

Cross-category pricing: a discrete-continuous model of supermarket and beer choice

Martin O’Connell
Howard Smith
Øyvind Thomassen*

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Abstract

Often consumers’ choice of which brand to buy interacts with decisions about other product categories in their shopping basket and about which retailers to visit. These interactions can have important implications for retailer pricing. The existing literature typically considers brand purchases in isolation from the choice of retailer and overall grocery basket. We develop — and estimate on UK household scanner data — an empirical model that integrates consumers’ brand choice in the market for beer and cider with these broader aspects of shopping choice. First, we quantify the extent to which interactions in cross-category demands and consumer switching across retailers act to exacerbate or temper retailer market power in the beer and cider market. Second [*not done yet*] we consider a rationalization of the UK system of alcohol taxation which would lead to an equalization of the tax treatment of beer and cider products.

*oyvind.thomassen@gmail.com