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Why do manufacturers issue coupons? An empirical analysis of breakfast cereals

This article is written by Aviv Nevo and Catherine Wolfram, the main purpose of this reading is about the relationships between the shelf price and the coupons of the ready to eat cereal breakfast. There is some inconsistent price of the cereal breakfast that is about the theory of price discrimination and explanations of couponing based on the vertical relationship between manufacturers and retailer.

There is the information supported about the pricing of the ready to eat cereal breakfast that since it is the non durable goods, therefore the marketing of this type of product should be the promotional price, not do more advertising, the promotional price will be more work.

The goal of the monopolist to achieve more profit from the customers is that if the company could separate the customers into groups which are high price elasticity and low price elasticity, the group that has the low price elasticity will be charged higher price than the other group.

The data of shelf and coupon prices that are analyzed in this paper are sourcing from two main sources. For the cereal price data is collected from the IRI Infoscan Data Base at the University of Connecticut and the coupon data is collected from the Promotional Information Management (PIM) which is the research company that tracks coupons and other promotional strategies. Both sources of data are very creditable, they are the big organization that have high credibility. Therefore, in my opinion the data that is used in this research has high potential to use and get the most valid outcomes.

Next we are going to talk about the equation or the model that describe the relationship between prices and coupons.

$$\text{SHELF PRICE}_{bct} = Y_b(c) + o_c(t) + a_t(b) + \text{ODOLLARS OFF}_{bct}$$

Each of the variables are stand by the following,

SHELF PRICEbct is the average shelf price for cereal brand b in city c during quart.

d DOLLARS OFFbct is the expected value of the coupon available for cereal brand b in city c during quarter, the value will be zero if the coupons are not available.

In conclusion from the analysis of data, we can conclude that there is the negative correlation between prices and coupons. The results tell that the coupons are driven by combination of

(1) strategic interactions between manufacturers

(2) incentives given to the people within firms who make decisions about coupons

(3) the effects of coupons on repeat purchases.

We are less convinced that explanations based on the vertical relationship between cereal manufacturers and retailers are important. Finally, this paper suggests that the relationship between shelf prices and coupons of cereal breakfast is not consistent.