

Nevo and Wolfram (2002) - Why do manufacturers issue coupons? An empirical analysis of breakfast cereals.

The question this paper tries to answer is that "Why do manufacturers issue coupons?" in the relationship between shelf prices and manufacturers' coupons for 25 ready-to-eat (RTE) breakfast cereals. They use a three-dimensional panel dataset with information on shelf prices and available coupons for 25 RTE breakfast cereal products in up to 65 cities for every quarter from the beginning of 1989 until the end of 1992. They also consider various patterns of coupons across brands, cities, and time. In order to evaluate the dynamic impact of coupons, they examine a vector auto-regressive (VAR) model by gathering data from two main sources. The cereal price data were obtained from the IRI Infoscan Data Base at the University of Connecticut and coupon data were obtained from Promotion Information Management (PIM). In the equation they set $SHELFPRICE_{bct}$ as the dependent variable which is the average shelf price for cereal brand b in city c during quarter t and $DOLLARS OFF_{bct}$ is the expected value of the coupon available for cereal brand b in city c during quarter t . They also include the brand-fixed effects to vary by city (γ_{bc}), city-fixed effects to vary across quarters (ϕ_{ct}), and the quarter effects to vary by brand (δ_{bt}). The results show that both negative correlation between prices and coupons and the dynamic result suggest that neither static nor intertemporal monopoly price discrimination considerations are predominant. Moreover, the vertical relationship between cereal manufacturers and retailers are less important.

I think the question is interesting enough for people who consume cereal as their breakfast but may be not for me, on the other hand, I get the price strategy or the advertising promotion that manufacturers or retailers decide to adapt in a different type of products and other factors they should take into account. In this paper, theories of price discrimination and the vertical relationship between manufacturers and retailers to find the evidences to support the paper's question. I think they adopt the appropriate model for the scope of their study but examine only the relationship between shelf prices and coupon, exclude the other significant factor like elasticity of demand. This make the result may not be convincing enough, whereas, the result can be more beneficial extension to other in the future because they show that the coupons are driven by some combination of 1) strategic interactions between manufacturers, 2) incentives given to the people within firms who make decisions about coupons, and 3) the effects of coupons on repeat purchases. So, these important implementation can be use as the source of further studies about issuing coupons.