

Does Geography Matter for Whisky Bottles Investments? An Analysis of Scotch Single Malt Geographical Appellations

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Abstract

◦Purpose – Whisky has entered in the last few years in the category of alternative investments, such as fine wine before, but with higher return rates (Moroz and Pecchioli, 2019). Over the period 2015-2018, the average profitability of vintage single malt whisky investment was more than three times higher than wine, with respective return rates of 162.91% and 42.49% (Rare Whisky 101, 2018). However, it can be difficult to choose the right whisky, particularly with the increasing variety of products available on the market. For example, the 2019 edition of Jim Murray's Whisky Bible, which gathers only a sample of total world production, evaluates more than 4,700 whiskies which are traded on the second-hand market at prices that can vary significantly from one bottle to another. This article aims to examine the determinants of these differences by focusing more particularly on the impact of geographical appellations.

Except Moroz and Pecchioli (2019) and despite its significant return rate, the issue of investment in whisky has not been studied yet. On the contrary, the issue of investment in wine has benefited from an extensive literature since the pioneering works of Krasker (1979) and Jaeger (1981) (Le Fur and Outreville 2019). This literature aims either to evaluate the determinants of wine prices (Landon and Smith, 1997, 1998; Jones and Storchmann, 2001), the profitability of wine compared to traditional assets or other alternative investments (Masset and Henderson, 2010; Burton and Jacobsen, 2011; Dimson et al., 2015; Aytaç et al., 2016) or the nominal return rates of different vintages and vineyards (Masset and Weisskopf, 2010; Lucey and Devine, 2012). The difference in performances across vineyards and vintages relies on the fact that the financial value of a wine derives from its consumption value (Jaeger, 1981), which partly depends itself on the natural endowments of its vineyard (Gergaud and Ginsburgh, 2008; Ginsburgh et al., 2013), i.e. soil, slopes, exposure of vineyards and climatic conditions. Several analyses showed the significant impact of climatic conditions prevailing during the harvest and pre-harvest periods on price (Ashenfelter et al., 1995; Jones and Storchmann, 2001; Chevet et al., 2011) and the impact of soil characteristics on wine quality (Ashenfelter and

Storchmann, 2010). Consequently, producers located in the same vineyard can benefit, on one hand, from an individual reputation related to the past quality of their own output (Ali and Nauges, 2007; Oczkowski, 2016), and on the other hand, from a collective reputation (Schamel, 2009; Ménival and Charters, 2013; Castroaita and Delmastro, 2014) through the geographical appellation of the vineyard. The literature provides useful insights on the effect on price of the respective levels of reputation (product, individual and collective reputation) as well as on their interaction (Schamel and Anderson, 2003; Cardebat and Figuet, 2004; Schamel, 2006; Haeger and Storchmann, 2006).

In the whisky industry, some countries such as Scotland, United States or France have enforced geographical appellations. One can wonder about the relevance of such appellations since distillers are not compelled to use local barley or malt to benefit from an appellation and are allowed to import these inputs whereas wine producers have to resort to the grape they produce. Given that, the aim of our research is to investigate the impact of collective reputations of geographical appellations on the price of single malt bottles and their interaction with distillers' individual reputations.

◦*Design/methodology/approach – For our analysis, we use transaction data extracted from the www.worldwhiskyindex.com website. We retain only single malt bottles produced by distilleries from the five geographical appellations of Scotland (Campbeltown, Highlands, Islay, Lowlands and Speyside) for which we have location data (latitude and longitude). Our final sample gathers 751 bottles from 75 different distilleries over a 10-year period (from 2009 to 2018) on which we run hedonic price regressions using a classic log-linear model.*

◦*Findings – Our preliminary results tend to show that geographical appellations impact whisky bottle prices even when we control for other characteristics related to the production process and the distillery. Furthermore, we observe a positive effect of both age difference and distance between the distillery and the other distilleries of the same appellation and a negative effect of the average age of the other distilleries from the same appellation. In other words, all other things being equal, the farther and the older the distillery is compared to the other distilleries of the same appellation, the higher is the price of its bottles.*

◦*Practical implications – Overall, this research contributes to the literature related to whisky industry and investment with managerial implications for both producers and investors. It enables the formers to have a better understanding of the impact of different levels of reputation on the value of their output and provides the latter useful insights to make their portfolio choices.*

Key words: -

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