Assessing the Profitability of Investment in Chinese Liquors: A Hedonic Analysis of Baijiu Prices

I want to submit an abstract for:
Conference Presentation

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Keywords
Baijiu, Fine beverage, Pricing, Investment, Hedonic Regression

Research Question
What are factors influencing the price of Baijiu?

Methods
Hedonic regressions

Results
The price of baijiu can be explained to a large extent by observable attributes, as is the case for wines. Moutai is a special case.

Abstract
Baijiu, a traditional Chinese distilled liquor made from grains, derives its name from the Chinese characters bai (白, meaning “transparent”) and jiu (酒, meaning “alcohol”). Baijiu has long been a dominant force in the Chinese alcohol market, especially since
China’s reform and opening-up policy in 1978 and evolving economic policies (De Freitas, 2019). Not only the Gross Domestic Product (GDP) of China has witnessed remarkable economic growth with an annualized growth rate of about 11.5% from 1978 to 2022 (World Bank, 2022), but also the boom has significantly elevated the consumption and investment of Baijiu. In 2022, the Chinese spirits market generated revenue exceeding 156 billion US dollars, more than the US and Japan combined, with Baijiu accounting for 94% of the total sales value (Statista, n.d.).

Investors have recognized the value of Baijiu as an investment, particularly in the context of stock market opportunities. Some headline Baijiu companies have been listed on China’s A-share market or are preparing for listing and have achieved remarkable performance. For instance, Kweichou Moutai, regarded as the pearl among Baijiu enterprises, holds the highest total market value of 2.29 trillion Chinese Yuan, ranking it the top among 500 companies by market capitalization in the A-share market (Shanghai Securities News, 2023).

Recent years have also seen the development of an increasingly active secondary market. At the 2021 Sotheby's auction in London, a 24-bottle case of 1974 Sunflower Moutai was sold for £1 million, with a single bottle commanding around £40,000 (Knott, 2023) – a stark contrast to its original retail price of solely ¥8 in 1974 (China Guardian Auctions, 2017). However, choosing the right bottle of Baijiu for investment presents a significant challenge. The Baijiu market, unlike the more established wine or whiskey market, lacks transparency in secondary market pricing, often hinging on the subjective appraisals of dealers and industry experts: though Baijiu producers set the recommended retail price, the actual transaction price often changes flexibly according to the market (Wu & Yao, 2023).

The price determinants affecting investment return in physical bottles of Baijiu are still vague. Like wine and whisky, Baijiu is an experience good, whose quality can only be assessed after purchase and consumption by the customer (Nelson, 1970; Ashton, 2014; Moroz & Pecchioli, 2019). Academic research on Baijiu investment is limited. However, the extensive body of literatures on wine investment, particularly models such as hedonic analysis method (Rosen, 1974), can be adapted to analyze Baijiu's potential as an alternative asset class. Baijiu, with its multitude of features, is well-suited for hedonic analysis. The Baijiu industry in China is extensive, with a significant number of manufacturers. According to the Chinese National Bureau of Statistics (n.d.), there were 963 large-scale Baijiu enterprises in 2022, distributed across various provinces, predominantly in Sichuan, Guizhou, and Jiangsu. Each Baijiu manufacturer has a rich and varied portfolio, including unique offerings like the Zodiac series, which are promoted for every Chinese lunar year. Furthermore, Baijiu can be categorized into more than 12 distinct flavor types, each with unique characteristics. Additionally, the aging of Baijiu is a crucial factor in determining its quality. Therefore, this industry is ripe for hedonic price analysis due to these diverse and influential characteristics.

Furthermore, given Moutai's unparalleled investment popularity in the market compared to other Baijiu, an analysis of its pricing will be one of the focal points of this study. Lastly, considering investor’s interest in listed Baijiu companies, this essay will also explore the relation between the corporate stock performance and the price evolution of Baijiu in the secondary market. Accordingly, this paper aims to address the following three key questions:

Q1. What are factors influencing the price of Baijiu?
Q2. Specifically, for Moutai, what factors determine its investment value?
Q3. What’s the relation between the stock prices of listed Baijiu companies and the prices of their Baijiu products?

To address these questions, a dataset comprising 20,035 Baijiu hammer price observations from six auction houses is collected from 2011 to 2023. An analysis of the price determinants within the Baijiu market and a specific focus on Moutai is conducted using the hedonic regression method. Based on the result from the hedonic analysis, the Baijiu Index is constructed, facilitating the study of the relation between the stock market and physical bottle prices.
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