

Why do manufacturers issue coupons?

An empirical analysis of breakfast cereals

This paper try to explore the relationship between shelf prices and manufacturers' coupons for 25 ready-to-eat breakfast cereals. We find that shelf prices are lower during periods when coupons are available. This result is inconsistent with static monopoly price discrimination under a broad range of assumptions. We present evidence that is inconsistent with both dynamic theories of price discrimination and explanations of couponing based on the vertical relationship between manufacturers and retailers. We find support for models of price discrimination in oligopoly settings as well as suggestions that firm wide 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.

The equation or the model that describe the relationship between prices and coupons.

$$\text{SHELF PRICE}_{bct} = Y_b(c) + \alpha_c(t) + \alpha_t(b) + \text{DOLLARS OFF}_{bct}$$

Each of the variables are stand by the following,

SHELF PRICE_{bct} is the average shelf price for cereal brand b in city c during quart.

d DOLLARS OFF_{bct} is the expected value of the coupon available for cereal brand b in city c during quarter, the value will be zero if the coupons are not available.

In conclusion from the analysis of data, we can conclude that there is the negative correlation between prices and coupons. The results tell that the coupons are driven by combination of

- (1) strategic interactions between manufacturers
- (2) incentives given to the people within firms who make decisions about coupons
- (3) the effects of coupons on repeat purchases.

We are less convinced that explanations based on the vertical relationship between cereal manufacturers and retailers are important. Finally, this paper suggests that the relationship between shelf prices and coupons of cereal breakfast is not consistent.