

Nevo and Wolfram (2002)

In this research paper, Nevo and Wolfram tried to find out the reasons of why the cereal industry manufacturers issue coupon discount for consumers, by looked into the relationship of the ready to eat cereals' shelf price and the manufacturer's' coupon. They also focused to learn whether or not coupons are primarily a tool to allow price discrimination.

From the shelf prices and coupon data information the writers retrieved from the IRI Infoscan Data Base at the University of Connecticut and Promotion Information Management (PIM). They created three-dimensional panel dataset of 25 RTE breakfast cereal products' information on shelf prices and available coupons for in 65 cities, all quarters every year from 1989 to the end of 1992.

After that, they used the regression method to answer the question, with the main equation of $SHELF\ PRICE_{bct} = \gamma_{b(c)} + \phi_{c(t)} + \delta_{t(b)} + \theta DOLLAR\ OFF_{bct} + \varepsilon_{bct}$, where $SHELF\ PRICE_{bct}$ is the average shelf price for cereal brand b in city c during quarter t, $DOLLARS\ OFF_{bct}$ is the expected value of the coupon available for cereal brand b in city c during quarter t, $\gamma_{b(c)}$ and $\phi_{c(t)}$ capture brand and city-specific factors affecting demand or cost of selling cereal and $\delta_{t(b)}$ is the trend in cereal prices over the time period, with an error term of ε_{bct} . They also estimated $PROB\ OF\ COUPON_{bct}$ to reflects the probability that there is a coupon for a given city c, brand b, and quarter t.

Their negative correlations between prices and coupons and the dynamic results suggest that both static and intertemporal monopoly price discrimination considerations are not predominant in the relationship, coupons are driven by combination of strategic interactions between multi-manufacturers, incentives given to firm decision makers related to coupons and the effects of coupons on repeat purchases. While they are not very convinced that the vertical relationship between cereal manufacturers and retailers are important, they believe that in oligopoly settings firm wide incentives may induce them to use coupons and price cuts simultaneously and the use of coupon is aim for increase repurchase.

I believe that the topic is somewhat interesting and used appropriate method and variables. This paper would help people understand the seller's intention of providing price and coupon discount clearer, which could be inconsistent with textbook view of coupons as price-discrimination, but this is also make the result a bit less convincing.

They also used economic theories of static monopoly price discrimination, price discrimination with strategic interaction effect and dynamic demand effect to hypothesized the seller's intents of coupon.