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

As cereal is one of the most heavily-couponed products, the researcher would like to know what the reasons of brand launching coupon campaign are. They started with examine the relationship between the coupons and the price of cereals on shelfs to see whether issuing coupons might be tools that allowed price discrimination. This study used panel data of the prices and available coupons of 25 ready-to-eat breakfast cereals in 65 cities for every quarter in between 1989-1992. The cereal price data were obtained from IRI Infoscan Data Base at University of Connecticut and for coupon data were acquired from the research company names Promotion Information Management (PIM).

The authors had conducted the regression setting *"SHELF PRICE"*, the average shelf price for particular brand of cereal in specific city and specific quarter of a year, as the dependent variable. *"DOLLAR OFF"* is the independent variable which is the expected value of coupon available for corresponding brand of cereal. There're also dummy variables to represent the brand and city that affect demand or cost of selling cereals, and quarter of the sample of cereals to capture trend in price over time period included in the estimation as shown in equation (1). The authors had substituted the "*DOLLAR OFF"* variable with *"PROB OF COUPON"* which reflects the probability of having a coupon for particular brand at that city and that period.

$$\textit{SHELF PRICE}_{bct} = \gamma_{b(c)} + \phi_{c(t)} + \delta_{t(b)} + \theta \textit{DOLLARS OFF}_{bct} + \varepsilon_{bct}, \qquad (1)$$

The result of regression suggested that the negative correlation between price and the coupon did not explain the intertemporal monopoly price discrimination. Instead, they considered several further explanations of having a coupon for cereals. The result suggested that the coupons are driven by the cooperation among manufacturers, and the repeated-purchase behavior of buyers. They also pointed out the news and the situations to support that the idea of issuing coupon was mostly for sales driven and it was favorable for the customers at that time. Therefore, they conclude that the coupon is not the tool to conduct price discrimination as stated in textbook and viewed by the economists.

This paper gave the explanation about the purpose having a coupon for products which is one of the pricing schemes that has been widely used as a promotion even in nowadays. The authors firstly set the assumption about the price discrimination and after the got the result, they alternatively explain the cross-brand and the cross-city effects which showed the impact to particular brand or city's sales and discounts affected by others. These additional explanations were leading them to be less-convinced on the statement that the coupon is the tool to allow price discrimination. The result of additional findings could be helpful for consumer's behavioral studies and also for other type of marketing applications.