly to charity. The results of the research indicate that organic products with EP were, on an average, chosen almost five percentage points less frequently than similar EP choices involving non-organic products.

Keywords: cause marketing; charitable contribution; embedded premium; organic.

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Introduction

Cause marketing is a ubiquitous promotional strategy in both academic research and business practice. Whilst cause marketing can provide benefits to the business sponsor, the charity and consumers, the charity often has less control than the business sponsor and this can lead to arrangements that are not in the long-term interest of the charity. The study of embedding direct charitable contributions into a purchase transaction through increasing product price could enhance opportunities for charitable organisations to proactively approach companies with cause marketing proposals. The unique contribution would be the ability to increase price whilst also increasing preference. Typically, the case for cause marketing is built on goodwill and the potential for future revenue or profits for the partner company. If increasing product price to include a direct donation can be shown to possess consumer utility, business cases for cause marketing activities are enhanced for all parties involved. This indirect transfer process is referred to as an embedded premium (EP). Arora and Henderson (2007) describe EP as an enhanced offering resulting from a social cause being added to a product or service. EP, in contrast to other promotional strategies, appeals to non-economic factors and concentrates on the connection between concern for others and the concern for oneself (Arora and Henderson 2007).

Just as cause marketing has become ubiquitous, the concept of environmentalism and environmental practices has evolved from the periphery of societal values to assuming a much more prominent position (Ottman, 2011). Environmentalism and environmental practices, similar to EP, appeal primarily to non-economic factors and have encouraged the formation of many charitable organisations to serve the desires of individuals. There is also an economic dimension to environmentalism where businesses incorporate environmental themes and environmental practices as they make products and provide services to consumers.

The roots of environmentalism can be traced back centuries, but the 1970 enactment of the National Environmental Policy Act in the United States and the inauguration of the annual Earth Day celebration began to accelerate environmental awareness. The environmental practice of sustainability encouraged the growth of organic agriculture, which focuses on the health of soil, water and air.

Organic products have become the fastest growing product category expanding from sales of \$1 billion in 1990 to sales of \$43.3 billion in 2015 (OTA 2016). Food comprises almost 92% of total organic sales and sales of organic food products are growing over three times the growth rate of the overall food market (OTA 2016).

The Theory of Planned Behaviour (TPB), the idea that attitude towards behaviour, subjective norms and perceived behavioural control combine to shape an individual's behaviours and behavioural intentions, provides us with a general framework to consider how organic product classification influences interest in EP choices. TPB has been shown to explain between 39% and 42% of the variance in behavioural intentions (Rivas *et al.* 2009). Bishop and Barber (2015) propose that the TPB model could be strengthened by the inclusion of *purchase of organic products* as a normative belief. Normative beliefs have been shown to predict the purchase of organic food (Dean *et al.* 2008). Bougherara and Combris (2009) found that altruism, as opposed to selfishness, was the motivating factor for consumers who purchased certified ethical food products. Still, it is important to note that considerable research indicates that people engage in environmentally conscious behaviours for a variety of reasons. These reasons are differentially related to various psychological consequences (Deci, Ryan 1985; Pelletier *et al.* 1998).

This research will consider how consumers react to EP choices across multiple food categories. It will then consider the effect of organic EP choices across the same food categories. The hypothesis is that the presence of organic products will enhance the utility of the EP choices making them more desirable than their non-organic counterparts.

Literature Review

Philanthropy and Cause Marketing

There are a variety of ways that businesses and charitable organisations work together. Two broad categories include philanthropy and cause marketing. The concepts are very different yet both inform the changing relationships between businesses and charitable organisations. Philanthropy is generally considered to be a concerted effort to enhance human welfare. Traditionally, philanthropy has involved a business donating money to a desired charitable organisation. Cause marketing is a promotional strategy designed to connect a marketing campaign to a charitable organisation. In contrast to philanthropy, cause marketing is generally accounted for as a business expense and is typically evaluated against anticipated financial returns.

American Express created the term 'cause-related marketing' in a 1983 campaign that provided one cent every time someone used their card and \$1 for each new card application to a fund supporting renovation of the Statue of Liberty. The campaign raised \$1.7 million for the renovation and American Express experienced a 45% increase in the number of card holders and a 28% increase in card use (Jones 2009). File and Prince (1998) created a summary of the contemporary literature about the benefits of cause-related marketing, each of which can create value for a business:

- Breaking through advertising clutter
- Ability to influence consumers who support the cause
- Widen the customer base
- Enhanced corporate image
- Positive publicity
- Enhanced trade and salesforce relations

Further, Dean (2003/2004) has demonstrated that consumers are generally not sceptical of cause marketing relationships and that the average organisation that is involved in cause marketing does not risk any loss of consumer goodwill by engaging in cause marketing.

There are a variety of cause marketing and philanthropic models in use today. Some businesses

contribute a percent of a particular financial measure. Newman's Own donates 100% of post-tax profits and royalties to charities worldwide. Patagonia donates 1% of its sales to organisations that are active in environmental protection and restoration. Amazon donates 0.5% of the price of eligible AmazonSmile purchases to the charitable organisation of a customer's choice.

Increasingly, businesses are giving both money and products or services or just products or services as in-kind contributions. Amato and Amato (2007) consider that philanthropy and cause marketing activities may represent an evolution towards a wider base of community involvement beyond cash donations. Charities benefit from the necessary resources that can include money and knowledge (Hoeffler, Keller 2002). Mattel donates 2% of its pretax profits to Mattel Children's Foundation and more than 400 non-profit organisations throughout the world. Some donations are in cash but most are in toys. Other activities include Mattel employees going to schools to play with children and encouraging toy designers to teach art courses at children's hospitals. Mattel considers this deploying both financial and creative capital. Home Depot donates materials and people to help Habitat for Humanity.

Other models include Toms Shoes donating one pair of shoes for each pair that it sells. Cisco Systems created hi-technology schools in Mississippi and Louisiana following Hurricane Katrina. Ben & Jerry's created PartnerShops that can be run by not-for-profits with no franchise fees and no monthly royalty payments. Hotels and airlines are typically allowing donations of loyalty points to charities. Another concept released by JustGive is a customised charity gift card, GiveNow, for use at any of its 1.5 million charity partners.

The most common methodology for cause marketing is donation of a percentage of profits. This is used more than five times as often as percentage of transaction price (Pracejus *et al.* 2003/2004). However, percentage of profit contribution can lead to confusion amongst consumers through the difficulty in mentally calculating both profit and donation percentage as opposed to a simple price percentage (Olsen *et al.* 2003).

The reasons for these models could be altruistic, good business practice or both. Hoeffler and Keller (2002) cite a 1999 Cone/Roper Cause-Related Trends Report that 80% of the US residents have a more positive image of companies that support causes that those individuals care about. Almost two-thirds claim they would switch brands to one affiliated with a supported cause. Approximately three-fourths support the idea of cause marketing as an acceptable practice.

Individual Giving

Exploring the relationship between charitable organisations and businesses considers only two of the four major players in the giving process. In considering only private giving, government roles are excluded and three players emerge. Barring pure business altruism, individual consumers play that third crucial role. The importance of consumers in the giving process becomes evident when you consider the 2008 Corporate Contribution Report published by the Conference Board, which reveals that business-to-consumer companies contribute 35% more than business-to-business companies as a percentage of consolidated pretax income.

Whilst businesses and foundations contribute greatly to philanthropic organisations, a 2015 Giving USA Study indicates that private individuals contribute about 72% of the approximately \$358 billion in private US giving. About 70% of American households reported donating each year, but it is not always the same households (Singletary 2008). The Center of Philanthropy at the Indiana University reported that up to one-third of the individuals whom they surveyed alternated between donating and not-donating. The inconsistency has much to do with tax laws as well as the historical link between increases in wealth and giving (Knight 2007).

Just as altruism can motivate businesses so altruism can motivate individuals. The idea of taking pleasure in another's pleasure and just doing the right thing can motivate individuals to make charitable contributions (Carson, Mitchell 1993). Altruism can also be considered the 'functional equivalent of self-gratification' (Baumann *et al.* 1981). As a result, donating may create utility in the form of 'increasing the supply of public good' and through the very act of donating itself (Andreoni 1990).

One of the challenges claimed by many charities is the process of identifying and activating new donors. It may be as simple as asking. Nadeem (2009) cites research by the Independent Sector (1999) that claims 'because they were asked by someone' as the primary reason for donating time or money to a charitable organisation. If the initial request is small in magnitude, there may be a basis for a long-term relationship. When presented with a minor request, a consumer generally finds it difficult to argue that they cannot comply. Fulfilling an initial request increases the likelihood that they will respond favourably to a larger subsequent request (Cialdini, Schroeder 1976). Applying self-perception theory, individuals who comply with an initial request develop the self-perception that may influence them to comply with future requests by inferring their own attitudes and beliefs from self-observation of their behaviour (Reinhen 1978). A customer lifetime value perspective may be most appropriate when considering new donors.

Donations and the Shopping Process

Charitable donations can flow directly from consumers to charities, and donations can flow directly from businesses to charities. The shopping process can lead to transactions that connect the three parties. Donation promises linked to product offers appear throughout the consumer market. As discussed in the section on cause marketing, some businesses choose to offer a percent of the currency amount of an individual transaction to be directed to a specific charity or charitable fund.

The underlying reasons to use a donation-linked product offer have been considered in a variety of research projects. Babin *et al.* (1994) point out that shopping has both task-related and hedonic value. Both are 'aspects of consumer attitudes'. The shopping process can often provide both functional and experiential utility (Babin *et al.* 1994). When considering experiential utility in the shopping process, it is necessary to assess the symbolic meaning of products. Holbrook and Hirschman (1982) claim that 'all products – no matter how mundane – may have symbolic value' and that, in some cases, symbolism is 'rich and salient'. In addition to the product, the donation component of the transaction has symbolic value. The bundling of product and donation provide two separate positive outcomes resulting from a single transaction: The acquisition of the product and the positive feelings created from supporting a good cause (Strahilevitz, Myers 1998).

Consumers purchase products for two primary reasons. Hedonic purchases are based on the gratifying experience of product usage, whilst utilitarian purchases are based primarily on the functional performance of the products (Batra, Ahtola 1990). Hedonic products are pleasure-related products such as chocolate truffles, cake or wine. Utilitarian products are basic need items such as milk, eggs or paper towels. Strahilevitz and Myers (1998) considered the concept of complementarity, consumption of two items at one time, as a way to help select the most appropriate products to attach to charity donations. They believed that affect created from pleasure-oriented consumption was a better complement to charity donations than goal-oriented consumption related to the fulfilment of basic needs. Strahilevitz and Myers (1998) concluded that charity incentives were more effective with hedonic products than with utilitarian products.

There are other variations of the donation-linked product offer that can be constructed. One possible variation is where a brand offers a very small percentage of its product price to charity as opposed to reducing price by an identically very small percentage. Strahilevitz (1999) concluded the potential for purchase intention of a 'brand with a relatively small donation at a slightly higher price to be relatively high'. The characteristic of the product is claimed to be more important as the donation magnitude increases.

Donation-linked product offers could provide utility through changing the context of the charitable donation from writing a check at home to combining the task with a product purchase. Mental accounting refers to a cognitive process in which individuals react differently to products based on product labels or grouping (Kivetz 1999). For example, spending money out of one account may be more desirable than from another account. A donation-linked product offer may also provide utility through simple convenience. Research published in 2007 by The Center on Philanthropy at the Indiana University identified no difference between the amount of online and on-ground charitable donations amounts and found that 64% of respondents claimed that they gave online because it was simply a convenient way to give.

Charitable donations embedded in purchase transactions can increase the overall transaction price so the charity can benefit without being subsidised by a decrease in business revenue. This enhanced offering resulting from a social cause being added to a product or service is known as an embedded premium (EP) (Arora, Henderson 2007). Consumers are willing to pay 6% more, on an average, when some or all of their payment goes to a charitable cause selected by a seller (Elfenbein, McManus 2010). This increase in donation behaviour could be due to higher levels of empathy when the donation is matched to a preferred cause (Mattila, Hanks 2012). Valente (2015) argues that ethical differentiation can be an effective strategy with EP as the premium is seen to be connected to the charity rather than the seller.

The Organic Factor

Individual concern for the environment should also be reflected in purchasing behaviour (Minton, Rose 1997). An increased emphasis on environmentalism should indicate a greater propensity to purchase organic products. Organic products, food grown in a manufacturing system that is based on a balance between agricultural processes and the environment, represent the fastest growing food segment in the United States (OTA 2016). One of the most significant pressures against increased organic demand is the fact that organic food products average a price premium of 60% compared to similar products without organic certification (Baltussen *et al.* 2006).

The Hartman Group released a 2008 study that claimed 69% of consumers purchased organic products at least occasionally and 28% of organic consumers, 19% of adults, are weekly organic users. Organic products can also be thought of as representing a 'way of living' (Essoussi, Zahaf 2008). Consumer value for organic products is primarily derived from a 'health perspective'. Other reasons to buy include nutrition, safety, lack of chemicals and respect for the environment. Reasons to reject include cost, limited availability and lack of perceived value (Essoussi, Zahaf 2008).

A 2006 Yankelovich study of corporate environmental initiatives that influence consumers' purchase decisions found that 'offer organically raised or grown food products' was the top-rated response ahead of 'use environmentally friendly packaging'. Still, the power of the organic label tends to overpower other brands operating in the market space. Coca Cola with Odwalla, General Mills with Cascadian Farms, Heinz with Earth's Best and Kellogg with Morningstar have had limited success establishing their organic brands. In a presentation to the Food Service Educator's Network, 60% of organic food purchasers could not think of a specific organic brand name unaided (DiMatteo n.d.). Still, if organic refers to a way of life, then might that way of life enhance the utility of a donation-linked product offer?

Those who hold more intense normative beliefs might possess greater intention to pay a premium for organic products (Bishop, Barber 2015). We refer to these individuals as green consumers. The green consumer's purchase decisions are informed by a socially conscious, pro-environmental set of values (Moisander, Pesonen 2002). The green consumer considers whether the consumption of a product will generate a positive or negative ecological environmental consequence (Kim 2011; Jansson *et al.* 2010). As a result, altruistic motives are considered more important for green than non-green consumers. Research by Koppel and Schulze (2013) indicates that support for EP for Fair Trade coffee, most of which is also certified organic, over regular coffee is not related to the individual attributes of Fair Trade coffee but rather caused by the process of selling products at a premium that accrues to the charity. This would seem to indicate that organic products with EP would be preferred to non-organic products with EP through an appeal to altruistic motives.

Methodology

The sample was established as US consumers over the age of 18 years. Sample was drawn randomly from a managed Internet panel consisting of more than 10,000 double opt-in members. Panel members were incentivised with points to be redeemed for goods or services. The offer to participate was normative for the length of the survey. The 635 respondents consisted of 77% female, 90% Caucasian, 68% married or living together, 62% employed full-time or self-employed, 37% with children aged 17 years or younger in household, 30% had college degrees including 16% with post graduate degrees

and 76% were between the ages of 30 and 59 years. Income levels over \$100,000 were claimed by 15% of respondents, whilst 13% had income under \$25,000. Individuals claiming rarely or never to give to charities comprised 17% of the sample, whilst 40% of the sample believed organic products are higher quality than non-organic products and 49% seldom or never purchased organic products. Respondents working for not-for-profits comprised 8% of the sample.

The survey was released to the entire panel and remained active for two weeks. A completed survey was defined as a minimum of all block choices made and the classification section completed. If there were missing elements of the warm-up section and the other sections were completed then that survey was considered a completed survey. Respondent cooperation rates were monitored and related to panel book statistics for gender, household income, age, education and ethnicity. There were no deviations from normative response patterns and no weighting protocols were used.

Scales for the warm up section, consisting mainly of purchase funnel and category involvement questions, followed commercial brand tracking protocols for the food products market sector. Each survey element was pre-tested by a separate random sample of 30 managed panel members for comprehension and completion time.

The research design was survey-based using 64 blocks where each respondent was randomly assigned to four blocks. Each block consisted of a single choice set. Choice blocks were embedded between charitable category warm up questions and classification questions. Eight food products were subjected to testing in both organic and non-organic forms. The products were selected based on their range in relative price points and their representation of both hedonic and utilitarian product categories. The products included:

- One Gallon of Milk
- One Dozen Eggs
- Half-dozen Chocolate Truffles
- One Pound of Medium Roast Decaffeinated Coffee
- Five Ounce Chicken Breast
- One Large Roll of Paper Towels
- One Bottle of Chardonnay
- Seven Inch Round Bakery Cake

Each product was priced by taking the average of three different retail locations (with national presence) in Southeastern Michigan for both organic and non-organic products.

The non-organic choices were presented to consumers in the following manner:

Which of the following nationally known brands of milk with similar quality would you prefer?

Brand X

1 gallon of milk priced at \$3.99

Brand Y

1 gallon of milk priced at \$4.20

5% of the price goes to _____ [INSERT CHARITY NAME]

The organic choices were presented to consumers in the following manner:

Which of the following nationally known brands of organic milk with similar quality would you prefer?

Brand X

1 gallon of organic milk priced at \$6.99

Brand Y

1 gallon of organic milk priced at \$7.36

5% of the price goes to _____ [INSERT CHARITY NAME]

Each choice set was counterbalanced by another block and reconnected for final analysis after testing for stability of the block responses. The names of 10 leading charities were rotated into the survey as selected from most frequently reviewed charities at www.charitynavigator.com/. The 10 frequently reviewed charities at the time of the survey were:

- American Red Cross
- World Vision
- American Cancer Society
- AmeriCares
- Food For The Poor
- Volunteers of America
- The Nature Conservancy
- America's Second Harvest
- Feed the Children
- CARE

The charity names were cross-referenced with an aided awareness list developed for each respondent earlier in the survey. If the randomly assigned charity was listed in the aided awareness list, that charity was used. If there was no match, a new charity from the Charity Navigator list was randomly assigned until a match was found. In a very few instances where no charities were recognised and, therefore, no match could be found, respondents were assigned to the original randomly selected charity. The dollar price differential between Brand X and Brand Y was calculated to be equal to the percentage amount (5%) that was claimed to go to charity. Many elements of the design were adapted from the procedure used by Strahilevitz (1999) because of his significant contribution in this area.

Results

Interest in EP

Across the eight products tested, an average of 54% of respondents selected the choice without EP, whilst an average of 46% of respondents selected the EP choice. Three products with EP were preferred over non-EP options: non-organic chicken 60.76%, non-organic eggs 56.79% and non-organic wine 51.9%. Of those preferring products with EP, only non-organic chicken preference was statistically different at 95% with $p = 0.0298$. The lowest preference for EP products over non-EP product options were non-organic milk 38.27%, organic chicken 38.46% and organic bakery cakes 39.74%. Those products were the only products recording statistically different results for non-EP choices over EP choices at 95% confidence level with $p = 0.0141$, $p = 0.0212$ and $p = 0.0406$, respectively. Non-EP option preference for non-organic coffee with $p = 0.0526$ and organic eggs with $p = 0.0929$ were statistically different at 90% confidence level. All other choice options were not statistically different.

Interest in organic EP versus non-organic EP choices

In general, organic products with increased price and embedded donation were selected less frequently than their non-organic alternatives. Organic EP products were, on an average, chosen almost 5

percentage points less frequently (48.15% non-organic to 43.22% organic) than similar choices involving non-organic EP products. The only statistically different results were found with non-organic EP eggs selected over organic EP eggs at 90% confidence with $p = 0.0602$ and non-organic EP chicken selected over organic EP chicken at 99% confidence with $p = 0.0054$.

One segment of respondents, accounting for 8% of the sample, overwhelmingly selected EP options for both organic and non-organic products but data cells were too small to analyse statistically at the product level. The 8% segment was typically younger and very affluent and universally selected the following option when asked about their behaviour regarding organic products 'I purchase many different kinds of organic products and am willing to pay a premium for those products'. Other choices not selected by this group included 'I purchase many different organic products but will not pay a premium for those products', 'I purchase some organic products in specific categories', 'I seldom purchase organic products' and 'I never purchase organic products'. There were no counterbalancing issues for either organic or non-organic products.

Respondents were asked about their level of monetary and time donation to charitable organisations in the warm up section. The level of claimed contribution in either time or money to charitable organisations had no significant influence on the selection of one choice option or the other.

Conclusions

The survey results indicate that there is a non-trivial segment (average 46% across all products tested) of consumers who are interested in EP offerings. This research provides not-for-profits with an argument to approach for-profit businesses with mutually beneficial cause marketing proposals. This concept warrants continued consideration as a promotional strategy relative to traditional promotional strategies. Two products, non-organic chicken and non-organic eggs, demonstrated the highest EP appeal levels and indicate a potential difference between utilitarian and hedonic products in EP consideration. Concept appeal did not differ significantly amongst individuals with various levels of claimed charitable behaviour. One segment of respondents was highly interested in EP but that segment was relatively small.

The organic effect ran counter to the hypothesised outcome by actually reducing interest in organic EP choices relative to non-organic EP choices. It appears that the EP choices with organic products were too much to ask from some consumers. Quite possibly, organic consumers view their organic purchases as a *de facto* charitable contribution.

This research is intended to explore the theoretical basis for EP and the impact of organic versus non-organic product association. As actual product brands were not used and choice blocks did not contain the no choice option, there was not a realistic consumer experience. In addition, future research should combine survey data with behavioural data. Regardless of the insights generated from this research, many questions regarding EP and organic versus non-organic product impact on EP will remain, including:

- What is the concept appeal across a wider range of products and services?
- What about the impact of lesser known charitable organisations as the beneficiary?
- What is the impact on concept appeal with different embedded donation magnitudes?
- How does this pricing model impact sales volume over time?
- How is the concept impacted by hedonic and utilitarian product choices?
- Are overall charitable donations increased or are they redirected through the shopping process?

Future research should explore the impact that EP would have on transferring donation recipient and donation amount decisions from joint decisions in married or partnership situations to, generally, one individual in a shopping situation. By removing the bargaining effect, which is estimated to reduce charitable giving by 6%, it would be interesting to see if overall giving increased (Andreoni *et al.*

2003). Finally, additional research should be directed at the small segment of consumers who expressed strong support for EP across both organic and non-organic product choices. That segment might provide unique and valuable insights.

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