The Effectiveness of Donation Promises in Charity Auctions as a Cause-Related Marketing Strategy

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Abstract

A donation promise is the amount the seller will donate in a cause-related marketing (CRM) transaction. As CRM campaigns increase in popularity, donation promises serve as a competitive attribute between products. Thus determining how consumers perceive and respond to varying donation promises becomes important. This study examines the relationship between donation promises and charity auction revenue. Results of three controlled field experiments indicate that higher donation promises lead to increased selling prices, although at a diminishing rate. Furthermore, relative donation promises serve as a comparison frame and contrast to a target donation promise. Low to medium levels of donation promises incur significant overpayments, suggesting that sellers can profit from their charitable associations. Overall results have important implications for the relative appeal of CRM offerings in a fixed-price setting and suggest that charity auctions are a cost-effective part of a corporate social responsibility strategy.

Cause-related marketing (CRM), which bundles the sales of products with donations to charity, is becoming progressively more prevalent in the marketplace as companies develop campaigns to enhance their corporate image, promote their philanthropic efforts, improve consumer goodwill, and increase sales. A recent survey revealed that, worldwide, over 10,000 adults in major countries indicated strong support for corporate social responsibility (CSR) (Cone 2011). Ninety-three percent of consumers stated they wanted to know what companies are doing to support social or environmental issues, and an equal number (93%) indicated they would buy a product associated with a cause. Additionally, 65% have already purchased a product associated with a cause in the past 12 months. These results demonstrate that consumers are paying attention to firms' socially responsible activities and also underscores the importance of these activities. However, CRM campaigns are also vulnerable to negative perceptions, as evidenced in websites such as www.buylesscrap.org and www.thinkbeforeyoupink.org. Negative perceptions can arise when consumers suspect the motivations for CRM campaigns, particularly when donation amounts seem relatively small (Dahl and Lavack 1995). In addition, firms' CRM activities may reduce consumers' charitable giving (Krishna 2011), raising questions concerning the impact of CRM activities. This investigation focuses on one important aspect of CRM: the extent to which consumers are willing to pay extra for products bundled with CRM activities.

In cause-related marketing, a "firm's contribution to a designated cause [is] linked to customers' engaging in revenue-producing transactions with the firm" (Varadarajan and Menon 1988). Charity auctions are an emerging CRM strategy, used to explore bidding responses when decisions to give are linked with decisions for product acquisition. A recent example includes eBay giving, in which any seller could specify a percentage of the selling price (between 10–100%) to be donated to a group of designated charities. In one of the earliest CRM campaigns, American Express promised to donate 1 cent for every credit card transaction and $1 for every new card issued toward restoration of the Statue of Liberty during the last quarter of 1983.

Like other CRM activities, charity auctions bundle a private good with a public one, so that the acquisition of a product or service results in the donation to charity of a certain amount or percentage of proceeds. Charity auctions differ from other CRM activities in that the actual donation amount is not typically fixed and depends on the dynamic ending price of the auction itself. In other words, donation amounts reflect a bidder's willingness to pay (WTP) a premium for the product's charitable association, providing a unique setting for CRM research that allows

researchers to measure consumers' WTP for products linked to charity. These differences in WTP can also reflect the relative appeal of donation promises in a fixed-price setting. CRM campaigns can benefit not only firms seeking to contribute to their CSR strategy but also charities looking to market themselves and raise funds.

Previous research has established that bundling a private benefit and a public good will influence consumers' perceptions of the seller and purchase intentions (Dahl and Lavack 1995; Pracejus and Olsen 2004; Ross, Patterson, and Strutts 1992; Strahilevitz and Myers 1998; Webb and Mohr 1998). However, studies have provided little reliable evidence related to conscious consumerism. A systematic review of over 1,700 academic and practitioner articles addressed the question of whether consumers will pay a premium for socially responsible products (Cotte and Trudel 2009). That review found very little research actually reporting a percentage or dollar increase in this premium, and field studies offered no results whatsoever. Furthermore, increases in WTP a premium are higher when measuring intentions than when measuring actual behavior. Therefore, our research investigates this important unaddressed question: To what extent, and under what conditions, are consumers willing to pay a premium for socially responsible products? In particular, we focus on the effect of the magnitude of the donation promise on consumers' WTP for products bundled with donations to charity. Furthermore, we use field studies, augmented with survey data, to address our research questions, because as the previous systematic review points out (Cotte and Trudel 2009), a major limitation to existing research is that most of it is done with survey data, which are susceptible to a social desirability bias. Survey research is not as consequential as field studies, which involve one's own money (Haruvy and Popkowski Leszczyc 2009a; Levitt and List 2009).

A few studies have provided support for charitable motives. In laboratory studies (Strahilevitz 1999; Pracejus, Olsen, and Brown 2003) and in charity auctions (Haruvy and Popkowski Leszczyc 2009b; Elfenbein and McManus 2010; Popkowski Leszczyc and Rothkopf 2010), consumers have indicated WTP a premium for the purchase of products bundled with a donation to charity. However, other studies under a controlled setting did not find a charity premium (Isaac and Schnier 2005; Isaac et al. 2010). Therefore, we address the important question of the extent to which consumers are willing to pay a charity premium in a CRM context.

In addition, we focus on distinguishing variables that moderate the relationship between the magnitude of the donation promise and consumers' WTP for socially responsible products. Theoretical literature has suggested that the utility gained from giving is subject to diminishing returns (Andreoni 2006; Engers and McManus 2007), indicating that the payments for CRM activities decrease as the level of donation increases. We focus on two variables that influence the level of donation: the product value and the amount or the magnitude of the donation promise.

Another potential moderator is the product type. Previous research has shown that consumers' charity premium may vary depending on the type of product. For example, frivolous products are more effective as charitable incentives (Strahilevitz and Myers 1998; Chang 2008). We add to this research by studying the impact of product functionality, together with product value and the level of product information.

We also consider a potential moderating effect of the ease of assessing a product's value. In particular, we study the influence of product information on WTP in cause-related auctions. Lack of product information increases ambiguity and affects the simplicity of assessing the value of a product, which influences consumers' WTP. This effect particularly holds true in the case of online auctions, where consumers cannot inspect the product before purchase (Haruvy et al. 2012). Furthermore, we expect ambiguity to influence consumers differently in a charity setting (Crutchfield 1955), where missing or limited information may be of less consequence.

Finally, the nature of a donation promise may shape consumers' WTP a premium for CRM products. In today's marketplace consumers likely face a multitude of CRM offers for related products. However, little is known about the influence of competing offers with varying donation promises. We therefore consider the effect of relative donation promises.

The current research makes important contributions to the literature. First, we conduct a number of controlled field experiments to measure consumers' WTP a charity premium in a CRM context. By varying the level of the donation promise, we determine the shape of the response function between the level of the donation promise and consumers' WTP. We also investigate a potential threshold and diminishing returns to giving, and we study several novel variables that moderate this relationship, including the ease of assessing the product's value and the effect of relative donation promises.

Our findings indicate that (1) increases in donation promises lead to increases in selling prices; (2) diminishing returns to giving occur for both higher donation promises and higher product value; (3) overpayment of selling prices (i.e., higher net revenue than non-charity auctions) occurs at low- to mid-level donation promises, suggesting that sellers can profit from their charitable associations; (4) higher value frivolous goods tend to be more effective than functional goods in charity auctions with higher donation promises; (5) uncertainty about a product's value results in a higher selling price for higher donation promises; and (6) relative donation promises influence bidders' perceptions and selling prices by serving as a comparison frame and contrast to a target donation promise. We find that the higher (lower) competing donation promises serve as a reference point, and decrease (increase) the selling price of the target item, compared to the selling of that item without the presence of a competing item.

In the following sections, we explore the relationship between charity auction factors and selling prices, and subsequently discuss the methods and results of each of our research studies. We conclude with a general discussion and offer suggestions for future research.

THEORY AND HYPOTHESES

The amount donated to a charity is equivalent to the donation promise multiplied by the final charity auction price, where the donation promise is expressed as a percentage as opposed to a fixed amount. The price premium is the difference between the selling price of the item in a charity auction and the selling price in a non-charity auction (Haruvy and Popkowski Leszczyc 2009b; Popkowski Leszczyc and Rothkopf 2010; Elfenbein and McManus 2010). Changes in price premiums may result as the nature of the charitable association changes (e.g., the level of the donation promise). Our a priori expectation is that selling prices will increase as the donation promise increases. This expectation is consistent with the findings of a previous study that varying donation levels while keeping price constant led to significant effects on product choice (Pracejus, Olsen, and Brown 2003). Consumers preferred products with higher fixed donation levels.

In a charity auction context, previous research examined choice between simultaneous pairs of auctions identical in all but the percentage of proceeds donated to charity (Haruvy and Popkowski Leszczyc 2009b). Results showed that bidders were willing to pay a higher price for

higher donation promises, with a charity premium ranging from 5.2% (for gift certificates) to 44.6% (for handcrafts). Similarly, in charity auctions on eBay.com, donating 10% of proceeds led to revenue increases of 10–12% compared to non-charity auctions (Elfenbein and McManus 2010). Also in an auction setting, selling prices in charity auctions were 11–45% higher across three experiments (Popkowski Leszczyc and Rothkopf 2010).

We also expect the bidding response to diminish as the donation amount increases. Evidence indicates that positive utility gained from giving follows a pattern of diminishing returns (Andreoni 2006; Engers and McManus 2007), and the notion that positive utility will diminish as more of it is obtained is consistent with the prospect theory value function (Kahneman and Tversky 1979).

Although we predict a positive, diminishing relationship between donation promises and ending prices, competing theories can also affect the bidding response function, particularly when donation promises are small. We consider the possibility that small donation promises may have no effect or even a negative influence on selling prices. If bidders suspect a seller's objectives in implementing small donation promises are primarily selfish, they may question whether the charitable association is sincere in its desire to help a charity or is exploiting the cause for profit motivations (Dean 2003; Varadarajan and Menon 1988).

Support for this explanation appears in a study in which small corporate donations led to consumer perceptions of nonprofit exploitation (Dahl and Lavack 1995). However, whether perceptions of exploitation will influence WTP in a CRM context is still an open question. The response pattern could exhibit a threshold or even a negative effect in which bid prices may actually decrease. This effect results in an S-shaped response function (see Figure 1), where for small donation promises, changes in bid outcomes are non-existent or negative, but as donation promises increase, selling price increases at a diminishing rate.

H1: Selling price will follow an S-shaped response function, where initially selling price will decrease or remain constant at small donation promises and then will increase (but diminish) as donation promises increase.

The remaining hypotheses focus on variables that moderate the relationship between donation percentage and auction ending price.

Insert Figure 1 about here

Product Value

We expect that the value of the product being sold also moderates the effect of donation promise on selling price. Since both the donation promise and the product value determine the absolute donation amount, when product values increase (decrease), the absolute donation amount should increase (decrease) if donation promise is kept constant. Although product values are less explicit and calculable than donation promises, we also expect that varying product values should influence the relationship between donation promises and selling prices in a diminishing pattern, where high-value products will have a smaller effect than low-value products. Furthermore, some evidence in the literature indicates that higher-priced products may be less effective as charitable incentives (Nowak 2003; Chang 2008). Therefore, we predict that:

H2: Higher donation promises will have a relatively greater influence on selling prices for lower value products than for higher value products.

Product Type: Frivolous versus Functional Products

Products can be divided into utilitarian or functional products (e.g., laundry detergent, hair dryer, book case) and hedonic or frivolous products (e.g., ice cream, perfume, jewelry) (Hirschman and Holbrook 1982). Consumption of frivolous products tends to induce feelings of guilt, whereas contributions to charity tend to reduce guilt, and both pleasure and guilt feelings are positively related to altruistic behavior (Isen and Simmonds 1978; Cunningham, Steinberg, and Grev 1980; Baumann, Cialdini, and Kendrick 1981). Hence, the affect flowing from the consumption of frivolous goods complements the utility received from contributing to a charity, leading to affect-based complementarity (Strahilevitz and Meyers 1998). In laboratory studies that measured participants' purchase intentions for charity-linked brands (Strahilevitz and Myers 1998; Chang 2008), the researchers measured subjects' purchase intentions, comparing a product with a donation to charity versus a discount equal to the amount of the donation, and found that frivolous or pleasure-oriented products are more effective as charitable incentives than functional

products. On the basis of the above, we hypothesize a positive interaction effect between product type (frivolous good) and donation promise.

H3: In charity auctions with higher levels of donation promise, frivolous items will sell for a higher price than will functional items.

In addition, the value of the item and/or the magnitude of the donation may influence the relationship between charity-linked brands and product type. In a study of the magnitude of donations in a CRM setting, larger donations were more effective for frivolous goods when the researcher asked subjects to choose between a price discount or an identical donation to charity (Strahilevitz 1999). As with hypothesis 3, we expect an interaction effect between charitable premium, product type, and value of the item.

H4: In charity auctions with higher levels of donation promise, higher value frivolous items will sell for a higher price than will functional items.

The Amount of Product Information: The Ease of Assessing the Value of a Good

The amount of product information influences the ease of assessing a product's value. In particular, the lack of relevant product information will affect the ability to assess a product's value, increasing a bidders' uncertainty concerning WTP. This effect particularly holds true in the case of auctions where consumers cannot inspect the product before purchase.

Theory suggests that consumers react differently when faced with ambiguity. In regular auctions, researchers have often perceived bidders' uncertainty negatively, as resulting in less aggressive bidding (Milgrom and Weber 1982; Kagel et al. 1985; De Siva et al. 2008). Bidders may interpret a lack of information as bad news, indicating for example that the company is hiding relevant information (Akerlof 1970). However, in social settings consumers tend to react differently to ambiguity. Social influence research in psychology suggests that under conditions of ambiguity, individuals tend to be more positively influenced by social information (Crutchfield 1955). Similarly, theoretical results in economics have shown that ambiguity can increase donations (Eichberger and Kelsey 2002).

We expect that in a charity setting, consumers will react differently to missing or limited information, as they will be less concerned that the firm is hiding, or is trying to manipulate,

relevant information because they will be trusting of the charity. In addition, the higher the donation promise, the higher this trust. Hence, consumers tend to be less concerned that they are paying too much since the money is going to a good cause (Carr and MacLachlan 1998). Therefore, we expect that consumers will be less influenced by limited information and will bid more aggressively in charity auctions, especially when the donation promise is higher. We predict a negative interaction effect between the amount of product information (uncertainty concerning the value of a product) and the magnitude of the donation promise.

H5: A (higher) donation promise has a greater impact on selling price when less information is provided about the product.

Absolute versus Relative Donation Promises

We consider the impact of an important context effect: the relative versus absolute level of the donation promise. Donation promises become increasingly difficult to assess in isolation, and how consumers respond when competing offers exist is an important unanswered question. Therefore, we determine the impact of relative donation promises. By manipulating another identical charity auction with either a higher or lower donation promise, we can determine whether the influence of other donation promises, all other factors held constant, is context-dependent (Payne et al. 1992; Simonson and Tversky 1992). Contextual information has been shown to influence people's behavior in a number of settings, including a donation context (Shang, Croson, and Reed, 2008). Consumers incorrectly estimate donation amounts owing to abstract wording or vague quantifiers in CRM advertising (Pracejus, Olsen, and Brown 2003).

Whether a relative donation promise contrasts or assimilates with another value requires us to consider how the competing donation promise is perceived. Research by Highhouse, Paese and Leatherberry (1996) suggests that contextual information may lead to contrast effects, specifically when the positive or negative information is well-defined. Contextual information may be ambiguous (i.e., hard to evaluate) on its own, but unambiguous when compared to target information. In that sense, contextual information can become well-defined when presented with target information and contrast is likely to occur. Also research on interpretive versus comparison framing suggests that similarity between the target and the context, in terms of categorical domain, can lead to comparison frames when sharing contextual information of the

same category (Stapel and Koomen 1998). As contextual and target information are similar in category (i.e., both being donation promises), contrast is likely to occur.

We suggest that the relative nature of donation promises depends on the reference provided, which in a charity auction context is the competing donation promise. We speculate that relative donation promises will contrast because they serve as a comparison frame when compared to the target donation promise. We expect that selling prices will be affected, where a donation promise that is higher or lower than a competing donation promise will lead to bid outcomes that are higher or lower than when that donation promise exists alone, with no competing auction present. Therefore, we predict that:

H6: A contrast effect will exist between donation promises, where a relatively high (low) donation promise compared to a relatively low (high) donation promise will sell for more (less) than when the same donation promise is presented in isolation.

OVERVIEW OF STUDIES

We conducted three controlled field experiments to test the above hypotheses. Study 1 focuses on how varying donation promises and product values influence selling prices. Study 2 examines the impact of the type of product and the amount of information on donation promise. Study 3 considers absolute versus relative donation promises.

All studies consisted of real-life auctions conducted on a local Internet auction website over a period of five years, from 2005–2009. The auction site was created in September 2002 for academic purposes, and is under complete control of the researchers. Currently the site has over 9,000 registered members who represent people of all ages, located in a major North American city. The website is similar in format to eBay, where members can buy items or put them up for sale through online auctions. Online auctions consist of both charity and non-charity auctions, but the website has a reputation for running various local charity auctions. From 2005 to 2009, the website raised over $1.5 million for various mostly local charities. Most auctions were conducted in October and November (Appendix A provides an overview of the different studies). Auction format was similar across studies, and all auctions lasted approximately one day.

All auctions were open ascending bid auctions with a fixed ending time and a starting bid of $0.01, without a reserve price. All other auction characteristics were controlled for. The same established vendor, with over 300 positive feedbacks from previous transactions, was used across all auctions. Winning bidders paid for and collected the items at a local retail store.

STUDY 1:
INFLUENCE OF VARIED DONATION PROMISES AND PRODUCT VALUES

In this study, we examine how varying donation promises and product values influence selling prices. We test whether a threshold or negative effect exists for low donation promises, and whether a diminishing pattern emerges for higher donation promises (resulting in an S-shaped relationship).

We manipulate donation promises between the values of 0% (non-charity auction), 1%, 25%, and 50% (charity auctions). The 0% condition is our base case, which we use to compute WTP. We use the 1% condition to determine whether a threshold effect or a negative attribution effect takes place or whether small donation promises act as a positive signal, and with the 25% and 50% conditions we examine whether diminishing returns occur with a sufficiently large donation promise. The field experiment was conducted on a local online auction website with products that included movies, stamps, computer products, electronics, small appliances/tools, and crafts. Appendix A presents summary statistics.

In total, 144 one-day auctions (four identical replicates of 36 products) were evenly divided and conducted over a four-day period. Identical products were always sold in pairs, such that on any given day two identical products were sold but with a different donation percentage. The two pairs within a set of four identical products were sold on different days. The pairs were sold over a period of four days and were counter-balanced across conditions. All other factors of the auction were held constant. The duration of all auctions was approximately one day, starting at 9 p.m. and ending at 8 p.m. the next night (all auctions ended sequentially with one-minute intervals).

Results

Table 1 presents summary results. All items were sold. We categorized product values in our auctions by dividing the auctions into four quantiles based on the retail price. The average prices for the four quantiles were $11.41, $14.48, $22.34, and $39.85.

We collected final selling prices and the winning bidder's maximum WTP as dependent measures. (Besides the selling price we also have the winning bidders' WTP, obtained from their highest proxy bid, which is available to the authors since they have complete control of the website where the auctions were conducted.)

Our analyses show that both measures give similar results (see Table 1). Final selling prices were $12.47 on average for a non-charity auction, and increased to as much as $16.70 when a 25% donation promise was used.

As results show, final selling prices generally increase as donation promises increase. We ran a random effects ANOVA model with final selling prices as the dependent variable, controlling for differing products (i.e., including different intercepts for different products). Donation promise had a main effect, in that prices increased as the donation promises increased ($F(1, 135) = 24.51$, $p < 0.01$). A quadratic term for donation promise was significant and the estimate was negative ($F(1, 135) = 7.47$, $p < 0.01$), indicating that when donation promise increased, selling price increases diminished. This finding means that lower donation promises result in greater changes in selling prices than higher donation promises.

However, we did not find a threshold or negative effect with the 1% donation promise. We conducted several planned contrasts comparing the WTP for the different conditions, and the difference between the non-charity auction and a 1% donation promise is statistically significant ($t135 = 3.16$, $p < 0.01$). The difference between the WTP for a non-charity auction and a 25% donation promise is also significant ($t135 = 5.74$, $p < 0.01$). However, the difference between a 25% and 50% donation promise is not significant ($t135 = 0.20$, $p = 0.845$). The latter is consistent with the diminishing results of the donation promise.

Instead of a threshold or negative effect, we found a substantial over-payment effect for the 1% donation promise. The average selling price resulted in a price premium (the payment difference compared to a non-charity auction for the same product) of $1.15. However, the 1% donation promise leads to only a $0.14 donation, meaning the seller earned an additional $1.01 in

profit because of the charitable association of the auction (the difference in selling price between auctions with a 0% and 1% donation promise is even larger for a bidder's maximum WTP). This result suggests that bidding not only follows a diminishing pattern, but that at small donation promises it can potentially lead to profitable results for the seller (the difference in selling prices between the 0% and 1% donation promise is marginally statistically significant; $t135 = 1.81$, $p = .072$). Table 1 clearly shows this effect, where seller revenue is highest for donation promises of 1% and slightly higher than a non-charity auction (0%) for donation promises of 25%. Therefore, we do not find support for an S-shaped response function (hypothesis 1), but instead find a concave response function, which is increasing in the donation promise but with diminishing returns.

Insert Table 1 about here

We found a significant interaction between donation promise levels and product value ($F(3, 135) = 3.13$, $p = 0.03$), as predicted in hypothesis 2 (with a negative sign for the two highest value product dummy variables; the quantiles). As Figure 2 shows, the highest value quantile leads to greater diminishing effects than the lower value quantiles, indicating that product value moderates the effect donation promises have on selling prices. We also considered whether charity auctions with a higher donation promise attracted more bidders (see Table 1), but we did not find a statistically significant difference ($F(3, 135) = 1.59$, $p = 0.196$).

Insert Figure 2 about here

Discussion

In several important ways, these results extend the work by Popkowski Leszczyc and Rothkopf (2010). First, we study the effect of small to moderate levels of donation promises and identify a positive although diminishing effect of donation promise on selling price. We predicted a threshold or negative effect for very small donation promises, but instead find an

over-payment effect (i.e., the charitable premium paid is greater than the amount donated to charity). In addition, we find that the relationship between donation promise and selling price is moderated by the value of the product. We observe greater diminishing returns to giving for higher value products and the largest over-payment effect for the lowest value products. This result suggests a contextual influence on bidders, where factors other than the absolute value of the donation promise may be affecting how bidders bid. Finally, we also extend the previous researchers' findings to a broader set of products.

We observed an over-payment effect when 1% of the ending price was donated to charity, suggesting that companies (in the short run) can profit from making small donation promises. This finding suggests that the label "charity auction" may lead some bidders to focus more on the charitable association than on the actual donation promise of 1%. That is, the charitable association may act as a positive signal to bidders, resulting in higher selling prices. Charitable donations (no matter what the value) could have primed the bidders' pro-social self, resulting in increased spending compared to non-charity auctions. This result is consistent with results observed for price promotions, where just the sale sign may influence sales (Inman and McAlister 1993). Also, other findings suggest that people are influenced by vague quantifiers in CRM advertising (Pracejus et al. 2004, 2003). Furthermore, we found that charity auctions with a higher donation promise did not attract more bidders, suggesting that the observed higher ending prices are due to bidders with charitable intent who are willing to pay a higher price, and are not due to increased bidder entry.

Despite our finding of no negative effect for small donation promises, the potential remains for perceptions, rather than behavior, to be negatively influenced by a small donation promise, which may result in a negative longer term impact. To address this issue, we conducted two exploratory studies, measuring consumers' perceptions of donation promises in a more general, fixed-price CRM context under controlled laboratory settings. Study 1A focuses on consumers' perceptions of very small donation promises, while Study 1B measures perceptions of a scenario in which companies profit from their donation to charity.

STUDY 1A:
CONSUMER PERCEPTIONS OF SMALL DONATION PROMISES

For this study, we used a paper-and-pencil scenario in which we manipulated relative donation promises by pairing brands of shoes that were equivalent in quality and price but different in their donation promise. This study followed a between-subjects design, with subjects randomly assigned to the two treatment conditions. The 132 respondents were asked to choose between two brands of shoes (of equal price and quality), where donation promises varied between 0% vs. 1% or 1% vs. 10%, and to respond to a series of questions that included their perceptions of the shoe company's CSR efforts (our key dependent variable). We measured CSR perceptions on a scale of 1 to 7, where 1 meant subjects strongly disagreed that the company was involved with pro-CSR efforts and 7 meant subjects strongly agreed with pro-CSR efforts. (CSR perceptions were aggregated over both brands of shoes (Cronbach's alpha = 0.94). Counter-balancing the brand name and product images did not influence the results.) When comparing 0% vs. a 1%, subjects rated the 1% donation promise significantly higher than the 0% donation promise ($t66 = 14.89$, $p < 0.01$), and the 1% donation promise was never seen as more negative than a 0% donation promise. Furthermore, CSR perceptions differed significantly more between 0% and 1% than between 1% and 10% ($t130 = 6.89$, $p < 0.01$), suggesting that the effect on perceptions between no donation and a positive donation (although only 1%) was greater than a 9% donation promise difference that compared two positive amounts.

Hence, consumers did not seem to perceive very small donations negatively. This result suggests that companies may profit in the short run and may not risk incurring negative perceptions by using smaller donation promises. The possibility remains that negative perceptions are not being triggered, because any donation may be seen as a positive signal, so we conducted another exploratory study in which we also included a seller's profit.

STUDY 1B:
CONSUMER PERCEPTIONS OF COMPANIES' PROFIT FROM DONATION TO CHARITY

To carry out this study, we collected survey responses from 134 subjects and measured their perceptions for different CRM scenarios, some of which were profitable to the seller (a for-profit company selling a product in an auction). We varied the seller's profit by manipulating the selling price and the donation promise, expressed as a percentage of the selling price in an auction, for an identical product. We obtained subjects' perceptions for the following three scenarios: (1) 0% donated to charity and sellers' profits of $100; (2) 10% donated with profits of $100; and (3) 25% donated with profits of $125. The study consisted of three conditions, each consisting of two scenarios. Subjects were randomly assigned to the different conditions. To measure subjects' CRM perceptions, we asked the same questions as in Study 1A. In addition, we asked questions about the extent to which the seller was using the charity to increase profitability and whether the seller was more charitable than the other seller (both measured on an eleven-point scale, where 0 = strongly agree and 10 = strongly disagree).

In all instances, subjects perceived the seller to be more charitable when a higher percentage of revenue was donated to charity, even when sellers profited from the charity auction. Subjects also did not perceive that sellers in the 25% condition were using the charity to increase their own profitability to a greater extent than those in the 10% condition ($M_{10\%\text{-donation}} = 5.52$ vs. $M_{25\%\text{-donation}} = 5.25$, $p > .1$). Hence, we found no evidence that suggested bidders would punish sellers for profiting from a charity auction more than another seller, which is consistent with the results from our previous studies.

We explored whether consumers may actually regard a very small donation negatively, since they may perceive that firms give token donations in an attempt to exploit their association with the charity. We did not find such an effect, as the 1% donation was always considered to be more positive than the 0% donation promise, which was consistent with our findings from Study 1.

Together, the results of these exploratory studies suggest that consumers do not penalize firms for making very small donations to charity and that profiting from a charitable donation is acceptable as long as the donation promises are higher relative to the competing options. These

results were obtained in a more typical CSR context, rather than in a charity auction, thereby generalizing our results beyond a charity auction setting.

Next, we consider several studies that explore factors that may moderate the relationship between donation promise and auction ending price. Study 2 focuses on the on the product type.

STUDY 2: PRODUCT TYPE

The objective of Study 2 is to examine the moderating effect of product type and the extent of product information. We systematically manipulated the level of donation as a percentage of the selling price (10, 20, 30, or 40%), the type of product (frivolous vs. functional good), the product value, and the amount of product information (where a product description was present or not).

The level of donation was manipulated within the product, such that four product replicates were sold off each with a different donation percentage. Percentages were selected to be in the range of those in Study 1 to obtain further details regarding intermediate-level donation promises.

Identical products were always sold in pairs, such that on any given day two identical products were sold but with a different donation percentage. The two pairs within a set of four identical products were sold on different days. The pairs were sold over a period of four days and were counter-balanced across conditions. The type of product and the product value were systematically manipulated between products. For product type, we selected half functional products and half frivolous products, balanced in terms of retail value. Products were pre-tested to make sure that the classification of frivolous versus functional goods was consistent. The average retail value of the frivolous goods was not different from that of functional goods ($29.38 vs. $28.71). Frivolous goods included movies, video games, toys, foot spas, soap sets, perfume, and massages. Functional goods included electronics, tools, household items (rice cookers, blenders, mixers, irons), razors, and more.

Finally, we also varied the amount of product information provided between products, making it easier or more difficult to assess the value of the product. In the high information case, the auction had a picture and a full description of the item, whereas in the low information case

only a picture was present. Products were pre-tested to make sure that products with low (high) information were more (less) difficult to assess in terms of value.

In total, we ran 300 auctions (75 products x 4 replicates) over a four-day period. Each auction lasted 24 hours, starting at 9:01 p.m. and ending the next evening at 9:00 p.m. The basic procedure was identical to that of Study 1. Products' retail values ranged from $9.00 to $79.99 and included products like tools, cosmetics, movies, gift certificates, electronics, household items, and exercise and sports equipment. See Appendix A for summary statistics.

Results

All 300 items sold. We collected final selling prices and the winning bidder's maximum WTP as dependent measures. As with Study 1, we categorized product values by dividing the auctions into four quantiles based on the retail price. The averages for the four quantiles were $12.85, $20.22, $31.70, and $54.35. Figure 3 shows selling prices for different donation promises and amounts of information.

Insert Figure 3 about here

Since functionality and information content were manipulated between products, we first conducted a confounding check to determine whether retail value is equally balanced between the conditions. We found that average retail prices do not vary between product functionality ($M_{Functional} = 28.71$ vs. $M_{Frivolous} = 29{,}38$, $t = 0.35$, $p < .729$) or for information content ($M_{Information} = 28.62$ vs. $M_{No\_Information} = 30.16$, $t = 0.72$, $p < .469$).

We ran a random effects ANOVA model with final selling prices as the dependent variable, including product as a random intercept. (We also estimated a model with standardized price, where price = price/ retail value (the retail price paid). Results of this model are consistent with the results reported below, only value is no longer significant.) We found a significant main effect for charity ($F(1, 282) = 4.61$, $p = 0.03$). In addition, we conducted planned contrasts comparing selling prices for different donation promises. Interestingly, we found a significant difference between a 40% donation promise and all other levels (all p-values < 0.05). However,

donation promises of 10%, 20%, and 30% were not statistically significant (all *p*-values > 0.10). We also found a significant negative interaction effect for the level of donation and value of the product ($F(3, 282) = 3.75$, $p = 0.01$). This result is consistent with hypothesis 2, again supporting diminishing returns to giving. (Not surprisingly, the main effect for value is also highly significant, $F(3, 282) = 42.89$, $p < 0.01$.)

Hypothesis 3 is not supported, as the interaction effect between functional products and level of donation is not significant ($F(1, 282) = 1.08$, $p = 0.30$). Hence, higher donation promises are not more effective for frivolous products. (The main effects for functional products is also insignificant, $F(1, 282) = 0.59$, $p = 0.44$). However, we do find support for hypothesis 4, since the three-way interaction between donation promise x functional product x value is significant ($F(3, 282) = 3.37$, $p = 0.02$). This result means that only higher value frivolous goods achieve higher selling prices at higher donation levels. The three-way interaction between donation promise x functional product x product information was not significant ($p = 0.80$), and was dropped from the main model.

We do find a significant negative interaction effect for the level of donation and information ($F(1, 282) = 5.66$, $p = 0.02$), suggesting that selling prices are higher when donation promise is high and information is low. This finding provides support for hypothesis 5. The main effect for information was not significant ($F(1, 282) = 2.36$, $p = 0.13$). Again, we considered whether charity auctions with a higher donation promise attracted more bidders, but we did not find a statistically significant difference ($F(3, 282) = 0.18$, $p = 0.91$).

Discussion

Study 2 makes several contributions. First of all, our examination of the effect of lack of information on ending prices in charity auctions shows that consumers are willing to pay a higher charitable premium when value is more difficult to assess and donation promises are high. Secondly, by testing the effectiveness of frivolous versus functional goods in real-world charity auctions where consumers make consequential decisions, we extend previous work (Strahilevitz and Myers 1998; Strahilevitz 1999). We directly measure consumers' WTP for functional versus frivolous goods bundled with donations to charity for different levels of magnitude of the donation promise and different product values. We find that frivolous goods are more effective

than functional goods for higher donation promises, although only for higher value goods. The effect of product functionality is not influenced by the level of product information. This finding suggests that a potential affective response related to consuming a frivolous product (i.e., negative affect) complemented by the affective response of making a donation (i.e., positive affect) is not influenced by the level of product information.

We find again that higher donation promises result in higher selling prices. While we find diminishing returns for high-value products, we did not observe diminishing returns for higher donation promises. However, this result may stem from the limited range in the level of the donation promises.

We next examine how auction selling prices are influenced by relative as opposed to absolute donation promises.

STUDY 3:
ABSOLUTE VERSUS RELATIVE DONATION PROMISES

In this study, we compare ending prices in two simultaneous auctions with different donation promises. The donation promise is framed as either lower or higher than the absolute donation (the control condition).

In total, 120 daily auctions (five replicates of 24 products) were conducted over a five-day period. The five replicates were sold either in isolation (absolute condition, 25% donated), or as a pair of two simultaneous auctions where 25% donation promises were either relatively high (0% vs. 25%) or relatively low (25% vs. 50%). The different conditions were blocked and randomized across the five days, such that the three conditions were always spread across different days. The duration of all auctions was approximately one day, starting at 9 p.m. and ending at 8 p.m. the next night (all auctions ended sequentially with one-minute intervals). Products sold ranged from gift cards to electronics, board games, power tools, and sporting goods. Product values ranged from $15 to $100. Appendix A presents summary statistics.

The results are summarized in Figure 4, which compares the average auction outcomes when 25% of proceeds are donated to charity for the three different conditions. The average selling price is $42.86 when products are auctioned independently (absolute condition). When the 25% auction is paired with an auction where 50% is donated to charity, the average selling

price drops to $41.48 (a decrease of $1.38), and the average selling price rises to $44.22 (an increase of $1.36) when the 25% donation is paired with a non-charity auction (0% donation). This spread of $2.74 is due solely to the presence of a relative donation promise under joint evaluation.

We used a random effects model to control for the different products in the auctions, and found a significant effect for relative donation promise ($F(2, 69) = 6.42$, $p = 0.003$), with price as the dependent variable supporting hypothesis 6. This finding suggests that the three conditions for the donation promise of 25% (relatively high compared to 0%, relatively low compared to 50% and absolute 25%) lead to significantly different selling prices. Additional planned contrasts indicate that the relatively high 25% is significantly different from the relatively low 25% condition ($t69 = 3.47$, $p = 0.001$) and is significantly different from the absolute 25% condition ($t69 = 2.06$, $p = 0.043$). We found no significant difference between relatively low 25% and absolute 25% condition ($t69 = 1.10$, $p = 0.28$).

Insert Figure 4 about here

These findings support hypothesis 8 in that they suggest that a 25% donation, which consumers see as relatively high (a positive contrast), has a positive impact on selling prices, whereas a 25% donation, which consumers see as relatively low (a negative contrast), has a negative impact on selling prices compared to a 25% donation in isolation (an absolute donation).

This study finds that donation promises are context-dependent. Previous studies have also reported the influence of different contextual information in a donation context. For example, previous research has reported the importance of social influence on donations (Shang, Croson, and Reed 2008) and has found that the proportion of seed money increases the amount and the participation rate in fundraising (List and Lucking-Reiley 2002), and that abstract wording, or vague quantifiers in CRM advertising, may influence consumers' perceptions (Pracejus, Olsen, and Brown 2003). The current study adds to these results, as we find that the nature of competing offers influences donation promises. More specifically, we find that when a donation promise is contrasted with higher or lower donation promises, the perceived impact of the target donation promise is significantly affected.

Our results show that in framing their donation promises, sellers should consider alternative product–charity bundles that bidders may be evaluating and adjust their donation promises to be perceived more positively.

GENERAL DISCUSSION

In this investigation, we explore the issue of consumers' WTP in a CRM context. Through four controlled field experiments, we measure the premium paid for CRM offerings under conditions where consumers make consequential choices. Results offer substantial support for consumers' WTP for CRM offerings. The premium paid increases as the donation promise increases, but at a diminishing rate. Moreover, the benefit is proportionately largest at small donation promises and products of low value, with little risk that consumers will form negative perceptions. Difficulty of assessing the value of an item positively moderates the WTP in charity auctions, and consumers seem to care less about a winner's curse in charity auctions since they can rationalize that the money will go to a good cause. Possibly consumers are also less likely to interpret missing information as "bad news."

The type of product is also a moderator of the effect of donation promise on selling price. We find that consumers are willing to pay a higher premium for frivolous goods bundled with donations to charity than for functional goods, although only for higher value goods. While we observe diminishing returns to giving for higher value products, this finding does not hold for higher value frivolous goods (retail prices ranged from $6 to $79.99). Apparently the affect-based complementarity from charitable donations and frivolous goods is strongest for higher donation premiums and higher valued goods.

We also explored the context of the donation promise and find that the relative perception of the donation promise serves as a comparison frame under joint evaluation, and can influence selling prices compared to the separate evaluation of a donation promise.

We further find that bidders seem overly sensitive to a 1% donation promise and under some conditions, where product value is lower, are overly sensitive to a 25% donation promise as well. This response can occur via the donation promise or be implied by the product value, where over-payment seems most likely to occur when donation promises and product values are small. This result represents a gross miscalculation on behalf of bidders. The premium bidders are

paying for a charity-linked product is more than what their donation is worth. In other words, they could pay less to buy the same product that is not charity-linked and donate the same amount separately. For the seller, this effect represents an opportunity to incorporate charity auctions into a CRM strategy in a cost-efficient way, which may even increase profits in the short run. In general, in light of the potential tax benefits from such donations, the costs of such a strategy are quite low. We find evidence in our studies not only of potential revenue-increasing opportunities by implementing low to moderate donation promises, but also of a low likelihood of a negative perception from using low donation promises or from making bidders aware that the seller is profiting from the charity auction. Our findings extend previous work (Pracejus et al. 2003), which found that consumers over-value vague identifiers. We provide evidence that consumers may over-value explicitly stated low to medium donation promises.

Exploring the relationship between absolute and relative donation promises, product value, and bid prices allows us to understand how the configuration of charity auction settings influences charitable bidding behavior and offers the possibility of achieving different seller objectives, depending on whether sellers are looking to profit from their CRM efforts or to maximize selling prices. Although we used charity auctions as our methodological tool to measure consumer response, our findings could also apply in a fixed-price setting, where the differences we found in a consumer's WTP would likely transfer to differences in other constructs, such as purchase intention or product appeal. Arguably, using charity auctions is a more powerful and direct method to obtain WTP, and provides strong support for a similar pattern of results for fixed-price CRM products.

Finally, results suggested that in charity auctions, increased selling prices with higher donation promises could not be attributed to increased bidder entry. Instead, the increased prices are due to bidders with charitable intent who are willing to pay a premium in auctions where more money goes to charity.

Managerial Implications

This research has important implications for charity auctions and CRM strategies in general. Sellers can use charity auctions as a cost-effective CRM strategy, which may even be profitable under certain conditions. We show that selling prices increase as donation promises increase,

which offsets the cost of the donation to the seller. In particular, when low-value products are sold with low donation promises, the selling prices increase proportionately more than the donation amount, leading to profitable bid outcomes for sellers. Considering the cost-efficiency of charity auctions under these circumstances, developing a corporate social responsibility program involving charity auctions is a viable alternative to traditional philanthropic efforts.

Furthermore, we did not observe negative effects related to low donation promises or to sellers profiting from the charitable donation. Consumer expressed no concerns about sellers profiting at the expense of the charity, suggesting that sellers can benefit from positive perceptions of their charitable association without fear of consumer backlash. Despite our findings about consumer perceptions, an important note is that sellers who align their CRM strategy with the needs of participating charities may benefit the most from a positive relationship developed with the charity. From the perspective of the charity, including charity auctions as part of a proposal to work with companies and their corporate social responsibility initiatives is a viable strategy that is inexpensive for both the charity and the company and that may also provide entertainment value to potential donors.

More broadly, our results have important implications for CRM strategies in general. We measure bidders' WTP across different donation percentages, which prior CRM research has found difficult to do. Our method provides new insights into how people respond to CRM appeals beyond measuring purchase intention or choice. This finding provides managers with a deeper understanding of the effect of varying CRM attributes, such as donation percentages, which can apply to any number of CRM attributes and products. Managers can use charity auctions to examine which attributes or products should be involved in their CRM campaign, and which will produce the highest WTP among consumers or optimize the donation percentage with the target donation amount they are willing to contribute.

Another important insight for management is the influence of relative donation promises. In a marketplace where companies are competing on the basis of different CRM activities, designing their activities relative to competing efforts is critical.

Future Research and Limitations

Although we have identified that selling prices follow a pattern of diminishing returns, some ambiguities remain. Bid outcomes may experience a diminishing effect for a couple of reasons. One is a reciprocity preference, in which the bidder considers the utility gained for the donation recipient, or the bidder may simply experience a "warm glow" from giving personally (Isen 1970). This explanatory distinction parallels the selfless and selfish categorizations of pro-social and pro-self orientations respectively (Messick and McClintock 1968). The pro-social orientation perspective would suggest bidders take into account the needs of the charity and integrate those needs into their reciprocity preference. As the impact of the donation promise increases, so does the sense of indirect reciprocity. Alternatively, the pro-self orientation perspective would suggest that bidders gain privately via feelings of warm glow as they donate more, regardless of the real impact on the charity. Examining which perspective is behind our results, or the combination of both perspectives, is a question for future research.

A similar idea in social psychology is the empathy–helping hypothesis. Research has shown that taking the perspective of the recipient, combined with negative affect, can lead to increased donation behavior (Fisher, Vandenbosch, and Antia 2008). In our studies, we manipulated the donation promise, which conveys information about benefits to the recipient, but we did not examine the influence of emotional valence. Future research could explore whether positive or negative appeals in the auction lead to higher selling prices.

In addition, examination of conditions when over-payment may occur is a fruitful topic for future research. We have found cases where donation promises of 1% up to 25% have led to seller profits. This finding means that bidders could have bid on a non-charity auction item and donated an amount equal to the price premium they would have paid for the CRM auction, which would have produced greater levels of donations. A worthwhile exploration would aim at understanding all the conditions that lead a bidder to make this error in judgment and understanding why that judgment arises.

This research considered the moderating effect of product type on donation promise, focusing on product value and the frivolous versus functional nature of products. Future research may also consider luxury versus non-luxury items. Previous research has shown that altruistic

intent may augment the self-concept, thereby reducing negative attributions related to the purchase of luxury items (Khan and Dhar 2006).

Finally, future research should consider the impact of CRM activities on overall donations to charity. Previous results suggest that CRM activities may have a negative impact on donations (Krishna 2011). The magnitude of these effects and under what conditions they may occur is an important area of future research.

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TABLE 1

THE EFFECT OF DONATION PROMISES ON FINAL SELLING PRICE AND WILLINGNESS TO PAY

Donation Promise	0 %	1 %	25 %	50 %
Final selling price	$12.47	$13.62	$16.70	$16.51
Willingness to pay	13.54	15.66	19.18	17.47
Cost (profit) to seller ($)	0.00	(1.01)	(0.06)	4.21
Price premium ($)	-	1.15	4.23	4.04
Donation amount ($)	-	0.14	4.18	8.26
Number of bidders	4.00	3.69	4.14	4.50

FIGURE 1

S-SHAPED RESPONSE FUNCTION

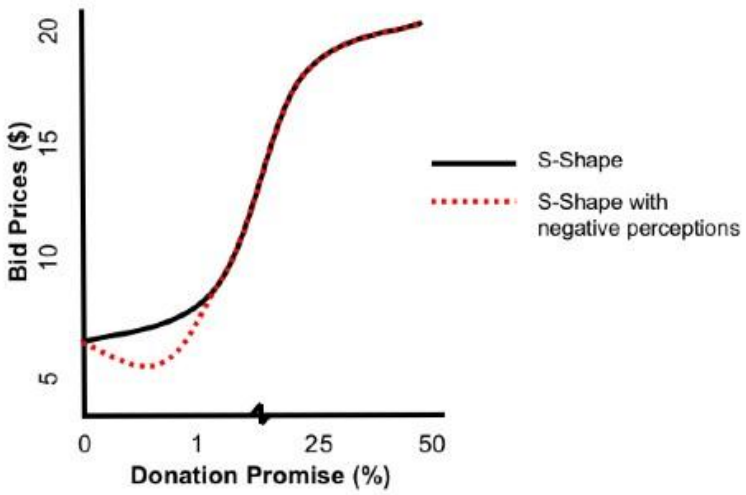


FIGURE 2

THE EFFECT OF DONATION PROMISES BY RETAIL PRICE QUANTILES ON SELLING PRICE

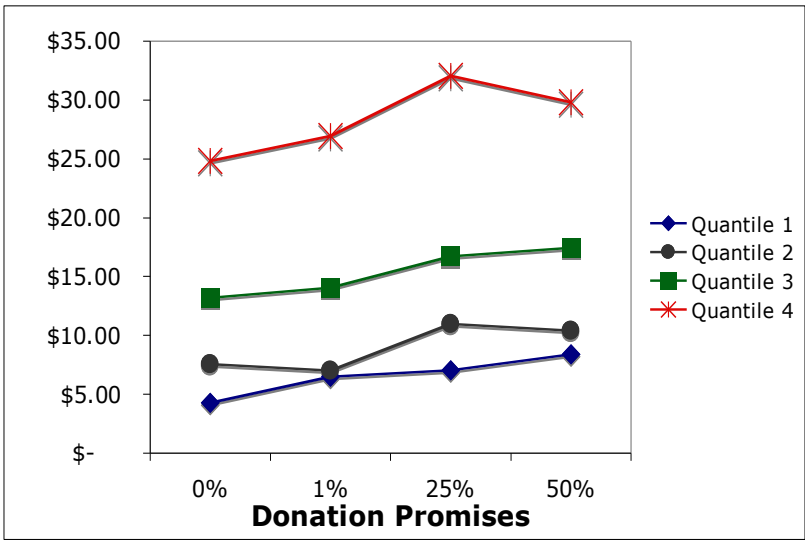


FIGURE 3

THE EFFECT OF DONATION PROMISES BY AMOUNT OF INFORMATION ON SELLING PRICE

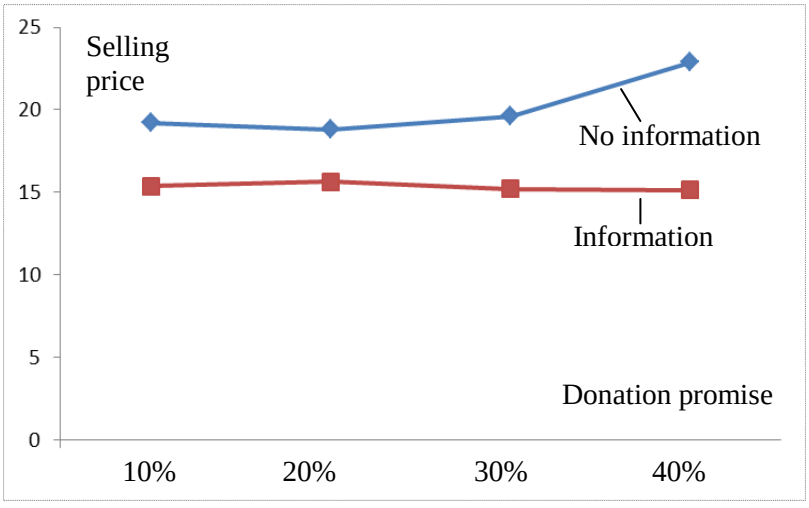
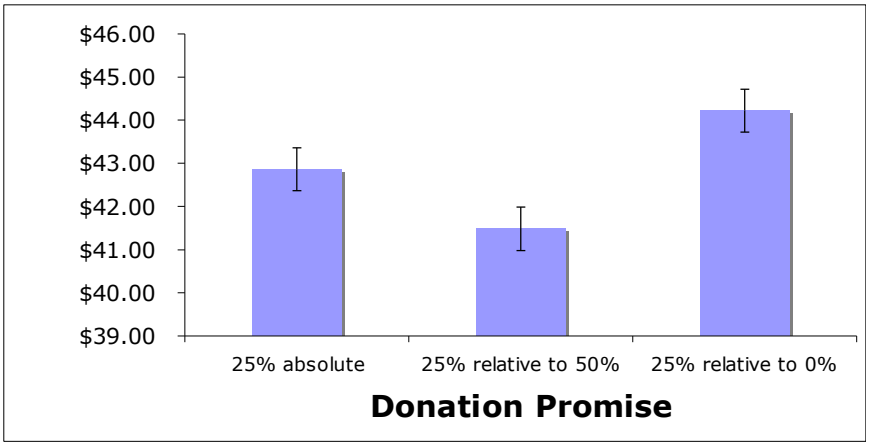


FIGURE 4

THE EFFECT OF ABSOLUTE VERSUS. RELATIVE 25% DONATION PROMISES ON SELLING PRICE



Appendix A
Summary Statistics for Studies 1, 2, and 3

Study 1 Summary Statistics

Product Category	Final Price	Number of Bids	Price* Premium	Retail Price	Number Auction Sets
Appliances/Tools	13.34 (1.12) [a]	15.83 (1.64)	3.20 (0.62)	17.33 (1.31)	6
Computer	10.24 (1.34)	7.60 (0.92)	2.25 (1.20)	15.59 (1.68)	5
Crafts	9.97 (1.78)	7.56 (0.89)	2.58 (1.12)	16.88 (1.62)	8
Electronics	28.55 (4.86)	13.70 (1.56)	4.97 (2.47)	41.99 (6.49)	5
Entertainment	15.37 (1.72)	12.26 (0.92)	2.88 (0.59)	22.00 (2.53)	7
Stamps	14.51 (1.83)	16.70 (1.90)	3.41 (0.61)	19.00 (2.10)	5

[a]Standard errors are in parentheses

*The price premium is the extra amount the winning bidder is willing to pay in an auction where a greater percentage of ending price is donated to charity, as compared to an auction for an identical product with no donation (0%) to charity.

Study 2 Summary Statistics

Product Category	Final Price	Number of Bids	Price Premium	Retail Price	Number Auction Sets
Appliances	18.05 (4.63) [a]	12.54 (3.52)	2.50 (2.05)	30.43 (7.26)	7
Bags	5.16 (2.28)	8.50 (4.54)	2.06 (0.52)	14.50 (0.53)	2
Electronics	16.00 (8.13)	11.93 (4.29)	2.29 (2.12)	25.42 (17.42)	7
Games	14.51 (8.21)	12.35 (6.12)	1.47 (1.44)	21.90 (7.98)	5
Gift certificates	28.92 (16.07)	14.35 (7.35)	3.11 (3.55)	41.50 (19.62)	10
Health & beauty	11.59 (7.49)	12.77 (5.99)	2.27 (3.07)	23.88 (11.01)	15
Movies	7.37 (3.31)	6.43 (3.05)	3.62 (2.86)	18.85 (2.85)	7
Sports	21.95 (14.18)	14.14 (5.66)	4.34 (2.58)	38.43 (20.64)	14
Tools	13.50 (7.85)	9.97 (4.34)	1.79 (2.01)	25.78 (14.25)	8

[a]Standard errors are in parentheses

Study 3 Summary Statistics

Product Category	Final Price	Number of Bids	Price Premium	Retail Price	Number Auction Sets
Appliances/Tools	30.66 (3.45) [a]	15.75 (1.09)	1.83 (1.39)	48.79 (7.36)	4
Electronics	50.71 (6.25)	13.40 (1.16)	1.37 (2.05)	71.66 (10.93)	3
Jewellery/art/gift	26.03 (4.67)	10.72 (1.10)	0.73 (0.86)	41.00 (6.78)	5
$20 Gift cards	16.27 (0.51)	8.00 (0.43)	0.56 (0.22)	20.00 (0.00)	6
$100 Gift cards	87.56 (1.06)	15.03 (1.24)	1.49 (0.70)	100.00 (0.00)	6

[a]Standard errors are in parentheses