

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

This article, published by Nevo and Wolfram, would like to portray the relationship patterns between shelf prices and coupons for the ready-to-eat breakfast cereals industry due to its heavily promoting through coupons. They tried to draw answers whether the relationship between these two is consistent with the widely displayed view that coupons are the main tool for price discrimination or not. On the other hand, the authors were also interested in describing manufacturers' key motivations in issuing coupons. To examine the correlation between shelf prices and coupons, they applied panel dataset and regression by using the cereal price data in 65 different metropolitan and rural areas obtained from IRI, while the data collected from a sample represents weekly data for UPC-coded products. By adopting the coupon data for every brand produced by the top five cereal manufacturers issued in 69 metropolitan zones from PIM, the authors could match them with the information of 65 areas IRI. The price and coupon data by city, brand, and quarter from 1988 through 1992 were matched as well. Altogether, this study came up with 23,350 observations reflecting information on 25 brands of cereal over 16 quarters from 65 cities.

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

The independent variables were listed as either DOLLARS OFF or PROB OF COUPON whereas SHELF PRICE stands for the average shelf price for a certain cereal brand in a particular city during a quarter. Also, dummy variables like brands, cities, and quarters were used to explain variation in this paper.

The regressions illustrate the negative correlation between shelf prices and coupons where the dynamic results indicate that both of static and intertemporal monopoly price discrimination considerations are not predominant. The outcomes imply that coupons are driven by three aspects which are strategic interactions among producers, incentives to employees who launch the coupons, and the impact of coupons on repeat purchases. The results tend not to convince that explanations based on the vertical streams between cereal manufacturers and retailers are significant.

From my perspective, although the results from this article are inconsistent with the general view towards price discrimination theory, it still can persuade me due to the robust evidences and proves. Various theories involving static monopoly price discrimination and the other models describing the effects of coupons were adopted to explain the reasons of issuing coupons and the relations between coupon and price. Furthermore, their two main sources are credible in my point of view since both IRI and PIM are big marketing and research firms with reliable observations that were matched and compatible. This paper would be beneficial for both firms and consumers to understand characteristics and relationship when the coupons are used as a price discrimination tools.

