

Why do manufacturers issue coupons? An empirical analysis of breakfast cereals

This paper aims to examine the relationship between shelf price and coupon for 25 ready-to-eat breakfast cereals. The main question in this paper is “Why do manufacturers issue coupons?”. The method used in this paper was a vector auto-regressive (VAR) model by using panel datas. There were two main sources of datas. The cereal price datas were collected by Information Resources, Inc. (IRI) Infoscan Data Base at the University of Connecticut. The coupon datas were gathered by Promotion Information Management (PIM), a research company that tracked coupons and other promotional strategies. The model equation indicates the relationship between prices and coupons. The independent variable was average shelf price for cereal brand b in city c during quarter t while the dependent variables were expected value of the coupon available for cereal brand b in city c during quarter t (DOLLARs OFF) and probability that there is a coupon for a given city, brand and quarter (PROB OF COUPON). The result showed that there was a negative correlation between shelf price and manufacturer's coupon. Furthermore the result indicated that coupons were driven by 3 factors which were 1) strategic interaction between manufacturers, 2) incentive given to the people within firms who make decisions about the coupons, and 3) the effects of coupon repeat purchases.

I do think the question of this paper is interesting. It made me know that the coupons issued by all consumer goods manufacturers grew by over 10 percent a year between 1980 and 1995 which was driven by the cereal market. However the manufacturer seems to displease coupons because it cannot create jointly profit-enhancing price mechanisms. The economic theories that was used in this paper were static monopoly price discrimination, dynamic price discrimination/ intertemporal price discrimination and retailer or manufacturer costs - agency theories.

The method adopted to answer this question was appropriate because the vector auto-regressive (VAR) model is used for stationary datas type at the same level and has taken into account the error correction mechanism (ECM) which can help to explain

the result clearer. The variables used in this model were also appropriate but I suggest to include gender because manufacturers circulate coupons in newspapers, magazines and direct mailing. Normally men read more newspapers than women while women read more magazines than men, then they can evaluate the impact of genders who initiate to clip the coupon. Finally I think the result are rather convincing because it showed some effect that challenge the theory that are widely accepted today that coupon are price discrimination but it needs further study.