Vienna 2019 Abstract Submission

Title
Do Whisky Investors Read the Bible? Whisky Expert Ratings Impact on Vintage Single Malt Prices

I want to submit an abstract for:
Conference Presentation

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Keywords
hedonic prices; whisky; expert; investment.

Research Question
What is the price impact of expert ratings (Jim Murray Whisky Bible) on investor evaluations of vintage single malt bottles?

Methods
Hedonic prices analysis of approximately 300 vintage single malt bottles registered on a whisky investment platform and evaluated in the whisky guide Jim Murray Whisky Bible.

Results
Our preliminary results show that prices asked by investors are positively correlated with Murray ratings and that whisky extrinsic (i.e. taste independent) characteristics partly explain these ratings.

Abstract
In the last few years, whisky has become an alternative investment asset with significant rates of return, like wine (Masset and Henderson, 2010; Aytaç, Hoang, and Mandou, 2016). Since 2008, the Apex 1000, an index of prices of vintage whiskies compiled by Rare Whisky 101, has increased by 580 % while the Liv-ex 100 Benchmark Fine Wine Index has only grown about 50 % over the same period. For instance, in October 2018, a 60-year-old Macallan distillated in 1926 was sold for more than $1.1 million at Bonhams Whisky Sale auctions.
While the issue of investment in wine already benefits from an extensive body of literature, this does not appear to be the case for whisky, except Moroz and Pecchioli (2018). The literature investigating the return to wine (Krasker, 1979; Jaeger, 1981; Burton and Jacobsen, 2001; Sanning, Shaffer, and Sharratt, 2008; Masset and Henderson, 2010) aims either to evaluate the nominal return rate of different vintages (Burton and Jacobsen, 2001) or the determinants of wine prices (Combris, Lecocq, and Visser, 1997, 2000; Jones and Storchmann, 2001). This literature postulates that the financial value of a wine derives from its eventual consumption value with an optimal but yet uncertain consumption date (Sanning, Shaffer, and Sharratt, 2008). This optimal consumption value depends on

technological variables as well as natural variables (Gergaud and Ginsburgh, 2008), the latter including the climatic conditions prevailing during the harvest period (Ashenfelter, Ashmore, and Lalonde, 1993; Byron and Ashenfelter, 1995; Wood and Anderson, 2006; Chevet, Lecocq, and Visser, 2011), which explains the variation of value across different vintages (Ashenfelter, Ashmore, and Lalonde, 1995). For instance, Burton and Jacobsen (2001) find an annual nominal return rate of almost 14% for a portfolio of 1982 vintage wines and 8.3% for a portfolio of older 1961 wines.

Notwithstanding its significant rate of return, what makes the market for whisky particularly interesting relies on the fact that, unlike a bottle of wine, a bottle of whisky has no optimal consumption date. The intrinsic characteristics, i.e. the sensory attributes related to the tasting experience (Lecocq and Visser, 2006; Oczkowski and Doucouliagos, 2014), of a bottle of whisky are time-independent for two reasons (Moroz and Pecchioli, 2018). Firstly, the intrinsic characteristics of a whisky do not depend on the climatic conditions of its vintage, i.e. its distillation year. Secondly, a bottle of whisky has no aging potential: its intrinsic characteristics do not change through time. This involves that an investor cannot anticipate the price of a bottle of whisky by resorting to data such as the climatic conditions of a specific vintage or expectations on an optimal consumption date. In such a context, the quality ratings provided by experts may play a significant role in assessing the investment value of a bottle. The literature in wine economics has already investigated this issue (Landon and Smith, 1997, 1998; Schamel, 2009) and shows a significant impact of expert assessments on the quantity demanded (Friberg and Gronqvist, 2012) and price (Jones and Storchmann, 2001; Ali and Nauges, 2007; Cardebat, Figuet, and Paroissien, 2014).

Such ratings exist also for whisky, notably in specialized magazines (Whisky Magazine, Whisky Advocate, etc.) and a yearly guide published since 2003, the Jim Murray Whisky Bible, which is an equivalent to the Robert Parker in wine. This guide provides ratings for a variety of whiskies (more than 4700 different bottles from over 30 countries for the 2019 version), each one graded out of an overall score of 100, resulting from the addition of ratings attributed on four different criteria (nose, taste, finish and overall balance). This guide is subdivided in eleven different chapters, aiming to represent the diverse range of producers in the world and covering the different kinds of whisky (single malt, single grain, vatted malt, bourbon, pot still, etc.).

Given the above considerations, the aim of our research is to investigate the impact of the Murray ratings on the prices of vintage single malt bottles extracted from the website www.worldwhiskyindex.com, a whisky investment platform. We chose this website for our empirical analysis for two main reasons. First, this online trading platform is specifically tailored to single malt Scotch whisky investors and displays an extensive set of extrinsic characteristics of interest to investors. The second reason is that, to the best of our knowledge, it is the only trading platform to reference such a large number of bottles in its database, allowing us to gather a sufficient number of observations with Jim Murray ratings and no missing data. At this stage, a first data extraction enables us to gather a sample of around 300 observations with available data related to the bottles (whisky age, volume, alcohol by volume and other production characteristics) as well as to the producer (country, geographical appellation, distillery name, creation year, etc.).

We study the impact of Murray ratings on whisky prices by resorting to the hedonic analysis method (Rosen, 1974). The dependent variable of our model specifications is the ask price, i.e. the selling price proposed by a whisky owner, which is an approach already validated in the wine economics literature (Schamel and Anderson, 2003; Estrella Orrego, Defrancesco, and Gennari, 2012; Oczkowski and Doucouliagos, 2014; Oczkowski, 2015). Our preliminary results show that the price asked by investors is positively correlated with Murray ratings (especially the overall score) but when we control for extrinsic variables of whisky bottles, i.e. characteristics that are taste independent (distillery name, whisky age, etc.), the impact of the ratings becomes statistically insignificant. This can be attributed to the fact that these extrinsic characteristics partly explain the ratings.

Overall, this research can make several major contributions to the literature. Firstly, it can contribute to the empirical literature related to whisky as an investment asset. Secondly, it can contribute to the literature in wine economics by examining the impact of expert assessments in the case of a drink whose quality cannot be estimated ex ante with climatic variables and which has no aging potential once bottled. Thirdly, it can extend the literature relative to the investment in collectibles by determining the sensitivity of investors to quality variables.

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