

Research on the influence of ERKE's philanthropy behavior on consumers' purchase intention

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Abstract. A charitable donation is a social activity that companies ignore because it usually increases costs and does not bring additional productivity. Analyzing from the point of view of profit, as rational entrepreneurs, it is normal that they do not donate to society. But those well-known entrepreneurs, such as Bill Gates, regularly donate to specific projects. So why is that? Are they willing to give up their interests to help others? The original purpose of this article was to explore why entrepreneurs donate and how this affects consumer sensibilities. The research question is to instigate how a company's philanthropic behavior influences consumers' intention to purchase the company's goods. The research was supported by research questionnaires posted on social media and data provided through major newspapers and articles. One-on-one interviews were conducted to get the most honest insights from consumers. Finally, to confirm whether consumers are more inclined to buy because of the company's philanthropic efforts.

Keywords: ERKE; Philanthropy behavior; Consumer sensibilities; Purchase intention.

1. Introduction

1.1 Research background

Since 2020, countries around the world have been actively fighting against Covid-19. Almost every industry has been depressed. ERKE, a local brand in China, lost 220 million RMB in 2020 and over 60 million RMB in the first quarter of 2021 and withdrew from the stock market due to financial problems [1]. However, what this crisis company has done is unimaginable to everyone. At that time, the Henan region of China suffered from severe rainstorms. The rainstorms for many days caused the city's drainage system to collapse, eventually triggering a serious flood within the city. ERKE donated a supply worth 50 million RMB to the Henan region despite its crisis.

Such a motivation inspired consumers to irrational purchase ERKE's products in the days followed. Almost all domestic media reported the news. According to the statistics, ERKE's sales two days after the donation exceeded the total sales of the previous seven months in 2021. One-day sales can be as high as 22million RMB. The online streaming sales up to 109 million RMB. At the same time, ERKE gained a large number of customers in a short time. The number of live streaming viewers was as high as 9 million, compared to the previous average of 10,000 people. This event is one of the most important triggers of this paper. For business, this study can suggest whether companies should or are eligible to donate. And explore whether the donation would be worthwhile in any way (interests, reputation, advertisement, consumer confidence) for the social aspect, where businesses hold one of the major economic sources of the region. Corporate donation activities to society will improve the relationship between the company and the government because it releases the government's pressure.

1.2 Literature review

Gu and Peng talk about how companies respond to philanthropy at different stages. First of all, at any stage, charitable events are positive for society. Nowadays, more and more companies want to make charitable donations to fulfill their social responsibility and profit simultaneously. But in reality, there are many cases which is the opposite. They proposed that corporate philanthropy raised by mature-stage businesses has positive effects. However, it can be condemned by public opinion because the amount donated is too small, causing the company to be labeled as hypocritical and

causing bad results. For growth stage companies, resources are limited. Corporate philanthropy may crowd out and limit the company's growth [2].

The relation between philanthropy and corporate performance is the core research goal. Philanthropy can be an additional cost for the business, negatively affecting corporate performance. Liu found that more than half of loss-generating enterprises did philanthropy in China. In the study, she found that politically connected companies were more likely to make charitable donations than non-politically connected companies, possibly intending to gain government support in certain areas. And these politically connected companies indeed receive more government subsidies than others [3].

Wong and Zhang analyzed that shared emotion is one of the most important factors which cause ERKE's irrational purchase event. They indicate that personal emotions infected by the emotions of others eventually form a strong power. This power contains emotions such as compassion, cherishing, patriotism, and national consciousness. When consumers started to purchase 'wildly', ERKE's CEO persuaded people to stop spending irrationally, and this persuasion intensified the consumer's rebelliousness. It even made consumers trust the brand more and increased consumer confidence.

In sum, most articles investigate the impact of philanthropic behavior on the business itself. In contrast, few studies examine the behavior of consumers following philanthropy.

1.3 Research framework

This research paper shows how domestic and turbulent corporate philanthropy has influenced consumer preferences. The study is focused on the consumer, firstly analyzing the first impression through the consumer. Secondly, the behavior of consumers is such as whether they buy ERKE's products or not and the blogs that post and comment on social media. Third, the amount of change in total business sales. Finally, the consumer's feelings about the event long after it has ended.

2. Methods

2.1 Survey and interview

The primary data collected by questionnaires and interviews allow access to more effective quantitative analysis, directly and rapidly to investigate and understand the objective situation. In the paper, consumers' preferences about companies doing charitable events, behaviors, and how consumers perceive charitable donations compared to other factors. The research will determine how corporate charitable giving enhances reputation and social impact and changes consumers' intention. This study was divided into two ways of collecting primary data, questionnaires and interviews. The purpose is to analyze both subjective and objective influences better. The questionnaire allows for more visualization of changes in consumer behavior, such as the amount and frequency of consumption. Interviews can be used to collect subjective ideas of consumers, such as their spending intentions of consumption.

2.2 Comparative analysis

The comparative analysis examines two or more related objects according to certain criteria, looks for their similarities and differences, and explores the universal regularity and special laws. This study will compare consumers' spending intentions and spending amounts before and after the ERKE donation. The purpose is to detect whether a company's charitable behavior can be supported by society and, to some extent, increase corporate profits. On the other hand, how can philanthropy influence consumers to change their perception and understanding of a company?

2.3 Literature research

The literature can be acquired from the news report on the Internet and paper analysis. The company's sales, customer flow, and growth from quarter to quarter are available on the Internet. The consumers' feelings can be visualized by commenting and expressing their opinions on social media.

Such data and analysis can provide a more comprehensive understanding of the direction and basis of the research.

3. Result

China's domestic apparel industry has always been far inferior to imported goods, such as Nike, Adidas, Uniqlo, etc. Most of the reasons are in the cheap quality of the products, and the product design is too outdated to meet the aesthetics of the public. This situation has improved recently. Through the Chinese government's policies, the Chinese people's national sentiment, and the strong advertising. People are constantly encouraged to buy and support local products [4]. So that brands like ERKE, which has no competition in the international market, can take a bigger share in the domestic market. This behavior was shown when people went crazy to buy ERKE's products after ERKE donated to the country. As time passed, the trend of ERKE's propagation strength declined significantly. In October, ERKE performed 55 live streaming, with sales of just over 12 million yuan. The live-streaming followers on TikTok were nearly 290,000 less in one month. Even in November of the same year, ERKE again donated 20 million yuan of supplies to Shanxi, China. The impact of this charitable donation was much less than before.

Through the nearly 150 people's answers to the questionnaire, Ninety percent of people think ERKE has received a good reputation after the donation. Twenty percent do not believe that consumers bought ERKE products in large numbers because of charitable donations. The main reason is that most of those who believe domestic consumers are more supportive of local brands. When answering what makes a brand more attractive to consumers, most people choose better quality products and reasonable prices. Contribution to society was the third most influential factor. Therefore, for some companies, having charity cannot increase their benefits. However, it might cause losses through the additional costs of donation. Before donation, the average amount of money spent at ERKE by all who filled out the questionnaire was 400RMB. After the donation, the average amount spent at ERKE by all who filled out the questionnaire was about \$600. There is a significant increase in the amount of spending by the consumer after ERKE donation. Through the analysis, most people who have not spent money at ERKE before the donation will not buy its products or purchase a few products after the donation. However, those who had spent money at ERKE significantly increased their spending after the donation. This shows that the extent to which charitable donations impact a company depends largely on how many loyal customers the brand has. The increased reputation and awareness of charitable donations have exposed more consumers to the ERKE brand.

4. Discussion

4.1 Charitable events in unique business stages

Hongxing Erke has been an old brand in the Chinese market for many years. Even though its sales are not ideal, it is still very well known. Most people can figure out this company whenever someone thinks of a Chinese brand. Based on the popularity of Hongxing Erke and its low sales, this article defines the phase of Hongxing Erke as the initial fluctuation stage. During the initial fluctuation stage, the cost of charitable activities is likely to put a lot of pressure on the company. Normally this is not a recommended action. However, the decision to continue philanthropic activities during this period was made when ERKE was about to give up the business. The leaders of ERKE wanted to do something good for the community before the business went bankrupt. Whether this was an entrepreneurial act to show society kindness or a dangerous strategy, this act greatly increased ERKE's benefits due to the charity.

In conclusion, the reasons of boosted ERKE's profits by a large amount after the donation are diverse. ERKE donation was a unique example. Normally, a donation to society does not bring such a huge number of benefits.

4.2 The importance of promoting customer's trustworthiness

Customer loyalty and customer volumes are two different concepts. Some customers rely on a certain brand of products, and they may pay attention to the movements of this company. For example, if the brand is going to discount its products in the fall period, these customers will keep their eyes on the discount date and then make a deliberate and plenty consumption. On the other hand, the discounted products will promote more consumer volumes, but the amount of money spent by these customers will hardly reach the amount spent by loyal customers. This phenomenon is based on market research conducted through the data for a questionnaire. The data shows that after ERKE donated, the consumers appeared to have irrational spending. Most of these people were consumers who had previously purchased products from ERKE. And the amount they spent was significantly higher than before. On the contrary, people who had not spent money within ERKE before did not buy their products even after Honkers' donation or spent much less on average than loyal customers. So, customer loyalty and dependence determine the profit the brand gets after doing charity activities [5].

4.3 How to utilize the advantage of encouraging the national brand?

The concept of the national brand also brought additional sales after the donation of ERKE. Because it is easy to make consumers feel kind when a local brand is donated to their own country during a disaster, increasing the importance of the label of the national brand can bring greater benefits [6]. Bundling products with donations is a great option. ERKE can mark how much money the customer has donated to a charity project after purchasing the product. ERKE will use the money to do some local charitable activities in the future. Such an action would not only encourage consumers to buy the goods, but even if the price of the goods increased slightly, consumers would find it very reasonable and still be willing to pay for it. Secondly, national product and charitable enterprise terms can be used as the name of brand endorsement [7]. Use these two terms in any publicity, advertisements, and posters. In this way, it can leave a deep impression on the mind of consumers. Once consumers think of national products and charity, they will immediately think of ERKE. Just like people think of Coca-Cola when they see the color red [8-10].

5. Conclusion

5.1 Findings

Corporate philanthropic activities bring additional prestige, publicity, and benefits to a company. But the extent of these results depends on many factors. Different cycles of companies doing philanthropic activities may have different consequences. Companies in the stable stage are more recommended to do some donation activities. Customer dependence greatly impacts the revenue that comes after a donation.

Additionally, the average purchase number of old customers is much more than that of new customers after a corporate philanthropic activity. Additional company labels can also cause consumers to increase their purchase intentions after the company donated. For example, ERKE's national brand label, a company on the verge of bankruptcy, and a charitable company make consumers rely more upon and pity this brand.

This article discusses the impact that philanthropic activities expose on businesses and the extent of that impact. The confusion that most entrepreneurs contained about whether to invest in philanthropic activities is addressed through the example of ERKE. Also, the feasibility and expectations of corporate donations are promoted.

5.2 Limitations

Although this paper has collected a lot of primary information from the source of questionnaires and a lot of secondary information from news and online articles, these data and evaluations are

limited to one company, ERKE. Such data limit the diversity of the article. Because there are countless industries and companies with different backgrounds in the market, the analysis of ERKE cannot be reflected in other industries. In the future, the study should focus more on the market changes. For example, they are using several companies from different industries for comparison. So more and more diverse data can be collected in the future.

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