

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

By Aviv Nevo and Catherine Wolfram

Part 1:

From this paper the main research question is Why do the manufacturers issue coupons? And in this paper will analyze on breakfast cereals industry. This paper considers coupon for Ready-To-Eat (RTE) breakfast cereals because it is one of the most heavily couponed products. This study explored the empirical relationship between coupon and shelf price by using Econometric method to run the regression. They collected data by document couponing patterns across brand and cities and overtime so, I think this would be the cross-sectional type of data to the comparison and use panel structure to exploit our data as well. They using the data from 2 sources, the cereal price data were obtained from IRI Info-scan Data Base at University of Connecticut and the coupon data were obtained from Promotion Information Management (PIM). The Information Resources, Inc. (IRI) collected the data by using scanning devices in a nation random sample of supermarkets in metropolitan areas and rural towns to see the information such as sales and demographic of customer. In other hand, PIM collected data by tracking coupon and other promotional strategies in the market. In the regression model of the relationship between prices and coupons,

$$SHELF PRICE_{bct} = \gamma_{b(c)} + \phi_{c(t)} + \delta_{t(b)} + \theta DOLLARS OFF_{bct} + \epsilon_{bct},$$

the variables included 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. $\gamma_{b(c)}$ and $\phi_{c(t)}$ capture brand- and city-specific factors that affect demand or the cost of selling cereal. $\delta_{t(b)}$ is included to capture the trend in cereal prices over the time period we consider. We also present estimates that allow the brand-fixed effects to vary by city (we estimate $\gamma_{b(c)}$), the city-fixed effects to vary across quarters (we estimate $\phi_{c(t)}$), and the quarter effects to vary by brand (we estimate $\delta_{t(b)}$)

The result, authors found that the shelf prices will be lower during period when coupons are available. They find support for models of price discrimination in oligopoly settings as well as suggestions that firmwide incentives may induce managers to use coupons and price cuts simultaneously. Finally, lagged coupons have a positive effect on current sales, suggesting that coupons are used to induce repurchase.

Part 2:

I think this topic is quite interesting, as a marketing minor student, I think that I get some benefits from reading this paper. This paper introduced us marketing, promotion and pricing strategies, so, I believed at least you what you have to concern when you are pricing your goods or services and what is reaction that you would get from doing coupon promotion. In this paper, authors have linked with many economic theories like the customer elasticity to price, dynamic theories of price discrimination, vector auto-regressive (VAR) model and they also do the explanation of couponing based on vertical relationship between manufactures and retailers. I think the method adopted to answer research question and the variables used in econometric models are already appropriated because, for me, the regression model above and the variables in it are suitable to find the correlation between shelf prices and coupons of ready-to-eat cereal. I think the result is convincing because as it stated that by having coupon, it will persuade people to try new thing that might cheap or better utility, however, price cuts still use to lead people to repurchase in real life.