

Nevo & Wolfram (2002)

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

This article conducted by Aviv Nevo and Catherine Wolfram wants to illustrate the impact of coupons used by ready-to-eat breakfast cereals providers to increase its sales. The finding showed that the availability of coupons makes the price of cereal stocked on the shelf lower. Price discrimination is used for explaining the correlation of coupons and the shelf price. This study gathered data from 25 RTE breakfast cereals products in up to 65 cities for every quarter from 1989 to 1992. Those collected data is put in three dimensional set of data. The dependent variable is 'shelf price'. Letter 'b' represents cereal brand while c represents city. The first independent variable is DOLLARS OFF_{bct} which is the expected value of the coupon available for cereal brand b in city c during quarter. Other independent variables are brand-fixed effects to vary by city, the city-fixed effects to vary across quarter, and the quarter effects to vary by brand. The result of this study summarized by authors exhibited the negative relationship between shelf price and number of coupons being issued. When the cross-brand effect was being observed, manufacturers had to face intense competition from generic manufacturers. Moreover, It is interesting that even adding a number of fixed effects to control for unobserved changes in demand and costs the result remains the same.

In my opinion, this article is quite subtle and , for me, it is not easy to understand. This paper applied price discrimination to analyze the result. I think the model is good enough so the paper needs no more factors in the calculation. The variables used are appropriate for the topic.