

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

Coupons were heavily given on cereal products, therefore, the researchers would like to find out the reasons behind this. They examined the relationship of the coupons and the price of cereals on the shelves to see that if issuing coupons is the tools that allowed price discrimination.

The researchers collected the prices of 25 ready-to-eat cereals and coupons from 65 cities quarterly from 1989 to 1992 in order to make the explanations for the relationship between the shelf prices and the issuance of coupons. The cereal price data were obtained from IRI Infoscan Data Base at University of Connecticut. The coupon data were obtained from Promotion Information Management (PIM).

The regression model and observation from this paper was to conduct the price discriminations so that it can identify consumer groups with different elasticity and gain higher profit.

$$SHELF\ PRICE_{bct} = \gamma_{b(c)} + \phi_{c(t)} + \delta_{t(b)} + \theta DOLLARS\ OFF_{bct} + \varepsilon_{bct}, \quad (1)$$

“**SHELF PRICE**” is the dependent variable which represents the average shelf price for particular brand of cereal in specific city and specific quarter of a year. “**DOLLARS OFF**” represents expected value of coupons which is an independent variable. The dummies are to represent the factors affecting the demand and cost of selling products.

The result of regression explained that the negative correlation could not do well to explain the price discrimination but the cross-brand and the cross-city effects. In this case, we can conclude that coupon may not be the tools to conduct price discrimination