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Nevo and Wolfram (2002) : Why do manufacturers issue coupons ? An empirical analysis of breakfast cereals

This research paper was constructed in order to analyze the relationship between the shelf price and the coupon issued by the manufacturer for the ready to eat cereal breakfast. There are evidences that show the inconsistency in both dynamic theories of price discrimination and explanations of couponing based on the vertical relationship between manufacturers and retailers. There is the information supporting the pricing of the ready to eat cereal breakfast that since it is the non durable goods, therefore the marketing of this type of product should be the promotional price, not the excessive advertising efforts and the promotional price should be worked more effectively.

There are two main sources of the data namely the IRI infoscan data base from the University of Connecticut for cereal price data and the Promotional Information Management (PIM) for the couponing data. The cross sectional data was conducted to analyze the pricing and couponing mechanic of the manufacturers. Both sources of data are creditable as they are collected by the big organizations that have high credibility.

In conclusion, the analysis shows that there is a negative correlation between the prices and coupons of the RTE breakfast cereals. The results show that the objective of couponing was driven by the factors such as the strategic interaction between manufacturers, incentives given to the people within firms who make decisions about coupons, and the effect of coupon toward repeated purchases. Therefore, from the result it is suggested that the relationship between the shelf price and coupon issued by the manufacturers of the breakfast cereal is inconsistent.