

EE489 | Paper summary : Nevo and Wolfram (2002)

The question that paper tries to answer is why manufacturer issue coupons in case of breakfast cereals. They try to find the relationship between shelf prices and available coupons. The type of data that they used to answer the question is pooled cross-sectional data since they obtain information from two main sources. The first one is Information Resources Incorporated (IRI), a marketing firm in Chicago, using scaling devices in a national random sample of supermarkets in metropolitan areas and rural towns. The data cover up to 65 different cities between the first quarter of 1989 and the last quarter of 1992. The second resource is from Promotion Information Management (PIM), a research company that tracked coupons and other promotional strategies. PIM collected data on coupons issued in 69 major metropolitan areas which are including all 65 of the IRI areas. The data that they obtain information from PIM on coupons issued for every brand produced by the top five cereal manufacturers are collected between 1989 and 1992. For variables,  $SHELF\ PRICE_{bct}$  is the average shelf price for cereal brand  $b$  in city  $c$  during quarter  $t$ .  $DOLLARS\ OFF_{bct}$  is the expected value of the coupon available for cereal brand  $b$  in city  $c$  during quarter  $t$ .  $PROB\ OF\ COUPON_{bct}$  reflects the probability that there is a coupon for a given city, brand, and quarter. To check cross-brand effects, they use  $PROB\ OF\ COUPON$  and  $COMPETITORS'\ COUPON$  to run the regression. For cross-city effects, they use  $\%SUPERMARKETS$ ,  $GROCERY\ CR4$ ,  $STORE\ DOUBLING$ , and  $NEWSPAPER\ DUOPOLY$  to run the regression. For dynamics effects, they use dependent variables which are  $PROB\ OF\ COUPON$ ,  $SHELF\ PRICE$ , and  $VOLUME$ . The result are both prices and coupons have negative correlation. The result suggest that coupons are driven by some combination of strategic interactions between manufacturers, incentives given to the people within firms who make decisions about coupons, and the effects of coupons on repeat purchases.

Yes, I think the questions are interesting enough for people who are work on marketing department to use the analytics to plan the strategies. For economic theory, they use Oligopoly price discrimination, Dynamic effects-Sobel's model, Dynamic effects-Repeat purchase, Retailers' objectives, Retailer or manufacturer costs-Demand fluctuations, and Retailer or manufacturer costs-Agency theories. The method that is adopted to answer research question is appropriate since they used credible sources. The variables used in econometric models appropriate. In my opinion, the results are convincing because it is the normal situation. When the product is launched the some promotions, the price will be decreased.