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

This paper tries to analyze the impact of coupons that were used in the 1990s as one of a popular strategy to increase a sale of ready-to-eat breakfast cereals. The researcher observed that the price of cereal on shelf is generally lower when there is a coupon available which is interesting because even adding a number of fixed effects to control for unobserved changes in demand and costs the result remains the same.

The relationship between coupon and shelf price in this paper is mainly explained by Static monopoly price discrimination under two assupmtion. The data is collected from 25 RTE breakfast cereal products in up to 65 cities for every quarter from the beginning of 1989 until the end of 1992 and put it in the three-dimensional panel dataset. The panel data has been used to observe the effect across the city in the year between 1989 to 1992. The dependent variable is shelf price,the average shelf price for cereal brand b in city c during quart. The independent variables are DOLLARS OFFbct (the expected value of the coupon available for cereal brand b in city c during quarter), brand-fixed effects to vary by city, the city-fixed effects to vary across quarter, and the quarter effects to vary by brand. The results suggest that coupons do not have a positive brands, years, and cities. Moreover, when observing the cross-brand effects. It shows that coupons increase intensity in competition. Plus, the dynamic effects of coupons may induce consumers to try new brands.

This paper use price discrimination with strategic interaction effects industries to analyze the consideration of the manufacture as they are not monopolistic and they may have the dynamic considerations to set the price for retailer. The factor that should be added in the model is gender to see the effect on decision making in each person.