

Why Do Manufacturers Issue Coupons? An Empirical Analysis of Breakfast Cereals

This paper discusses the top strategies to increase sales of ready-to-eat breakfast cereals by trying to analyze the effects of coupons used in 1990. Moreover, the researchers noted that cereal prices on the shelf are often lower than in a period when coupons are available. Interestingly, although there is an increase in the number of fixed effects, the result remains the same as controlling of unobserved changes in demand and cost.

This article shows price and coupon formats in the RTE cereal industry and illustrates both the negative relationship between prices and coupons. There are two assumptions under Statistic monopoly price discrimination that are Strategic interaction effects and Dynamic demand effect. The price discrimination with strategic interaction effect showed prices would decrease for all consumers when the coupon users and nonusers have a different brand preference. To evaluate the dynamic impact of coupons, we examine a vector autoregressive (VAR) model. The dynamic results pointed out in this article show that consideration of static and intertemporal price discrimination is essential and this model predicted that coupons are issued in response to intertemporal patterns in demand. Furthermore, data were collected from 25 RTE breakfast products in 65 cities every day from the beginning of 1989 to the end of 1992 and stored in a three-dimensional panel dataset. The panels were used to be clearly observed across the city between 1989 and 1992. The promotion information management collected data on coupons issued in 69 major metropolitan areas. Therefore, we can conclude that the authors used data from IRI Infoscan Data Base, Promotion Information Management on a three-dimensional panel dataset, and Var model.

In addition, the variables included in the regressions are the dependent and independent variables. The dependent variable is shelf price, the average shelf price for cereal brand b in city c during quart. The independent variables are DOLLARS OFF bct (the expected value of the coupon available for cereal brand b in city c during the quarter), brand-fixed effects to vary by city, the city-fixed results to vary across the quarter, and the quarter effects of changing by brand. This research shows that coupons are driven by Strategic interaction between manufacturers, incentives are given to people within the company to decide on coupons and the effect of coupons from repeat purchases. Moreover, the evidence of dynamic effects, which is at best an indicator of the relevance of this theory and coupons may entice consumers to try new brands, making them more likely to buy products in the future. Coupons will increase competition intensity by observing cross-brand effects.

The questions in this article are quite interesting and the methods used are appropriate and well persuasive. However, there are some parts that less convinced which explanations based on the vertical relationship between cereal manufacturers and retailers. This article uses price discrimination with the strategic effects industry to analyze production considerations as they are not monopolized and may require dynamic consideration to determine the price for retailers. Thus, the factor should add more variables to the model which is gender to see the impact on individual decisions.