



Marketing Channel Choice Decisions of Agricultural Producers using the Transaction Cost Approach: A Review

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Abstract

In the context of the development of policies and programs to improve the lives of farmers, there is a growing recognition in identifying transaction cost as a policy base for the development of agribusiness. This paper reviewed studies about the associated transaction costs incurred in relation to the distribution and channel management of agricultural produce, particularly on the decision to directly sell to the market, to enter into an agreement with an intermediary, and to become a member in a marketing cooperative. Common themes regarding the marketing channel choice decisions identified in the different studies are the following: (1) farmers who have knowledge about the price of the good in the market are more inclined to sell directly to the market; (2) farmers who trust intermediaries and the workers of marketing cooperatives are more inclined to sell their produce through intermediaries and marketing cooperatives; (3) farmers perceived an increase in their bargaining power and income risk; and (4) institutional arrangements with intermediaries and credit cooperatives require trust and proper implementation of contracts in order for such arrangements to be sustainable. Such common themes reveal that transaction costs are significant in the decision-making process of farmers in the marketing of their produce. Interventions should be undertaken in order to ensure the proper implementation of such arrangements and prevention of abuse of intermediaries and workers of marketing cooperatives.