

Nevo and Wolfram (2002): Why Do Manufacturers Issue Coupons? An Empirical Analysis of Breakfast Cereals

The author had researched the relationship between shelf prices and manufacturers' coupons for 25 ready-to-eat breakfast cereals which he found that shelf prices are lower during periods when coupons are available. The article focused on coupons for ready-to-eat cereal, one of the most heavily coupon products.

$$\text{SHELF PRICE}_{bct} = Y_{b(c)} + \alpha_{c(t)} + \alpha_{t(b)} + \text{DOLLARS OFF}_{bct}$$

The regression above shows the relationship between prices and coupons. Where SHELF PRICE_{bct} 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. DOLLARS OFF_{bct} takes on a value of zero when there is no coupon available.

the results from the instrumental-variable regressions suggest that coupons do not have a positive effect on prices, at least for the brands, years, and cities that our data cover. If one is willing to accept that the fixed effects control for all potential endogeneity problems, then these results suggest that manufacturers' conduct is not consistent with the static models. It is possible, however, that even in the most unrestricted specification there is still a systematic component in the error term that is correlated with the couponing decision. In other words, there might be additional factors that vary by city-quarter-brand and jointly

In conclusion, The overall results suggest that 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. he is less convinced that explanations based on the vertical relationship between cereal manufacturers and retailers are important