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Analysis of Organic Products Marketing Channels in Kenya: A Transaction Costs Approach

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Abstract

The nature of marketing of high value agricultural products such as Organic products has evolved over time, resulting into well coordinated physical, exchange and facilitating functions. However, the degree of market efficiency and effectiveness of these functions is highly influenced by the nature of interactions between the actors and their attributes. The current study aimed at offering policy options for improving marketing of organic products in Kenya through an analysis of the marketing channels. First, the study identified the actors and activities involved in marketing of organic products in Nairobi urban area. Secondly, the commodity (organic fruits and vegetables) attributes, the actors and the activities were analysed with view of determining how they influence two key outcomes: transaction costs and profitability. Primary data for the study was collected through a survey among 31 traders dealing in organic fruits and vegetables within Nairobi city. The data were analysed within the Institutions Analysis and Development (IAD) Framework.

Results indicate that although transaction costs exist in the three channels identified, the nature and magnitude of such costs greatly varies across the channels depending on the number of players and their attributes. Traders incur transaction costs while searching and screening for reliable suppliers and customers, transporting the product and enforcing contracts. Furthermore, the type of transaction costs incurred within each marketing channel highly depends on the level of information asymmetry between actors, the actors' attributes and existing institutional arrangements that are necessary to maintain transactions and counter opportunistic behaviour. The nature of activities and actors within each channel was also found to influence the transaction costs. The study draws imperative policy implications that can be used to reduce the transaction costs incurred in the business of marketing organic products. Some suggested policy options include: improving market information transmission, reforms in legal framework to facilitate contract farming and improved transport infrastructure.

Keywords: Organic food products, organic marketing channels, transaction costs