

CASE STUDY: SOKONECT

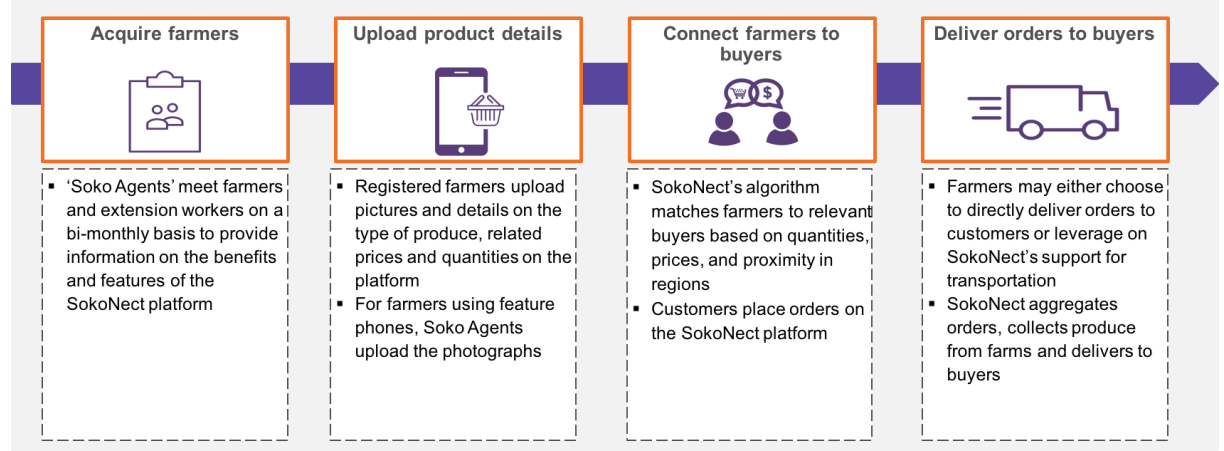


Founding year: 2013
HQ: Nairobi, Kenya
Countries of operation : Kenya
Orientation: For-profit
Employees: 7
Turnover: USD 1482

Smallholder farmers in Kenya have limited access to end markets and lack knowledge on market prices. These farmers primarily depend on middlemen who charge them high commission rates, diminishing the revenues that farmers receive. Small quantities of produce, inconsistent quality of crops, and lack of market information diminishes the buying power of farmers. In addition, fragmented distribution channels result in post-harvest losses that further decrease farmers' incomes.

SokoNect is a mobile and internet technology based marketplace that allows farmers to directly sell their agricultural produce and livestock to end buyers based on prices set by them. The enterprise provides farmers updated information on prices for crops and livestock across different markets and access to consumers located in regions that were previously difficult for farmers to directly reach.

SokoNect currently operates in 4 counties across Kenya and has over 5000 registered farmers on its website, SMS and Android App based platforms. In addition to providing a marketplace for farmers, the enterprise has also trained farmers on the use of mobile and internet technology.



Operating Model

SokoNect's software provides smallholder farmers in Kenya a platform to sell their agricultural, horticultural and livestock products to buyers using a mobile phone. The algorithm matches farmers to potential buyers within their proximity and enables transactions without the presence of a middleman or broker. It also provides farmers with information on market prices and agricultural news updates. Buyers on SokoNect's platform include export businesses, supermarkets and retail individuals.

The company partners with well-known farmers and makes them 'Soko Agents', who support the enterprise in its marketing and farmer interaction activities. Soko Agents visit farmers on a bi-monthly frequency to provide them with information on the use of the platform and on-board them as users. Once farmers are registered on the platform, they can upload their product details using the SMS based service on their feature phones or website and mobile application on their smart phones.

80 percent of SokoNect's current registered farmer base uses feature phones.

Farmers advertise their products by uploading pictures and descriptions related to type of product, quantities and prices. The algorithm then matches farmers to buyers as per their locations. Farmers using smart phones can also upload pictures, while Soko Agents assist farmers using feature phones—SokoNect charges a fee of USD 0.06 for each upload by SMS. The enterprise currently charges two percent commission fee for products priced lower than USD 99 and 10 percent

commission fee for products priced over USD 99. The payments are made either by using mobile money or transactions through Equity Bank.

Following the placement of an order by a buyer, farmers may either choose to deliver the products directly to the buyer or avail of SokoNect's support for transportation from farm to buyer. SokoNect charges an additional fee to farmers or buyers who require transportation and logistics support.

Financial Sustainability

With over 5,000 farmers on its platform, SokoNect is working towards achieving break-even. The enterprise intends to operate at a sustainable level by incorporating differential quantity based pricing and transaction fee strategies. Efficient scheduling of purchase orders helps reduce logistics costs, thereby improving the model's financial viability. Typically, smallholder farmers sell small quantities of produce at a given point of time, which increases per unit transportation costs. For instance, the company incurs logistics costs of USD 99 to collect orders within a distance of 70 kilometers using one truck regardless of the quantities to be transported.

Despite the enterprise charging farmers a fee to transport their produce to buyers, it is not optimal for SokoNect to undertake frequent visits to farms to collect small quantities of produce. It encourages farmers to upload information two weeks prior to harvest, thus enabling streamlined consolidation of location-based orders that helps in planning a cost-effective logistics schedule. It also intends to cluster farmers into different groups or 'saccos' based on the types of products and harvest periods for easier aggregation and collection of orders. Nearly 50 percent of SokoNect's overall costs comprise marketing costs – the enterprise finds it more challenging to acquire buyers in comparison to acquiring farmers to register on the platform. Logistics costs and Soko Agent salaries are other major costs incurred by the enterprise.

Since the product launch in July 2013, the company has spent over USD 9881. It received USD 4940 in funds from MLab East Africa and USD 1976 from Safaricom.

Impact

SokoNect's platform currently enables 5,000 smallholder farmers in Kenya to leverage on mobile phone technology to connect with end buyers directly. The elimination of middlemen and brokers translates to increased revenues for farmers stemming from higher purchasing power and reduction in exorbitant agent fees. The efficiency in the supply chain process, backed by real-time communication between farmers and buyers, reduces post-harvest losses ultimately resulting in increased farmer incomes.

Small-scale farmers typically earn **USD 99** on average per month, but have the potential to earn **USD 494** by eliminating middlemen. SokoNect enables smallholder farmers realize better returns from their produce.

Most rural smallholder farmers in Kenya are illiterate and not internet or mobile savvy. SokoNect in partnership with the government provides knowledge and capacity building to farmers on topics related to role of technology and the internet in improving their agricultural practices and productivity.

Challenges and Lessons

SokoNect was initially developed as an Android application. However, upon realizing that most farmers in Kenya have feature phones, the enterprise introduced a version using short code SMS

application—a platform it purchased for USD 1778¹. SokoNect was then offered a USSD test bed by Mlab East Africa for a period of 3 months. It later adopted the USSD (an interactive mobile phone query service application) platform, costing the enterprise USD 1452 from Africa'sTalking Limited. Despite the benefits of USSD—an application that provides farmers a simpler query and response mechanism in comparison to SMS services, the monthly maintenance fee of USD 168 proved to be a significant expense and led to the company discontinuing this application.

The uptake of SokoNect's direct-from-farm service relies on farmers' familiarity and comfort with adopting mobile and internet based technology. It trains farmers on internet and mobile usage and role of technology in agriculture at government organized farmer meetings or '*barazas*'. SokoNect also redesigned its interface to mimic that of M-Pesa, a mobile payment platform that most farmers in Kenya are familiar with.

Limited government funding and support towards technology based enterprises in Kenya prove to be a critical challenge for SokoNect; capital is provided to companies with a minimum of 8 - 12 founders and there are high-levels of bureaucracy and corruption when working with county governments. In addition, it also has to pay taxes and license fees which are major expenses, for example the company pays the government USD 50 as transportation tax and USD 25 as an annual fee for distribution of marketing brochures in Nairobi.

* KES to USD rate conversion: 1 KES = 0.0099 USD