Abstract
We revisit and test Salop and Stiglitz (1982) Theory of Sales. Equilibrium predictions are that higher consumer storage costs lead to: (1) higher average prices, (2) fewer promotions, and (3) shallower promotions. Empirical estimates of storage cost are developed for approximately 1,000 households using the American Housing Survey (1989), United States Census (1990), and Stanford Market Basket Database (1991-1993). A test of the key assumption finds consumers with higher storage costs shop more often and purchase smaller quantities per visit; moreover, all three equilibrium predictions are supported. The estimated quantitative effects on shopping frequency and prices are economically important.