{New Insights}

UNIQUE OFFER

Doing well while doing good

LINKING A SOCIAL CAUSE TO PRODUCT PROMOTIONS: WHY IT WORKS AND HOW TO MAKE IT MORE EFFECTIVE

Ty Henderson and Neeraj Arora

An increasing number of brands in the marketplace are being linked to social causes. Such enhancements are called embedded premiums (EP) and can be quite effective as a sales promotion strategy. Across three experiments, using a nationwide internet panel, we find that (i) at low denominations EP is more effective than an equivalent price discount, (ii) EP benefits an unknown brand more than a known brand, (iii) an identifiable segment of individuals prefer the “other” over “self,” suggesting possible EP optimization and segmentation strategies, (iv) a customization strategy is shown to be more effective than a coverage strategy. These findings have broad implications for brand managers in regard to resource allocation and EP program ROI.

Social Causes as a New Promotion Strategy for Consumer Goods

An increasing number of brands in the marketplace are being linked to social causes. Consumer packaged good brands such as Yoplait and Cheerios, retailers such as Target, and service firms such as Working Assets have associations with a variety of social causes such as children’s education (<http://www.boxtops4education.com>, <http://www.target.com/tcoe>) and breast cancer research (<http://www.yoplait.com/sls>). While such examples of “doing well while doing good” are increasingly common, the effect of such associations on consumer choice behavior is not well understood. We refer to them as embedded premiums (EP) and define the term as an enhancement that involves a social cause added on to a product or service. In the Cheerios example above, Box Tops for Education is the enhancement we call the embedded premium. For Yoplait, EP is the association with the Susan G. Komen Breast Cancer Foundation.

While most managers may believe the idea of associating a cause with a brand to be sound business practice, we do not quite know why they work, how individuals differentially react to their presence, how effective they are relative to regular price promotions, and how they can be optimized. Like traditional forms of promotion, an EP provides an additional incentive to consumers, yet it remains unclear how this new form of sales promotion compares with existing price promotion strategies such as rebates and coupons that reward the consumer (self), and not the cause (other). This fundamental tension between concern for the “self” and the “other” is at the core of EP effectiveness. Careful understanding of such self-other tradeoffs that consumers make is important to brand managers because of their implications for brand building, return on investment and long term sustainability of any EP program. In an era of increasing marketing accountability, EP promotions must be a legitimate tactical weapon in the brand manager’s strategic promotion arsenal rather than a “feel good” gimmick.

THE AUTHORS

Ty Henderson

is Assistant Professor, McCombs School of Business, University of Texas at Austin, 1 University Station B6700 Austin, TX 78712
Tel: (512) 232-3746
Fax: (512) 471-1034
ty.henderson@mcombs.utexas.edu

Neeraj Arora

John P. Morgridge Chair in Business Administration, Wisconsin School of Business, University of Wisconsin-Madison, 975 University Ave. Madison, WI 53706
Tel: (608) 262-1990
Fax: (608) 265-4193
narora@bus.wisc.edu

This completely revised article is based on: *Neeraj Arora and Ty Henderson (2007): “Embedded Premium Promotion: Why it Works and How to Make it More Effective,” Marketing Science, Vol. 26, Number 4, pp. 514–531.*

Are Social Causes Really Effective?

There are five important business questions as they relate to an EP program. These include:

- 1) Does EP enhance market share? And if yes, what motivates consumers to choose products with an embedded premium?
- 2) How sensitive are consumers to EP promotion depth?
- 3) Which is more effective: an EP or an equivalent price promotion?
- 4) Do well known brands benefit more from an EP association when contrasted with relatively unknown brands?
- 5) How big is the market segment that cares more about “the other” than “the self” and can this group be targeted?
- 6) Are there EP program strategies that can enhance effectiveness?

To answer these questions the authors employed three experiments using over 2,100 web panelists spread all over the U.S. The experiments involve two separate contexts — bottled water and credit cards.

Key Findings

Here is an executive summary of our key findings: Across studies EP is a unique and effective form of promotion whose effect is heterogeneous across people. Interpersonal differences in EP attractiveness vary by cause affinity and personal attributions, and EP sensitivity is invariant to promotion depth (e.g. 15¢ vs. 30¢ vs. 45¢). At small denominations we find that an EP is more effective than traditional forms of promotion such as a discount or a rebate. Interesting differences emerge when EP effectiveness is compared between unknown and known brands — we find a stronger effect for an unknown brand with an EP than for a known brand, as positive EP associations enhance quality perceptions for the unknown brand. We demonstrate that EP effectiveness could be improved via a customization strategy where consumers are allowed to select their preferred cause, but find evidence against a coverage strategy — bundled EP's have a dilution effect. The self-other gap, a measure of concern for oneself versus a social cause, is heterogeneous across respondents, with almost 20% of individuals exhibiting “selfless” preferences. We find that the self-other gap is related to a variety of behavioral, attitudinal and demographic markers, suggesting the feasibility of segmenting the marketplace based on EP effectiveness.

Getting into the Minds of the Buyer

In a first study 131 participants completed an on-line bottled water product evaluation experiment.

The key independent variable in the study was the presence or absence of EP — a donation to the American Red Cross. There were three treatment conditions, which varied only by the amount of the promised donation to the Red Cross: 15¢, 30¢ and 45¢. We also included a control condition, resulting in a total of four conditions. Individuals assigned to the control group were provided product descriptions for three brands of bottled water (two known brands Evian and Dasani, and a fictitious brand Amphora). Individuals in the treatment conditions viewed the same product descriptions for the same three brands with the exception that Amphora, the unknown brand, featured an EP as shown in Figure 1.

Does EP Work and How?

The answer in our experimental setting is an unequivocal yes. In the control condition Amphora received only 5% choice share, but when Amphora promised a donation to the Red Cross in the treatment condition, choice share jumped to 23% ($p < .05$).

FIGURE 2:
Choice Share
All brands priced at \$1.25

Interestingly, quality perceptions for the Amphora brand are significantly higher when the brand has an EP association (3.14 vs. 3.69, $p < .05$). We also find that the EP effect does not vary by depth: the effects in the three 15¢, 30¢ or 45¢ treatment conditions are identical. The mere presence of an EP, rather than its magnitude,

Figure 1:
EXPERIMENTAL SETTING

appears to be sufficient to impact consumer choice. The depth invariant effect of an EP is good news for a brand manager because of its ROI implications.

» The mere presence of an EP, rather than its magnitude, appears to be sufficient to impact customer choice. «

What Motivates Buyers to Engage with EP Products?

Using open-ended questions, we uncovered five types of individual motivation toward EP, and EP effectiveness is different across these groups (Refer to Table 1).

The variety of motivations toward EP reveals a unique aspect of EP that stands in contrast to traditional forms of price promotion. Contrary to a price cut, which invokes a uniform price-focus among consumers, EP conjures a menu of personal motivations with differential outcomes on effectiveness. In some circumstances, the EP serves as an aid to decision making to tip the scale in favor of the promoted product for an otherwise indifferent consumer. In other cases, it facilitates the accomplishment of interconnected personal strivings, which can include helping the charitable organization.

Why Should I, the Brand Manager, Care? (Study 2)

The experimental design in the second study ($n = 1,650$) had the following factors, each at two levels: Brand (Unknown, Known), Promotion pay-off destination (Self, Other) and Effort (No effort, Some effort). In all there were $2 \times 2 \times 2$ treatment conditions and one control group resulting in a total of nine conditions. The basic study design and context was identical to Study 1 and the depth of payback was set at 15¢.

Juxtaposing Traditional Promotions with EP

The second experiment shows that promotion pay-off destination matters. A small discount or rebate appears to have lower incremental value to respondents than an

equivalent EP. This is somewhat surprising. We believe that at small denominations, such as fifteen cents, the incremental utility associated with a discount or rebate may be quite low. Most price promotions are much deeper than the manipulation used in this study, thus respondents may have a reference depth for price cuts that must be met for the promotion to have an effect. However, the moral satisfaction “purchased” with the EP may be high because the incremental utility is linked to the warm glow of contributing and not to the amount of the contribution per se.

Known versus Unknown Brand EP Effectiveness:

Unknown brand benefits more from an EP association than a known brand. Across all measures, the effect size and percent gain because of an EP is higher for the unknown brand than the known brand. Although the known brand does benefit from an EP association, what is different is that the EP association also enhances the unknown brand’s quality perceptions, while the EP association has no effect on known brand quality perceptions (See Figure 3).

FIGURE 3:
Quality Perceptions

This may be occurring because respondents are likely to have strong prior beliefs about the perceived quality of an existing brand. An unknown brand, on the other hand, is like a clean slate and any positive “tag” that gets attached to an individual’s otherwise neutral brand schema is therefore likely to enhance perceived quality. In general, the cause association may be playing the important role of legitimizing an otherwise obscure brand, resulting in higher overall gains for an unknown brand relative to a known brand.

MOTIVATION	PERCENT OF SAMPLE	EXEMPLAR	CHOICE SHARE
Feel Good	11%	It would make me feel good about myself.	22%
Product Assurance	9%	I might be indifferent on which brand I choose, but if I know that my choice could help a charitable organization it would make up my mind for me.	43% *
Facilitation	37%	Because I would be receiving what I needed while simultaneously helping those less fortunate.	21%
Help Others	29%	Because it would benefit a worthy cause.	30% *
Activism	13%	Because my money is going to other places than just the big wigs pockets.	20%
Control Group			5%

TABLE 1:
Individual EP Motivations

* The difference between motivation group and control is significant ($p < .05$)

EP, Brand Loyalty and Price Sensitivity:

Gains because of EP are highest among respondents with low loyalty to Dasani. EP effectiveness therefore appears to be tied to the presence and the size of the “non-loyal” group. For a known brand if such a group exists, and is substantial in size, EP effectiveness is likely to be higher. This finding is consistent with the empirical generalization that the majority of gains from a sales promotion come from brand switching. Importantly, there is evidence for a link between EP and price sensitivity. The data suggests that presence of an EP makes respondents less price sensitive and more willing to choose the brand when it is premium priced. This is an interesting finding because it points to the distinction between EP and traditional price promotions. Whereas price promotions are known to make individuals more price sensitive, EP has the opposite effect.

Building a Better EP Mousetrap (Study 3)

Because cause affinity is well known to be a driver of EP effectiveness, two alternative strategies to enhance the EP effect were considered: coverage and customization. Coverage: Unlike price promotion where the underlying discriminator across consumers is price sensitivity, a unique aspect of an EP is that it could potentially contain multiple social causes. We refer to the EP strategy

to offer multiple social causes as coverage. Consider, for example, two causes C1 and C2 where each may be attractive to different individuals. A coverage strategy suggests that inclusion of both C1 and C2 in an EP promotion offer, compared to the case when either C1 or C2 is included, should result in increased EP effectiveness. More individuals are likely to purchase an alternative that has multiple causes as an EP compared to an alternative that has only one cause as an EP. Working Assets (www.workingassets.com) provides a good example of this.

Customization: Another method to increase EP effectiveness is customization. Because it permits consumers to select into the cause for which they have the highest affinity, and higher affinity is likely to result in an enhanced EP effect, customization is expected to increase EP effectiveness.

Study 3 uses a different context (credit card) and design than the previous two studies. Respondents were asked to indicate their charity preference for a credit card offer with an EP option. Specifically, they were asked, “If evaluating a credit card offer with a charitable donation option that lets you decide who receives your money, which one of these five organizations would you choose to support:

American Cancer Society, World Health Organization, Habitat for Humanity, SchoolWise (for local schools), or National Wildlife Federation.” They then completed a choice based conjoint task of potential credit card offerings that varied on four attributes: brand, interest rate, payback percentage, and the focal attribute, payback destination. Conjoint analysis is a popular technique among market researchers because it provides a direct measure of consumer preference and relative importance of each product feature included in the study.

In this study, three of the four levels of the payback destination attribute had an EP component. The first level, donation to a single pre-determined charity (the World Health Organization), was included as the baseline EP case. The second level, a joint donation to two fixed charities (the World Health Organization and Habitat for Humanity), was included to test coverage. The third level, a charity of the respondent’s choice, was included to test for customization. The fourth level for the payback destination attribute, namely cash-back, was included to compare the differential effect of “self” versus “other” pay-off destination in a tradeoff scenario.

To visualize our results a hypothetical market situation was created where each respondent in our data is assumed to evaluate four credit cards that are identical in every respect (Capital One card, 12.9% APR and 1% payback), except for the payback destination options of cash, WHO, WHO + Habitat for Humanity, or the cause chosen by the individual. The results from the conjoint experiment were used to compute a choice probability for each one of the four available credit card offers. The results are shown below.

FIGURE 4:
Median Choice Probabilities

Not surprisingly, the median choice probability for the credit card with a cash back option is higher than other credit card options with an EP (.71 vs. .21, .05, .02). The median choice probability for the 1% WHO card is higher than 1% WHO + Habitat card (.05 vs. .02) — which is a pattern opposite to the coverage argument. The median choice probability for the 1% WHO card is lower than 1% choose card (.05 vs. .21), which supports the customization argument. These results demonstrate that EP effectiveness could be improved via a customization strategy. There is evidence against a coverage strategy wherein a bundled EP strategy was shown to have a dilution effect.

Key Findings

- > *EP is very effective to increase sales*
- > *EP support for unknown brands is stronger*
- > *Small denominations work well*
- > *Customization enhances effectiveness*
- > *20% choose EP over savings for themselves*

The results show that 81% of the respondents prefer the self (i.e. cash back) over the other (i.e. a cause). The remaining 19% of respondents would choose other over self. The self-other gap is higher (meaning an individual wants the cash for themselves) for respondents who have a card that earns cash rewards, charge more money to credit cards, are female, and have a college degree. Individuals also tend to get more “selfish” as payback levels increase. Because the self-other gap is related to a variety of behavioral, attitudinal, and demographic variables it may be possible to segment the marketplace based on EP effectiveness and certain groups of individuals are more likely to be effective targets for an EP program.

Takeaways

The most basic takeaway from this research is that EP is a promotion strategy that works. Consumers are differentially responsive to its effect based on personal motivations, dispositions, cause affinity, and characteristics of the connected brand. EP can be an effective lever to not only increase sales, but also alter perceptions toward the brand. For brand managers looking for ways to create a point of differentiation for a lesser known brand, embedded premiums present a useful tactical option. Across studies there are two “self” vs. “other” results

» The conclusion is that EP is much more than a promotion strategy, because not only can it sell more products, it can also help the brand, the consumer and society. «

with important substantive implications. First, at low promotional levels an EP is more effective than traditional price promotions. The implication for brand managers is that EP promotions may be cost-effective alternatives to couponing or discounting. Whereas a price cut or coupon must be sufficiently deep to produce a response, a small EP can generate incremental consumer utility because there are significant non-economic drivers of this effect such as an informational component and warm glow. Second, although when framed as a substantively meaningful quantity (percentage of annual credit card charges) in a trade-off setting “self” trumps “other,” there are some individuals who would still choose an EP over cash in their pocket. This substantial and demographically measurable market segment is a potentially attractive target for EP-style promotions and focused message strategies.

The conclusion is that EP is much more than a promotion strategy, because not only can it sell more product; but it can also help the brand, the consumer and society. Rather than operating primarily on one dimension, EP invokes a host of associations, both social and personal, that act as levers on consumer choice behavior. This unique win-win-win situation merits ongoing inquiry because of its strategic, public, and behavioral importance. Companies should embrace EP as an opportunity to link public interest to the private performance of the firm, not out of a sense of obligation but, because it is a sophisticated promotional tool at the brand manager’s disposal. •

FURTHER READING

Cone, Carol L., Mark A. Feldman, Alison T. DaSilva (2003), “Causes and effects,” *Harvard Business Review* 81 (7), pp. 95 – 101.

Neeraj Arora and Ty Henderson (2007), “Embedded Premium Promotion: Why it Works and How to Make it More Effective,” *Marketing Science*, Vol. 26, Number 4, pp. 514 – 531.

Porter, Michael E. and Mark R. Kramer (2002), “The competitive advantage of corporate philanthropy,” *Harvard Business Review* 80 (12), pp. 56 – 68.

Strahilevitz, Michal (1999), “The effects of product type and donation magnitude on willingness to pay more for a charity-linked brand,” *Journal of Consumer Psychology*, 8 (3), pp. 215 – 241.

KEYWORDS:

Cause Related Marketing,
Product Promotion, Price
Promotion, Embedded
Promotion