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Cause-Related Marketing: Good for the Company, Not So Good for the Cause

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Abstract: Cause-related marketing (CRM) is defined as a company pitching to its customers, "if you buy product/service A, then we will donate in cash or kind to charitable cause B." CRM has a positive impact on firm performance, and this is reflected in its rapid growth. However, the impact of CRM on societal welfare is controversial. This study presents a novel argument rooted in economic theory that CRM reduces societal welfare. CRM is a form of "bundling" of the product sold by the company and a donation to the cause. We present a mathematical model to show that bundling increases firms' profits but reduces societal welfare. Finally, we recommend how firms and consumers can really help a charitable cause.

Keywords: Cause-Related Marketing, Buy One Give One, Strategic Marketing, Corporate Social Responsibility, Societal Welfare

INTRODUCTION

In 1983, American Express launched what is commonly considered the first cause-related marketing campaign when it announced that it would donate one cent for each use of its credit card and one dollar for every new card issued to renovate the Statue of Liberty and Ellis Island. The company spent $6 million promoting this campaign and achieved dramatic results: it raised over $1 million for the Statue of Liberty cause, American Express card usage increased by 28%, and new card applications increased by 17% [1]. The company called this campaign "cause-related marketing" (CRM) and trademarked it. CRM is defined as a company pitching to its customers, "if you buy product/service A, then we will donate in cash or kind to charitable cause B." A critical and defining characteristic of CRM is that the company's donation (in cash or kind) to the cause is *contingent* on the customer buying the company's product/service. Since the American Express campaign in 1983, CRM has taken off, growing from practically zero expenditures in 1983 to $991 million in 2004 to $3.96 billion in 2022 [2]. Companies that have CRM campaigns include TOMS (shoes, sunglasses, apparel), Warby Parker (eyeglasses), Levi's (Water<Less collection), Bombas (clothing), Pink campaign associated with breast cancer awareness (many brands including Este Lauder, Yoplait, Ford, New Balance, Ralph Lauren, and Delta Airlines), and RED campaign to fight AIDS (various brands including Apple, Vespa, Panasonic, Fiat, and Beats). Companies can 'do good' for a particular cause in several ways. Marketing guru Philip Kotler *et al.* [3] identify six social initiatives companies undertake to improve societal welfare by supporting a particular cause:

- Cause promotion. A company provides funds, in-kind contributions, or other resources to support and promote a social cause. For example, The Body Shop promoted a ban on the use of animals to test cosmetics
- Cause-related marketing. A company promises to make a donation in cash or kind to a particular cause contingent on the customer buying the company's product (or service)
- Corporate social marketing. A company supports a campaign to change behavior that improves societal welfare. For example, Allstate insurance company encourages teens to sign a pledge not to text and drive
- Corporate philanthropy. A company makes a direct contribution to a charity or a cause
- Workforce volunteering. A company supports and encourages its employees and business partners to volunteer at local community organizations
- Socially responsible business practices. A company voluntarily adopts discretionary business practices that support some societal causes. For example, DuPont reduced energy use and greenhouse gas emissions

This paper analyzes CRM and cause promotion only, the first two of the above six initiatives; we have nothing to say about the other four social initiatives. There is little doubt that CRM has a positive impact on firm performance, which is reflected in the rapid growth of CRM expenditures by marketing-savvy companies. First, we briefly outline the major reasons given in the literature on why CRM has a positive impact on firm performance most of which are rooted in the marketing and consumer behavior fields. There is much controversy about whether CRM has a positive or negative impact on charitable causes and societal welfare will review the arguments on both sides of this debate. The positive arguments are rooted mostly in the consumer behavior field. The negative side argues that CRM often misleads consumers through a lack of transparency and, at times, even a lack of integrity. Some objections to CRM are ideological (even philosophical) and question the role of markets in addressing societal problems. This study presents a novel argument rooted in economic theory that CRM reduces societal welfare. CRM is a form of "bundling" of the product/service sold by the company and a donation to the cause – prior research in economics shows that bundling increases firm profits but can decrease societal welfare. We apply this well-known result from economics to CRM and argue that CRM is good for the company and not so good for the cause and societal welfare. We present a simple mathematical model to demonstrate that this is exactly what occurs in CRM. The model also shows that cause promotion is the ideal arrangement from the perspective of the cause and for societal welfare, and it probably has some positive impact on firm performance. Cause promotion is very different from CRM because it does not make the company's support for the cause contingent on the customer purchasing the firm's product/service. It is this contingency – in other words, bundling – that is the primary focus of this paper. This is a conceptual argument, not an empirical one – in fact, it is very difficult to empirically measure societal welfare. Finally, we will discuss the assumptions and the underlying logic for these conclusions and make recommendations on how firms and consumers can really help charitable causes.

Previous Research

There is a vast literature on CRM and it has been well surveyed previously [4-9] Previous research clearly shows that CRM has a positive impact on firm performance, as described below. There is much controversy about whether CRM has a positive or negative impact on the cause and societal welfare. It is difficult to empirically show impact on societal welfare because it is so difficult to measure societal welfare. Measuring impact on the cause is easier, but to prove a causal linkage requires comparing what actually happened to the counterfactual; that is why some of the previous research uses experiments to get empirical results. Since the empirical results do not settle the debate, some of the previous research is ideological, even philosophical, in nature.

Positive Impact on Firm Performance

The primary impact of CRM is to increase the firm's profitability. Consumers are receptive to linking a company to a cause; thus, CRM is a rather inexpensive way to engage in marketing and can result in a significant increase in revenues. As noted earlier, American Express spent only $6 million to increase card usage by 28% and new card applications by 17%. According to Amra and Elma [2], a digital marketing agency, 91% of consumers are more likely to buy from a company that supports social or environmental issues, and 64% of Americans choose, switch, or avoid a brand based on its stand on societal issues. Besides the quick financial return, CRM helps in brand building for the longer term and improves the firm's overall corporate reputation [10]. Patagonia and Ben & Jerry's have used CRM to build successful brands and companies. CRM can generate goodwill for a company, which may be critical in a crisis caused by a perceived mistake or ethical lapse. Nike was able to restore its reputation after allegations of sweatshop conditions in its overseas factories, partly by giving $1 million to the Lance Armstrong Foundation for cancer research and raising $20 million for the Wear Yellow Live Strong campaign by selling yellow bracelets for $1 each [11]. CRM can also improve employee morale and retention. Sixty-nine percent of employees say that societal impact is a strong expectation or deal breaker when considering a job (Edelman 2023). Eighty-eight percent of Americans are more willing to forgive a company for making a mistake if it genuinely attempts to change [2]. However, empirical tests, using event study methodology, linking CRM to firm shareholder value yield mixed results. Das *et al.* [12] find that CRM programs are a good investment on average. Woodroof *et al.* [13] find that announcement of CRM initiatives results in significant loss of shareholder value.

Strategy guru Michael Porter and Kramer have argued that businesses must adopt a "shared value" mindset that seeks to create "economic value in the way that also creates value for society". Many executives, consultants, and academics believe strongly in and advocate these win-win solutions – doing well by doing good. Kotler *et al.* [3] have written a book that "is intended to be a practical management guide for the executives tasked with allocating scarce resources to strategically craft policies and programs that do good for their companies and their communities". This book has an entire chapter devoted to CRM and contains several case studies on successful CRM campaigns.

Positive Impact on the Cause

CRM proponents argue that it increases the total contributions to the cause because it is equal to the firm's contributions plus individuals' direct donations. It is possible that a CRM campaign will stimulate and increase donations to the cause, especially if the cause is not that popular or visible on its own. Bagnoli and Watts [14] present an analytical model that shows that CRM does result in the private provision of the public goods. They conclude this is consistent with Baron's model that shows the value of 'strategic corporate social responsibility:' in an attempt to maximize profits, firms privately provide a public (or charity) good as part of their marketing strategy. But crucially these models do not allow for consumers to directly donate to the charitable or public causes, and therefore do not consider the possibility that consumers reduce their direct donations to the cause after purchasing a CRM product. There is a "stream of empirical research that studies the impact of charity and other socially responsible practice on consumer's willingness to pay." Elfenbein *et al.* [15] contribute to this stream by analyzing data from eBay's Giving Works charity program to show that charitable giving is a mechanism for signaling seller quality, which yields a charity price premium. Elfenbein and McManus [16] analyze data from the same source to provide support for "the emerging evidence that bundling private products with public goods can intensify consumers' demand for the products and may increase the revenue generated for the public good." But they are careful to caution that "this finding does not, by itself, imply that charity-linked fundraising programs raise more revenue overall. If well-intentioned consumers reduce their own direct donations after purchasing charity-linked programs at a premium, then an apparently successful product program could provide no net gain."

Companies can provide their marketing talent and business expertise to charitable causes, and these non-financial resources could be very valuable to the cause. CRM heightens the charity's exposure and visibility and increases the efficacy of its messaging. According to CRM proponents, CRM increases both firm performance and funding to a cause, and therefore has a positive impact on societal welfare.

Negative Impact on the Cause

As might be expected, there has been much criticism of CRM. The first major problem is that CRM campaigns sometimes lack transparency and integrity. The Attorneys General [17] of 16 states issued a report stating that commercial-nonprofit product advertisements often communicate false and misleading messages, which has led to both state and federal law enforcement actions, as well as private litigation. For example, "national advertisements for pain-reliever products indicated that a portion of each purchase price goes to finding a cure for arthritis. But, under the licensing agreement with the manufacturer, the nonprofit organization was guaranteed a fixed amount of $1 million, independent of consumers' purchasing decisions." As another example, General Mills' CRM campaign in 1999 promised to donate 50 cents to the Breast Cancer Research Foundation for each Yoplait lid that was returned, up to a limit of $100,000. However, the $100,000 limitation was only disclosed on the inside of the lid, which was only visible to consumers after opening the product. Consumers actually returned 9.4 million lids — which would have meant a donation of $4.7 million. The Georgia Attorney General opened an investigation into this case. General Mills averted legal action by agreeing to donate an additional $63,000 to the Breast Cancer Research Foundation [18] – good for the company, not good for the cause, even after the legal penalty!

There is often a lack of transparency regarding the exact amount of money that the company will donate to the cause. The ideal situation is when the company clearly states that it will donate $X or X% of the sales price – calculable format. The situation is quite opaque when the company says it will donate X% of its *profits* in an estimable format, although it is very unlikely that most customers can estimate the donation amount. Even worse is the case when the company says that a *portion* of the proceeds will be donated. In abstract format, the customers cannot possibly even begin to estimate the donation amount. Very few empirical studies have been conducted on the relative frequencies of the three formats. In one study based entirely on content analysis of internet websites – and therefore perhaps not generalizable – fully 70% of CRM campaigns used an abstract format [19].

The benefits of cause marketing are sometimes divided disproportionally to favor the company over the cause. In the first year of the Red campaign, "the collective marketing outlay by Gap, Apple, and Motorola for the Red campaign has been enormous, with some estimates as high as $100 million… The tally raised worldwide [for the cause] is $18 million". Mark Rosenman, activist in the nonprofit sector and public service professor at the Union Institute & University in Cincinnati, said, "there is broadening concern that business is taking on the patina of philanthropy and crowding out philanthropic activity and even substituting for it" [20].

The major benefit to a charitable organization and the primary reason for engaging in CRM is increased funding to the cause. There is academic research that supports the opposite view that CRM crowds out and even substitute for philanthropy, and thus may reduce overall revenues to the charitable cause. Marketing scholar Krishna [21] cited previous academic research on psychology and consumer behavior [22] that supports this negative view. In her experimental studies, Krishna [21] found that CRM "instead of increasing total contributions to the cause, it can decrease it." The problem is that it is very difficult to measure whether consumers reduce their own direct donations after purchasing charity-linked products, as Elfenbein and McManus [15] have cautioned. It is difficult to measure the impact of CRM on total donations by comparing it to the counterfactual of no CRM campaign. This is a major reason for the controversy about the impact of CRM on the cause and societal welfare, and the empirical evidence does not settle the debate.

Instead, we approach this issue analytically, and follow Kochen who presents a general economic model to investigate a setting where individuals have three choices: consume a private good, make a contribution to a pure public good, or buy a 'green product' that bundles together private and public goods. His model yields the counter-intuitive result that, "under reasonable conditions, introducing a green market or improving a green technology can actually discourage private provision of environmental public good;" this effect depends heavily on whether the public good is a complement or a substitute for private consumption. More related to this paper, Kochen also analyzes the situation where the green good is "simply a bundled commodity," that is, the public good is unrelated to the production of the private good. This is clearly true for CRM -- for example, American Express services are totally unrelated to renovation of the Statue of Liberty. In that case, Kochen shows that introducing the green product has no effect on the equilibrium provision of the public good if the firms were operating in a perfectly competitive market. This is an unrealistic assumption in our context: all the firms pursuing CRM have significant market power: high market share, dominant brand or niche segment. In our model we will examine the situation where firms do have market power and face a declining demand function, and show that even simple bundling has a negative impact on the provision of the charity (or public) good. Our model differs from previous models of CRM by taking into account both these factors:

- Consumers can donate directly to the charity (or the public good), and
- Firms have market power in the for-profit market for the private good.

A very different criticism of CRM is ideological or even philosophical in nature: the short-term benefits of CRM are less than its long-term and hidden costs. These hidden costs include "individualizing solutions to collective social problems, distracting our attention and resources away from the neediest causes, the most effective interventions, and the act of critical questioning itself" [23]. The growth of CRM reflects many people's confidence in the power of the market, which stems from the ideology of neoliberal economics. Eikenberry [23] goes on to criticize Prahalad's (2004) book Fortune at the Bottom of the Pyramid for "portraying the world's poorest people as an untapped market niche whose salvation will come when they are fully integrated into the market." We also criticized the so-called bottom-of-the-pyramid (BOP) proposition on both economic and empirical bases. This is consistent with a broader trend, especially in the last decade: the neoliberal economics consensus has frayed across the political spectrum, and there has been a decline in the belief in the power of markets to solve all societal problems.

"Buy One Give One" Model

Most CRM campaigns provide a small fraction of a product's sales price to charitable causes; for example, in the famous American Express campaign, the company donated only one cent for each credit card transaction. The most generous (to the cause) type of CRM is the "Buy One Give One" (BOGO) model, whereby the company donates to charity an identical product for each product purchased by a customer. Marquis and Park [24] argued that the BOGO model "is not only a viable way to create both commercial and social value but also a model of social entrepreneurship that is likely to increase in prevalence and power." While TOMS Shoes did not invent the BOGO model, it quickly became the best-known company associated with the BOGO model. According to TOMS corporate lore, its founder, Blake Mycoskie, was traveling to Argentina in 2006 when he saw poor children without shoes. He started a for-profit company that would donate a pair of shoes to a poor child for every pair of shoes it sold, and its sales grew dramatically immediately. We will analyze the BOGO model and show that even this most generous CRM format is not good for the cause; therefore, our conclusion holds for all forms of CRM. In principle, CRM could be more generous than the BOGO model if a firm says 'buy one pair of shoes from us and we will donate two pairs to the cause,' but in practice we have not come across any example of CRM that is more generous than the BOGO model.

Bundling

All CRM, including the BOGO model, is a form of a 'bundle.' Consider a for-profit company selling shoes. A different charitable (not-for-profit) organization tells people that if you give us $X, we will give a pair of shoes to a poor child; in effect, it sells a cause in the market for 'charity shoes.' A for-profit shoe company could engage in CRM by bundling together these two products – for-profit shoes and charity shoes – into one package. In the language of Stemersch and Tellis [25], this is a *pure price* bundle: *price* bundle because the two products are not integrated in any real way, and a *pure* bundle because the CRM company does not offer the option of buying each product (for-profit shoes and charity shoes) separately.

The classic economics literature on bundling sees it as efficiency-enhancing in the sense that it may allow a firm with a certain degree of market power to extract more consumer surplus but does not decrease total social welfare [26]. Later, economics scholar Martin [27] has shown that an efficiency assumption is unjustified even if there are no market imperfections. Using a simple and standard analytical model, Martin [27] showed that "bundling *can* allow a firm with a monopoly in one market to exercise greater market power in other markets, to strategically disadvantage rivals in those markets, and to reduce net social welfare." This ability to leverage market power across different markets is the foundation of the *per se* rule for when bundling is illegal [25]. In practice and in law, it is not necessary for the firm to be literally a monopoly in one market – it just needs to have sufficient market power in one market which it can leverage to gain some market power in the other market. Bundling appropriately designed can increase firm profits, reduce rivals' profits, and reduce overall societal welfare.

The Microsoft case is a landmark example of bundling in competition law. In the late 1990s the Department of Justice and 20 states filed antitrust suits against Microsoft accusing it of leveraging its dominant position in the operating system market to gain an unfair advantage in the internet browser market. Microsoft bundled its Internet Explorer with Windows, making it the default and easily accessible browser on Windows computers. At that time, Netscape Navigator was a leading competitor in the browser market. The Department of Justice argued that this bundling was anti-competitive and harmful to consumers, as it limited their choices and artificially restricted competition in the browser market. After a long legal battle, the initial ruling in 2000 was highly unfavorable to Microsoft. After an appeal, Microsoft reached a settlement with the Department of Justice in 2001. The settlement did not require a breakup of Microsoft, but did impose restrictions. This case set a significant precedent. It highlighted how bundling could reduce societal welfare by limiting consumer choice and entrenching monopolies. Microsoft used its market power in the operating system market to gain an advantage in the browser market. In a parallel manner, a for-profit company with market power (say, a strong brand name) can leverage that market power to gain an advantage in the market for charity shoes through bundling together for-profit shoes and charity shoes.

CRM is clearly a form of bundling. It bundles a for-profit product/service with charity. Like the commercial example cited above, this bundling is good for firm profits, and not so good for the cause and for societal welfare. The company does not need to be a monopoly in the for-profit product market, but needs to have sufficient market power by having significant market share, or a highly differentiated brand, or dominating a segment (or niche) of the market – which leads to a downward sloping demand function, a critical assumption in the model presented here. This would be true for most companies selling consumer products/services in highly differentiated and segmented markets, such as New Balance, American Express, TOMS Shoes, Warby Parker, Levi's, Yoplait, Este Lauder, Apple – all examples of companies that have had CRM campaigns.

We will use an analytical model similar to Martin [27] but tailored to the BOGO format of CRM to show that this bundling is good for the firm but not good for the cause and societal welfare. We will also show that cause promotion, where the company sells for-profit shoes and charity shoes unbundled, results in the best outcome for the cause and for societal welfare.

Analytical Model

Here we present the bare bones of the analytical model, and focus on the results and the underlying logic – Appendix A gives the detailed results of the model for the more mathematically inclined readers. Consider the context of the analytical model. There is a profit-maximizing firm, F, selling a product, say shoes. There is a charitable organization, C, that gives away an identical product, shoes, to a poor person for every donation made by its 'customers,' effectively selling the cause. The objective of the organization C is to maximize social welfare, subject to making zero profits.

We use a simple standard quadratic model of consumer behavior [27]. Let the market demand for products 1 (for-profit shoes) and 2 (charity shoes) be derived from the social welfare function:

$$\text{Utility} = a(q_1 + q_2) - \frac{1}{2}\left(q_1^2 + q_2^2\right)$$

This formulation assumes that the two products are independent in demand, which is true for CRM in general and for BOGO in particular. The utility derived from the charity product can be considered to include three components:

- Utility from a public good (e.g. renovating the Statue of Liberty),
- Private consumption by the person receiving the charity shoes, and 3) the psychological satisfaction – the 'warm glow' in Andreoni's [28] model – experienced by the donor of the charity; this additive form is plausible because the charity donor exercises similar agency whether she donates to a charity organization of purchases a BOGO product. (In Andreoni's model the alternative to individual donations to a public cause is government funding.)

Differentiating the Utility by q_1 *and* q_2 gives the inverse demand functions for the two products:

$$p_1 = a - q_1$$
$$p_2 = a - q_2$$

Assume a linear cost function for the firm:

$$\text{Cost}_F = \text{f} + \text{c}q_1$$

The fixed costs can be considered as the cost of marketing and the variable costs as the cost of procuring (or producing) shoes. Assume a linear cost function for the charitable organization:

$$\text{Cost}_C = \text{g} + \text{c}q_2$$

Again, the fixed costs can be considered as the cost of marketing the cause and the variable costs as the cost of procuring (or producing) the charity shoes. The more popular and visible the cause is on its own, the lower will be its marketing costs. Since we are analyzing the BOGO model, where the charity gives away a product identical to that sold by the firm, it is reasonable to assume that the variable costs are the same for the charitable organization as for the firm. Recall that the BOGO model is the most generous CRM format from the perspective of the charitable cause; for most CRM campaigns, the variable cost of the charity product will be significantly smaller than the variable cost of the for-profit product. Therefore, the results we derive hold even stronger for any other CRM format.

We will consider the outcome metric profits for the profit-maximizing firm F. From the perspective of the cause, we will consider the outcome metric: the number of charity products donated (q_2). From the perspective of society, we will consider two standard (in economics) outcome metrics:

- Consumer surplus, defined as the value the consumers derive from the two products minus the amount they paid for these products, and
- Societal welfare, defined as consumer surplus plus firm profits.

We will analyze four cases:

- The firm and the charitable organization both operate independently; that is, the company does not undertake any social initiative;
- The firm takes over fund-raising function of the charitable organization and continues to sell the two products – for-profit shoes and charity shoes – separately without bundling; this is causing promotion;
- The firm takes over the fund-raising function of the charitable organization and sells the two products only as a bundle; this is the BOGO format of CRM;
- The firm sells a bundle (of pro-profit shoes and charity shoes) and the charitable organization continues to operate independently selling only the charity shoes; this is a combination of scenarios 1 and 3 above and could be called ‘mixed bundling.’

We will calculate the outcome metrics for each of the four cases.

Case 1: Independent Organizations

This is our base case: firm F and organization C are totally independent of each other. Firm F sells shoes to maximize profits; organization C maximizes shoes donated to charity, subject to profit = 0. Using simple algebra, all the outcome metrics are derived in Appendix A.

Most for-profit firms and charity organizations, which do not participate in CRM, are examples of this base case. For example, in Ann Arbor, Michigan, there is a not-for-profit organization C.S. Mott Children’s Hospital that seeks generous gifts from its supporters. In Ann Arbor, there is also a Costco store, part of the for-profit retail chain. The hospital and Costco have no relationship and operate as independent organizations.

Case 2: Cause Promotion

In this case, the profit-maximizing firm works on behalf of the charitable organization to market the cause, but without bundling the two products. An excellent example of this arrangement: 600 Costco locations have participated in fundraising for the Children’s Miracle Network Hospitals and have raised over $500 million since 1987. Every May, Costco members are invited to make a donation at the time of checkout; this is a voluntary donation of any amount and is not tied to any purchase from Costco. This simple request at the register is the primary source of Costco’s fundraising efforts. These campaigns are relatively altruistic. The Miracle Network Hospitals benefit from access to the large customer base of Costco, and save on the costs of managing a fundraising campaign (the fixed costs g in the above cost function). Costco does not get any direct financial benefit, nor does it incur significant additional costs. However, the Costco campaign does generate some goodwill among its customers and employees, thus probably improving the firm’s performance. But, since there is no bundling, this does not reduce social welfare, and it certainly does not hurt the cause. Overall, it probably helps the cause and increases social welfare. This may be a win-win solution; at a minimum it is an altruistic arrangement.

Other examples: PetSmart asks customers at checkout if they want to make a donation in any amount to PetSmart Charities that supports animal welfare initiatives [29]. Customers at Stop & Shop are asked if they want to round up their purchase by donating the change to a charitable cause, which have included breast-cancer research and food-security initiatives. Domino’s recently pledged $174 million over the next ten years to benefit St. Jude Children’s Research Hospital, expecting the funds to come from its longstanding roundup campaign that invites customers to donate the difference between their purchase total and the next-highest dollar amount [30].

In our analytic model, there are no changes for the firm for Product 1 compared to Case 1. It is reasonable to assume that the fixed marketing costs for the firm do not increase as it takes on the task of marketing the charity product as well. Therefore, firm profits are the same in Cases 1 and 2. Case 2 has better public outcomes (charity shoes donated, consumer surplus, and social welfare) than Case 1 only because the charitable organization avoids its fixed marketing costs. The societal outcomes in Case 2 are better than in Case 1 in proportion to how high are the marketing costs for the charitable organization; causes that are more popular on their own benefit less from cause promotion by a company.

Case 3: Pure Bundling, BOGO Format

In this case, the firm takes over all operations of the charitable organization and implements pure price bundling. Customers cannot buy either product 1 or product 2 separately. A perfect example of this arrangement is TOMS shoes. Customers who purchased TOMS shoes were forced to ‘donate’ the charity shoes as well, and they could not donate the charity shoes without buying TOMS shoes. This is true for most BOGO campaigns, and more generally for some CRM campaigns (such as the American Express campaign linked to the Statue of Liberty renovation).

In Appendix A we derive the outcome metrics for this Case 3. We can compare the outcome metrics of Cases 2 and 3. Recall that in Case 2, the firm altruistically takes over the operations of the charitable organization and does not do any bundling. In Case 3, the firm is no longer altruistic and does pure bundling – pure because customers cannot donate to the charity directly and can only buy the bundle from the firm. Firm profits are higher in Case 3 than in Case 2; bundling benefits firm profitability. All societal outcomes: shoes donated to charity, consumer welfare, and social welfare, are lower in Case 3 than in Case 2. To better understand this outcome, it is noteworthy that the price of the bundle in Case 3 is higher than the price of for-profit shoe plus the price of the charity shoes in Case 2. This is a result of the firm using bundling to leverage its market power across different markets, from for-profit shoes to charity shoes. Bundling is not beneficial for the cause or society. Case 2 (no bundling) is the ideal situation from the public perspective and Case 3 (pure bundling) is the ideal situation from a private, or firm, perspective.

This result is perfectly consistent with the previous research in economics: "bundling can allow a firm with a monopoly in one market to exercise greater market power in other markets, … and to reduce net social welfare". In our model, we did not need to assume that the firm was a monopoly in the "product 1" market, but we assumed that it faced a downward-sloping demand curve, which is a form of market power. This is a reasonable assumption because a firm engaging in CRM is almost always selling a branded, differentiated (usually consumer) product in a segmented market, and faces a downward-sloping (as opposed to a flat) demand curve. In the market for "product 2" (the charity shoes), the charitable organization voluntarily sets profit = 0 and exercises no market power. By bundling, the profit-maximizing firm can extend its market power from for-profit shoes to the market for charity shoes and increase its profits. CRM clearly is a rational strategy for increasing firms' profits, and it works in practice. However, from a societal perspective, CRM reduces donations to the cause, consumer surplus, and social welfare.

Case 4: Mixed Bundling

This case is the same as Case 3, except that the charitable organization continues to operate, and customers can donate money to it directly or buy the bundle from the firm. In the language of Stemersch and Tellis [25], this is a mixed price bundle – "mixed" meaning that while the firm sells only a bundle, customers can still buy product 2 (the charity product) from the charitable organization. A good example of mixed bundling is the RED campaign founded in 2006 to support the Global Fund to fight AIDS, Tuberculosis, and Malaria. Partner companies, including Apple, Gap, and Starbucks, offer RED-branded products, with a portion of the revenues donated to the Global Fund. Meanwhile, the Global fund continues independent fundraising efforts globally to support its work.

Let B be the number of bundles (which consist of one unit of product 1 and one unit of product 2) sold by the firm F; at the same time the organization C continues to sell its product 2. Putting this into the Utility function gives:

$$\text{Utility} = 2aB + aq_2 - \frac{1}{2}(B^2 + (B + q_2)^2)$$

Differentiating the Utility by B and q_2 yields the inverse demand functions:

$$p_B = 2a - 2B - q_2$$
$$p_2 = a - B - q_2$$

Note from the above two inverse demand functions that the demand for the bundle and product 2 is not independent. Bundling has a strategic effect because it can create a substitutability relationship, although our utility function implies that products 1 and 2 are independent in demand. This is the underlying mechanism of how bundling enables a firm with market power in one market to exercise greater market power in other markets, which leads to higher profits and lower social welfare. In Appendix A we calculate the outcome metrics for this Case 4.

It is not surprising that the outcome metrics in Case 4 are somewhere between those in Cases 2 and 3. Bundling is good for the firm, and pure bundling is better than mixed bundling. Bundling is bad for the cause and society, and mixed bundling is better than pure bundling.

Strategic Implications

Consistent with economic intuition, the results of the analytical model show that Case 2, cause promotion, is ideal from the perspective of the cause and society. Case 3, BOGO format, pure bundling, is ideal from the perspective of the firm. Case 4, mixed bundling, is in between the above two cases. Advice to a for-profit company is to engage in CRM, choose an appropriate cause such that consumers would value the bundle (the firm's product and the cause), and competently execute the campaign [31]. This can be very profitable even if its ethics are debatable. After its launch in 2006, the TOMS story took off like a rocket, and its BOGO format attracted millions of customers. In 2014, a 50% share of the company was sold to Bain Capital for a reported $300 million, and the founder, Mycoskie, went from company leader to figurehead [32]. Unfortunately, the company has not performed well after that. Footwear competitors have created less expensive versions of the TOMS core Alpargata shoes and even offered their own BOGO programs. The new management was unable to reverse the company's decline, and in 2019, debtholders took control of the company. The company then moved away completely from the BOGO model and now pledges to give one-third of its profits to charity – an abstract and vague CRM format.

Our advice to a company truly wanting to help a cause would be to adopt Case 2, cause promotion: take over the marketing (or part of the marketing) of the cause and do no bundling. This is not too idealistic, and there are several examples of such campaigns, as discussed earlier. This will maximize the benefit to the cause and society, and might even increase firm performance. Advice to a cause is to first try to find a company that is willing to promote the cause without any bundling. If no such company can be found, then consider operating independently. However, if the cause is not that popular and has low visibility, it is likely that its fixed marketing costs are very high, and operating independently may not be an attractive option. Only then consider forming a relationship with the CRM campaign of a company. If bundling is necessary, attempt to choose mixed bundling rather than pure bundling; that too will depend on the fixed marketing costs (that is, popularity) of the cause.

Public policy should ensure that all CRM campaigns are transparent and consumers can make a well-informed choice on whether to purchase the bundle. In particular, the size of the donation (in kind or cash) to the cause for each purchase by the consumer should be clearly communicated. Our advice to individuals, consumers, and donors is simple: separate your purchases from your charitable donations. These two very different activities are best maintained separately; we have provided an economic rationale for Eikenberry's [23] similar advice to consumers. Imagine you bought TOMS shoes (yes, some years ago) for, for example, $50. Now, how much do you think you have donated to charity? Some people think it is $50 (what they paid for the shoes), others think it is $25 (since they received only one pair of shoes but paid for two pairs), others might think it is only $10 (their estimate of TOMS's manufacturing cost of the donated shoes), others might think it is $2 (their estimate of the value the poor child derives from the shoes), yet others might think that the value of the donation is less than zero (due to negative externalities, such as distorting the local market for shoes and creating a dependence mentality) [33]. Much better to avoid such ambiguity: buy your shoes from a shoe company and separately donate money to a charity that truly helps disadvantaged people. Require that charity to be transparent and held accountable.

Conflict of Interest

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Ethical Approval

This article does not contain any studies with human or animal participants.

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Appendix 1
Analytical Model Results

Let the market demand for products 1 (for-profit shoes) and 2 (charity shoes) be derived from the social welfare function

$$\text{Utility} = a(q_1 + q_2) - \frac{1}{2}(q_1^2 + q_2^2) \qquad (1)$$

The inverse demand curves for the two products are as follows (the normalization that makes the inverse demand curves slopes equal to -1 is without loss of generality):

$$p_1 = a - q_1$$
$$p_2 = a - q_2$$

Assume linear cost functions for the firm and the charitable organization:

Cost_F = f + cq_1
Cost_C = g + cq_2

Case 1: Independent Organizations

In this case, the firm and the charitable organization act independently. The firm maximizes profit, and charity maximizes charity donations, subject to profit = 0. The firm's profit is given by

$$\Pi_F = (a-c)q_1 - q_1^2 - f$$

By differentiating the firm's profit and equating it to zero, we obtained the optimal solution

$q_1^* = \frac{1}{2}(a-c)$, it must be that a>c
$p_1^* = \frac{1}{2}(a+c)$
$\Pi_F^* = \frac{1}{4}(a-c)^2 - f$
(2)

Consumer surplus generated by the firm = utility – revenues

$$= \frac{1}{2} {q_1^*}^2 = \frac{1}{8}(a-c)^2 \qquad (3)$$

Social welfare generated by the firm = consumer surplus + profits

$$= \frac{3}{8}(a-c)^2 - f \qquad (4)$$

Next, consider the charitable organization. Its profit is:

$$\Pi_C = (a-c)q_2 - q_2^2 - g = 0$$

because that is the objective of the charitable organization. Solving the above equation:

$$q_2^* = \frac{1}{2}(a-c) + \frac{1}{2}\sqrt{(a-c)^2 - 4g}$$
(5)

Social welfare generated by charity = consumer surplus = $\frac{1}{2} {q_2^*}^2$

Case 2: Cause promotion

In this case, the profit-maximizing firm works on behalf of the charitable organization without bundling the two products. Therefore, there are no changes for the firm for Product 1 compared to Case 1. It is reasonable to assume that the fixed marketing costs for the firm do not increase as it takes on the task of marketing charity shoes as well; therefore, for the charity work, the fixed marketing costs g = 0.

$q_2^* = a - c$, higher than in Case 1 (see Equation 5)(6)

It is not surprising that the number of shoes donated to charity increases (compared with Case 1) because the charitable organization's fixed marketing costs are avoided.

$p_2^* = c$, lower than in Case 1

Social welfare generated by charity = $\frac{1}{2}(a-c)^2$, higher than in Case 1

In this scenario, the firm is acting altruistically. The firm's profit does not change, more charity is done, and society is better off than in Case 1.

Total profit = $\frac{1}{4}(a-c)^2 - f$ (7)
Total consumer surplus = $\frac{5}{8}(a-c)^2$ (8)
Total social welfare = $\frac{7}{8}(a-c)^2$ – f (9)

Case 3: Pure Bundling, BOGO Format

In this case, the firm takes over all operations of the charitable organization and implements pure price bundling. Now, $q_1 = q_2$ because of bundling, and let B be the quantity of bundles sold.

Utility = 2aB - B^2
Cost = f + 2cB
Price = 2a – 2B
Profit = $\Pi_B = 2aB - 2B^2 - 2cB - f$

Differentiating and equating to zero gives the optimal solution:

$B^* = \frac{1}{2}(a-c)$
$p_B^* = a + c$

Bundling causes prices to go up compared to Case 2. From Case 2:

$p_1^* + p_2^* = \frac{1}{2}a + \frac{3}{2}c$

Since a > c, $p_B^* > p_1^* + p_2^*$

Other outcomes are:

Shoes donated to charity = $q_2^* = B^* = \frac{1}{2}(a-c)$, less than in Case 2

Profit = $\Pi_B^* = \frac{1}{2}(a-c) - f$, greater than in Case 2 (see Equation 7)

Total consumer surplus = $\frac{1}{4}(a-c)^2$, less than in Case 2 (see Equation 8)

Total social welfare = $\frac{3}{4}(a-c)^2 - f$, less than in Case 2 (see Equation 9)

Case 4: Mixed Bundling

This case is the same as Case 3, except that the charitable organization continues to operate, and customers can donate money to it or buy the bundle from the firm. Then we have:

Utility = $2aB + aq_2 - \frac{1}{2}(B^2 + (B + q_2)^2)$

$p_B = 2a - 2B - q_2$

$p_2 = a - B - q_2$

Firm profit = $\Pi_B = 2aB - 2B^2 - Bq_2 - 2cB - f$

To make the algebra tractable, we assumed that the fixed marketing costs for the charitable organization, g, are equal to zero – this is a reasonable assumption for a cause that is popular and visible on its own. Then,

Profit of charitable organization = Π_C = (a – c - B) $q_2 - q_2^2$

The firm's objective is to maximize profits, while the charitable organization maximizes utility subject to profit = zero. Now, we calculated the Nash equilibrium in a competitive game.

$\frac{d\Pi_B}{dB}$ = 2(a – c) - $q_2 - 4B$ = 0

Π_C = (a – c - B) $q_2 - q_2^2$ = 0

After doing straightforward algebraic manipulation, we get:

$B^* = \frac{1}{3}(a-c)$

$q_2^* = \frac{2}{3}(a-c)$

$p_B^* = \frac{2}{3}a + \frac{4}{3}c$, which is less than the p_B^* from Case 3. In Case 3, the bundle has no competition, whereas in Case 4, there is competition due to the substitutability between the bundle and product 2. The number of shoes donated to charity = $B^* + q_2^*$ = (a – c) is higher than in Case 3 and the same as in Case 2.

The firm's profit at the Nash equilibrium is easily calculated to be

$$\Pi_B^* = \frac{2}{9}(a-c)^2 - f$$

We can calculate total social welfare as the total utility generated minus the total costs, which, after some straightforward algebraic manipulation, gives

Total social welfare = $\frac{7}{9}(a-c)^2 - f$

Consumer surplus is equal to social welfare minus profit, which is

Consumer surplus = $\frac{5}{9}(a-c)^2$

It is not surprising that the outcome metrics in Case 4 are somewhere between those in Cases 2 and 3. The higher the fixed marketing costs for the charitable organization are, the closer this case will be to Case 3.