

Consumer Uncertainty and Price Discrimination through Online

Coupons:

An Empirical Study of Restaurants in Shanghai

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Abstract

We use data from restaurants in Shanghai, China to conduct a new empirical analysis of prices and coupons. Our results show a positive relationship between prices and online coupons. Moreover, the price premium from couponing is higher for restaurants about which consumer values appear to be more uncertain. When consumer uncertainty is high, restaurants that offer coupons have an average price that is about 60 percent higher than similar restaurants that do not issue coupons. When uncertainty is low, restaurants that offer coupons have an average price that is about ten percent higher. These findings are consistent with online couponing in the restaurant industry being used for price discrimination and as a promotional device in the presence of higher uncertainty in consumer valuations.

Key words: consumer uncertainty, coupons, price discrimination, price promotion