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# **Relationship value in the Russian wholesale carpet market**

A thesis presented in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Marketing at the University of Huddersfield, UK

**Marwa Elgebali**

2008

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## Abstract

The importance of studying the Russian market stems from several characteristics such as experiencing transition from a command to a market economy that is seen in its business networks, being the biggest emerging stock market and high potential for business. The 'command period', where the government control all aspects of life, has caused the lack of academic research which makes this study an important addition to the body of knowledge on the Russian market specially the business to business market. It becomes an important reference for business practice and a guide for future research.

Desk research revealed problems in the wholesale market such as the inability of managers to build long-term successful relationships and lack of value-added collaborative relationships. The wholesale market has also been experiencing several problems such as lack of domestic supply and dominance of importers and the carpet market is one those markets that shares these problems. The fact that the wholesale market is dominated by importers raised the interest in researching relationships where wholesalers/distributors are suppliers. This was supported by the fact that research is lacking from the wholesalers point of view, it is always either manufacturers or retailers view. To help businesses in the Russian wholesale carpet market establish a relationship value perspective, it is important to understand how customer think of their supplier relationships in terms of what constitutes valuable in their supplier relationships. the trade off factor which is at the heart of relationship value is the centre of this research as it is targeting at understanding how customer trade off different relationship value attributes to evaluate their relationships with suppliers.

Using a pragmatic approach, the research attempts to identify the most valuable attributes for the customer organization in their relationship with suppliers. A pragmatic approach to research is using a mix of both a positivistic and a relativistic approach in the same research, conjoint analysis as a tool for measurement was chosen for the field study. The nature of conjoint measurement involving two stages; the elicitation phase where exploratory semi structured interviews was used to elicitation relationship value attributes to be used in the next stage, conjoint cards suited the research approach adopted. Conjoint measurement also has many advantages that matched research objectives such as attributes of relationship value used in the elicitation phase were adopted from the literature of relationship value. Data were collected using conjoint questionnaire which gives an accurate estimation of the attribute and the attribute level importance to each respondent. A total 59 were usable questionnaires were collected out of which 48 included the second answered the second and the third part of the questionnaire (conjoint cards). The unit used in the analysis of the Russian carpet distribution network is the triad distributor-distributor-retailers.

The conjoint questionnaire was distributed to retailers to evaluate what they value in their suppliers (distributor) relationship and to distributors to evaluate what they value in their supplier (distributor) relationship. From the exploratory semi structured interviews at the elicitation phase it was found that the most important attribute that

Russian companies saw valuable in their relationship with suppliers are price discounts, communication, adaptability, relationship length, delays of operations, and terms of payment. Relationship value attributes. The research reveals important characteristics of the Russian wholesale carpet such as the fact that Russian carpet wholesalers have a high preference for long-term relationships while retailers have a high preference for short-term relationships. Also wholesalers have a very high preference for “no delays at all” while retailers have a tolerance rate for acceptable delays.

The most important contribution of this research is what we called “the relationship value concept” which is the sum of utilities of all relationship value attributes. The relationship utility concept could be used to assess how valuable existing relationships are as well as the value of new ones or new offerings to customers. The research provides reference tables with utility values that can be used in calculating the value of a customer relationship. The reference tables include values of attributes and their levels depending on whether the organization is a retailer or wholesaler and also depending on the type of carpets sold by the organization.

Another contribution is to the literature of segmentation in business to business markets operational method for segmenting the market was found. The relationship value concept is introduced as an operational method for segmenting the market. It is also thought that this research contributes to the lacking literature from wholesalers’ point of view in distribution networks research.

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# **Chapter one**

## **Introduction**

### **1.1 Introduction:**

One of the most momentous political and economic events of the late twentieth century was the demise of the communist political and centrally planned economic systems in the former Soviet bloc countries. As a consequence today, approximately one-third of the world's population lives in what are commonly called "transition economies" (World Development Report, 1996).

This research explores Russian business-to-business networks and relationships. Relationship value in Russian business networks is the centre of this research. How relationship value is created by suppliers and how customers see the value of their supplier's relationships, are some of the main issues explored. Aspects to do with Russia and its transition to a market economy, consequences of this transition specially in the business to business domain, the carpet wholesale market together with its trends and current problems, will be explored and discussed. Customer value is introduced as a solution to the main problems that the wholesale carpet market is experiencing, some of which problems are shared by all the wholesale markets in Russia. Finally this research is hoping to contribute to the marketing knowledge of the Russian wholesale market which is minimal and more contribution and development of the existing few research is important.

### **1.2 Russian market:**

After the transition, Russia has gone down a new road in every aspect of the society and economy. Managers now are responsible for planning, forecasting, and meeting customers' needs.

“The fundamental process of change being experienced throughout the entire economy, including the industrial networks, presents considerable challenges not only

to research but also to Eastern and Western managers active in the market” (Asta Salmi, 1996).

Russia is a relevant market which is characterized by several unique features. One is that there have been fundamental changes in Russian networks since the transition from central planning to market economy, which in turn had an effect on businesses and managers (Salmi, 1996). These changes resulted in changes in hierarchies, relationships and management style. Understanding these changes is important for an accurate estimation of relationship value in Russian business networks. Second the Russian environment is very complex and Russian culture is different from Western culture (Bollinger, 1994; Puffer, 1996a; Holden et al., 1998; Ledeneva, 2001) which means western marketing strategies are not applicable to the Russian market. Third the fact that the Russian market continues to perform well and has an impressive gross domestic product (GDP) growth rate of 7 percent, and many of its large cities remain untapped (Anon, 2006), makes it an important potential market that has to be studied and tested for marketing strategies. The fourth unique feature is the result of the communist and command economy era which caused a lack of marketing information and data from research on Russia and the Russian market. As marketing concepts did not apply within command economies this calls for more research to contribute to the knowledge of this market.

Studying relationships between organisations in the wholesale market is the proposed route of this research as relationships are very important in business marketing. This is due to the fact that the business buying and marketing process involves direct interaction between buyers and sellers, which is not the same as in consumer markets.

### 1.3 Relationship value in business networks

Baxter and Simon (1993) believed that there have to be more frequent revisions of the nature of the dealings between the parties. Slater (1997) similarly argued that maintaining relationships is becoming increasingly difficult in complex and turbulent marketing environments.

It is the relational dimension of business markets that has been commonly used to differentiate business to business (B2B) marketing from that of consumer marketing (Webster, 1978; Ford, 1980), and is summarised by Hutt and Speh (1998, p.32) as:

“...Relationship management constitutes the heart of business marketing.”

A significant contributor to the development of theory and research in this area is the Industrial Marketing and Purchasing (IMP) group. The focus of IMP researchers has been on the nature and role of interactions, relations, networks in business markets and a central part of their analysis rests on the actors, activities and resources (AAR) model as the fundamental dimensions of relationships (Hakansson and Snehota 1995).

**Activity links**, embrace activities of a technical, administrative and marketing kind. They include the closeness-distance, degree of commitment, power-dependence, degree of cooperation, and conflict and trust among relationship partners (Hakansson and Snehota, 1995).

**Resource ties** include exchanging and sharing resources, which are both tangible items such as machines, and intangible items such as knowledge. Resource ties develop as companies exchange or access each other's resources, when carrying out the organisations' activities; in the process of transforming and adapting existing resources, and when creating new resources (Hakansson and Snehota, 1995).

**Actor bonds** are created by people who interact and exert influence on each other and form opinions about each other. This bond refers to the ways individual and collective (organisational) actors in a relationship perceive and respond to each other both professionally and socially. These bonds arise over time and are mutually adapted

through the knowledge and experience gained in interactions (Hakansson and Snehota, 1995).

The AAR model suggests that networks are dynamic entities exhibiting interdependence and connectedness between actor bonds, activity links and resource ties, which could be taken as parameters that are determinants of the values involved in a relationship and its importance. (Hakansson and Johanson, 1992; Hakansson and Snehota, 1995). Although the evolution of the network theory has been strongly influenced by the IMP Group, it has also been utilised by US, Australian and UK authors to explain interfirm relations and the current understanding of strategic management of firms (Christopher et al., 1991; Young and Wilkinson, 1992; Wilkinson and Mattsson, 1993; Wilkinson and Young, 1994; Ford et al., 1995; Perry and Pyatt, 1995; Wilson and Moller, 1995; Gummesson et al., 1997).

#### **1.4 Relationship value**

Until recently customer satisfaction has been used as a major construct to assess a business relationship, and as a determinant of trust and loyalty (Heskett *et al.*, 1994; Liljander and Strandvik, 1995a, Parasuraman et al., 1998). But the role of customer satisfaction has been questioned (Anderson et al., 1994). The first issue is what the underlying construct of satisfaction is. In traditional models (Parasuraman et al. 1988) quality is said to precede customer satisfaction. Quality has been viewed as an overall judgement of the superiority or excellence of a product (Zeithaml, 1988). The fact that the effect of the customer's perceived price or costs is not explicitly included in the customers' judgement of quality in these models is a shortcoming that has been met with criticism (Gale, 1994; Anderson et al., 1994; Jones and Sasser, 1995; Eggert and Ulaga, 2002). Suggestions have been raised to include financial factors as well, so that the comparison will take account of what the customer has paid (Iacobucci et al. 1994), and this is the stage at which value enters. Repeatedly researchers have also had conflicting survey results where high satisfaction scores correlate with declining market share (Gale, 1994; Jones and Sasser, 1995).

Based on these arguments, Gross (1997) has called for a replacement of the satisfaction construct by the value construct as a better predictor of outcome variables in business markets. Gross (1997) have also argued that the construct of satisfaction in business markets is a misleading notion thoughtlessly borrowed from consumer markets. As purchasing managers buy for economic rather than emotional reasons, customer perceived value should be the critical dimension in business marketing (Gross, 1997). Gross (1997) argues that in business markets, purchasing managers' decision making is mainly guided by cognitive factors and not by affective ones.

Value in business markets has been defined by Anderson, Jain, and Chintagunta (1993) as “perceived worth in non-monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for price paid for a product offering, taking into consideration the available alternative suppliers” (p.5). Other definitions describe sacrifices more broadly. Eggert and Ulaga (2001) define relationship value in business markets as the trade-offs between the multiple benefits and sacrifices of a supplier's offering as perceived by key decision-makers in the customer's organisation, and taking into consideration the available alternative suppliers' offerings in a specific use situation.

The fact that the value of a relationship as a whole is inherently difficult to gauge in precise terms because it is a composite concept and is perceptual in nature (Anderson and Jain 1993) gives rise to possible discrepancies that could exist between what customers value most and what suppliers perceive as most valuable to the customers in the relationship. This calls for a better estimation of the concept to avoid these discrepancies.

Ruyer, Wezels, Lemmink and Mattsson (1997) have used generic dimensions of value namely; emotional, practical, and logical dimension, to assess the perceived value at different stages of the service delivery process. What they have found is that perception of value dimensions and the overall customer perceived value changes with the stage of the process. This is one of the main reasons why value has been defined as “relativistic (comparative, personal, situational) preference characterising subjects' experience of interacting with the some object” (Holbrook, 1994, p.27). The implication of this on the notion of value in the business-to-business context is that

different customers hold different combination of benefits and sacrifices for the same service, and a benefit that is a priority to one customer may be secondary for another.

Different models that propose to measure relationship value in business to business markets are presented and compared to identify the most suitable one for the use in this study.

### **1.5 Research aim and objectives:**

The aim of this research is:

- To explore the value for business customers in the Russian carpet wholesale market.

Objectives of this research is

1. To identify attributes in the supplier relationship that customers perceive as most valuable in the Russian wholesale carpet market.
2. To construct a relationship value concept for suppliers in the Russian wholesale carpet market.
3. To identify the structure of the Russian wholesale carpet industry.

### **1.6 Research methodology**

After reviewing the necessary literature on research methodology, this research follows a positivist deductive approach as it is characterized by the following deductive reasoning features;

- Moving from theory to data.
- Need to explain causal relationships between variables.
- Collection of quantitative data

The most important quantitative methods for value assessment such as focus group value assessment, direct survey questions, decompositional approaches such as

conjoint measurement and benchmarks, compositional approaches or self explicated approach and finally importance ratings, are reviewed. Out of these assessment methods conjoint analysis as the tool for relationship value assessment has proved to generate the best results especially in business to business markets. It was found to be the most appropriate and accurate (Jain and Chintagunta, 1993). Findings from Anderson, Jain and Chintagunta (1993) confirmed this choice of conjoint analysis had the highest percentage of judged successful applications (85%). From their study they have concluded circumstances under which the use of conjoint analysis is not recommended. First is in the case of complicated or abstract product concepts, which tends to occur more frequently in business markets than consumer markets. Second, they do not recommend its use when the cost of the research is an issue. The second problem addressed by Anderson, Jain and Chintagunta (1993) does not exist any more considering new developments in computer statistical packages specifically designed for conjoint analysis, an example SPSS conjoint, a lot of time and effort could be saved on a study using this method.

Conjoint analysis is a technique that attempts to determine the relative importance consumers attach to salient attributes and the utilities they attach to the levels of attributes (Malhotra and Birks, 2003).

Earlier conjoint analysis has been defined by Green and Srinivasan, 1978 as

“...any decompositional method that estimates the structure of a consumer’s preferences (e.g. part worth, importance weights, ideal points) given his/her overall evaluations of a set of alternatives that are pre specified in terms of levels of different attributes.” (P.104)

Anderson, Jain and Chintagunta, (1993) have provided an operational definition of conjoint analysis in business markets. They define it within a field survey context where respondents are asked to evaluate a set of potential product offerings (in this case a relationship scenario) in terms of their firm’s purchase preference for each of the offerings. Each offering consists of an array of attributes or features, and the levels of these attributes are systematically varied within the set of offerings. Attributes for the study will be elicited using the most appropriate model for measuring relationship value. Respondents provide a purchase preference rating (or ranking) for the offerings.

Statistical analysis is then used to decompose these ratings into the value that respondents placed on each level of each attribute. The range of these values for the levels of each attribute determines the relative value of attributes themselves.

## **1.7 Research contributions**

The research is expected to contribute to the severely lacking body of literature in the Russian wholesale market, which is characterized by underdeveloped supplier-customer relationships and adversarial rather than collaborative relationships. Exploring the value of relationships in the business carpet Russian whole market will develop a tool for managers to use to develop their customer supplier relationships, and promote more collaborative relationships. It was also realized from the review of distribution networks literature that research is lacking from the intermediaries point of view, which makes the research wholesalers point of view an important contribution to the literature. The scope of this research covers the wholesale carpet markets targeting carpet wholesale companies in Moscow.

## **1.8 Development of the chapters**

Chapter two gives a background idea on Russia and the Russian market. It analyses in brief the changes the country and the market has gone through and how the concept of dealing within a free market, marketing strategies and planning is new to managers. The chapter points out a problem that was realized during the collection of secondary data which is the lack of previous research or accurate industry data especially on the Russian wholesale market. This problem highlighted another knowledge contribution of this research, which is adding to the marketing research and marketing data in Russia as it is a new and fast developing market and offers a great potential for investment and growth.

Chapters three and four furnish the background theory of relationship marketing and narrow the focus to relationship value, and specifically to relationship value in the business to business sector. A review of the definitions of relationship value in

business to business markets is presented together with models in the literature for measuring value.

Chapters five, six, and seven review the research methodology, which includes a general review of the methodology in chapter five, a more specific and focused discussion of the conjoint methodology followed in this research is presented in chapter six. To follow on how the procedure is applied, including the involved elicitation process for the attributes used in the study, is covered in chapter seven.

Chapter eight presents the analysis and results from the conjoint measurement. This chapter analyses the data from five questions which answers the research questions;

1. What are the factors that Russian customers consider to be most valuable in their supplier relationships?
2. How to evaluate and measure customer relationships in the Russian wholesale carpet market?
3. Is there a significant difference between segments within the wholesale Russian market based on what they value in a relationship?
4. How to segment customers in the Russian wholesale carpet market using the value concept?
5. What is the structure of the wholesale Russian market?

Chapter nine is a conclusion and considers the implications of the whole research and the results of the data analysis chapter. Also included in this chapter are some limitations of the current study and recommendations for further research building on the results from this research. It also states contributions this research hopes to make to the existing body of knowledge.

Questionnaires used in interviews and field research, tables of results, and the list of retail and wholesale companies that was used to target respondents are all included in the appendices.

## **Chapter two**

### **Russia and the Russian market**

#### **2.1 Introduction:**

Russia is a relevant market for the study of business relationship value in that several unique factors characterize it, one is there have been fundamental changes in Russian networks since the transition from central planning to a market economy, which in turn had its effects on businesses and managers (Salmi, 1996), which makes it important to consider these changes to be able to give an accurate estimation of relationship value in business networks. Second the Russian environment is very complex and Russian culture is different from Western culture (Bollinger, 1994; Puffer, 1996a; Holden et al., 1998; Ledeneva, 2001) which makes western marketing strategies not applicable with the Russian market. Third the fact that the Russian market continues to perform well and has an impressive gross domestic product (GDP) growth rate of 7 percent in 2007 and many markets in its large cities remain untapped (A none, 2006), makes it an important potential market that has to be studied and tested for marketing strategies. The fourth unique feature is the result of the communist and command economy era which caused a lack of marketing information and data from research on Russia and Russian market as marketing concepts did not apply within command economies, which calls for more research to contribute to the knowledge of this market. The fifth reason is that Russia is considered the biggest emerging market stocks (Schwinder, 2006), which makes it a high potential for investment and raises the need to study its business practices. It is also part of what is called the BRIC countries they are Brazil, Russia, India, and China, which is growing up to eight times faster than the U.S (Zacks research, 2007). This chapter gives an overview of Russia in terms of geography, population, a brief history of the government, and the structure of the business to business market before and after the transition. The economy together with a brief analysis of the wholesale industry is presented. More detailed secondary data and information on the carpet wholesale market is gathered for the purpose of this research and is presented in this chapter.

## 2.2 RUSSIA - AN OVERVIEW

### 2.2.1 Geography

The Russian Federation stretches across two continents: Europe and Asia. Even after the collapse of the Soviet Union, Russia remains the largest country in the world in terms of territory with a land area of 17,075,400 sq.km (Goskomstat, 2003) as illustrated in figure 2.1.



Figure 2.1 The Russian Federation. Source ([www.sitesatlas.com](http://www.sitesatlas.com))

Weather and climate condition are said to have an effect on the Russians. Living for centuries in a very harsh climate explains the Russians' strength, their ability to endure extreme hardship, and their bleak outlook on life. It also explains their patience and submission. Climate has also contributed to a cautiousness they exhibit in everything and in business (Goehner, 1998).

## 2.2.2 Population

The population of the Russian Federation is approximately 147 million, which makes it the eighth largest world population (U.S. census bureau, 2006) and a large potential market. Although more than 80 percent of its population is ethnically Russian, the Russian Federation itself is a multinational state and contains numerous ethnic minority groups (Goskomstat, 2003). The largest city in the Russian Federation is Moscow, with a population of more than 8.5 million people, followed by St. Petersburg, with a population above 4.5 million people (Goskomstat, 2003).

## 2.2.3 Government

Period	Head of state	Form of control	Main player	Main events
1940-53	Stalin	Centralised	The state	Control reforms 1941-42
1953-64	Khrushchev	Based on regions (decentralised)	Economic councils "Sovnarkhoses"	Economic reform 1957
1964-72	Brezhnev- head of economy: Kosygin	Industry sector controlled (centralised)	Industry sector ministries	Economic reform 1965
1972-84	Breznhnev	Sector divided (decentralisation)	Holdings	Perestrojka
1984-85	Konstantin Chernenko	Decentralisation (attention to public opinion)	Big enterprises	investment in consumer goods, services and agriculture
1985-91	Gorbachev	Enterprise (heavy decentralisation)	Big enterprises	Perestrojka
1991-99	Yltsin-heads of economy: Gajdar-Kirendo	Individual, group, loigrachs* (very significant decentralisation)	Small and big enterprises, businesses empires.	Privatising
2000-2008	Putin	The state Oligarchs*** (centralisation)	Small and big enterprises	Super regions Market economy

\*Made a business empire. Had effects of a business empire with connections to the top leaders of the society.

\*\*\*8 Russian financial tycoons, were called "the big 8".

**Table 2.1 Russian leaders in chronicle order. (Source: Thomsen, 2002)**

The former Soviet Union was characterised by a command economy which for businesses meant that the traditional industrial network was tightly structured. The

roles of different organizations were well defined, and interaction between actors was controlled by administrators. Industrial enterprises were responsible for production, whereas specialized organizations concentrated on foreign trade operations. Different planning organizations controlled resource flows between economic actors, and thus the planning system strictly limited business activities (Salmi, 1996).

One of the important effects of the Soviet era was the failure to comprehend the meaning of customer needs in business. This was a result of the misunderstanding of products and how it serves marketing objectives to satisfy customer needs (Dilts, 1997). It was the state's responsibility for product development and for the disposal of unsold products while consumers had no choices (Hamilton 1993).

The transition from a command to a market economy was a period filled with different ups and downs and various developments. Rapid inflation in 1990 was a direct result of the end of government's control of prices that was close to hyper inflation at the end of 1992, this was associated with goods and food shortages (Sachs, 2000). The situation was not stable which resulted in uncertainty in the economy, market and the whole country. As a result the uncertainty was not just associated with the consequent change of reforms but also other real issues, such as the availability of food, private housing, currency and violence that spread in the country (Alexashin and Blenkinsopp, 2005).

A step towards economic stability was seen in 1993, which was considered a crucial period as Yeltsin prepared the country to undergo a process of transition to democracy and capitalism (Brady, 1999). The next phase experienced problems such as the rise of separate groups who are looking for independence from the federation which took the country close to civil war, but the 1993 Russian constitution was strong enough to control the situation (Hanson, 2002). The era saw defining characters such as the creation of Russian parliament which operated under strict democratic rules and the rise of 'the oligarchs'; people hugely influential in all aspects of Russian life and widely credited with securing the famous 1996 Presidential re-election for Yeltsin (Soros, 2000).

The current period (after 2000) can be seen as the Putin era, which means, for a lot of managers, greater stability, especially concerning law and order. Putin still operates under privatisation rules and decisions but he does not give the oligarchs the same level of protection they enjoyed under Yeltsin which generated a lot of their wealth (Alexashin and Blenkinsopp, 2005).

#### **2.2.4 Economy**

The Russian economy has experienced rapid growth since 2004, real gross domestic product (GDP) rose 7.2%, which makes the year 2006 the sixth successive year of economic growth as well as an increase in foreign direct investment and a budget surplus (PriceWaterHouseCoopers, 2006). The crucial fuel for Russia's fast development is energy as the country is the second largest oil producer and exporter in the world. Also the country's oil and gas industry has caused the country's stocks to approach \$1 trillion in value and become the biggest emerging country (Schwinder, 2006).

Russia has a long-term economic potential as it has been identified as one of the four biggest developing economies (together with Brazil, India and China), and estimates that real GDP will increase between 4.8 and 1.9 percent a year for the following 45 years, which means that Russia would overtake Italy in GDP rankings in 2018, France in GDP rankings in 2024, the UK in GDP rankings in 2027 and Germany in GDP rankings in 2028 – making it the world's sixth-largest economy, measured by GDP (PriceWaterHouseCoopers, 2006). These forecasts reflect the importance of Russia as a growing potential market that calls for a more focused attention.

### 2.3 The Russian business to business market

To draw a clear picture of how the business to business market is structured it is necessary to discuss the market structure in the planned economy in the pre-transition Russia. The planned economy is mainly characterised by hierarchies (Johanson, 2001). Organizations and enterprises interacted with planners and the planning bodies that meant there was no interaction or relationship between organisations and production budgets were put by planners (Johanson, 2000). To acquire the resources needed for production, producers did not need a formal relationship with suppliers, which means suppliers were not necessarily known to the producers (Salmi, 2004). Marketing was not needed as where the products are going and to which end-users they are delivered, was pre planned. Networks had a hierarchical and stable nature, created by the anonymity between firms (Johanson, 2001) see figure 2.2.

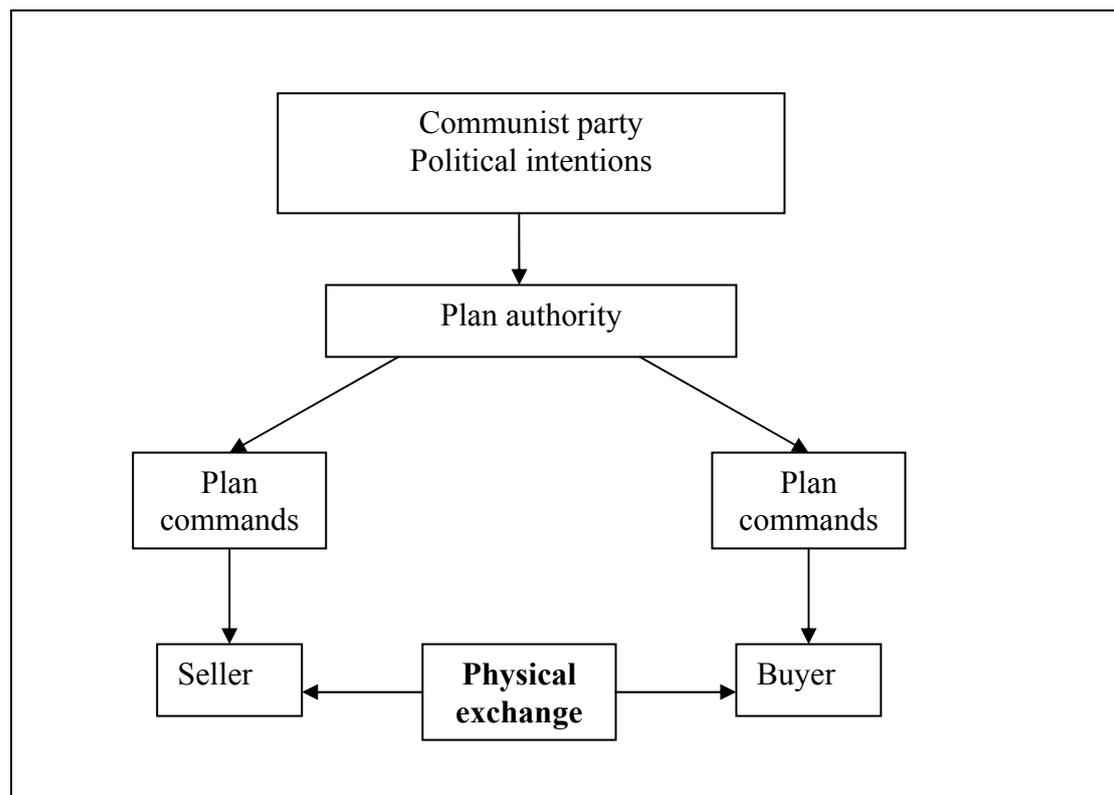


Figure 2.2 Governance of relationships in the Russian market. Source (Johanson, 2001).

As a result the necessary links and relationships between organizations in the supply chain did not exist (Johanson, 2001). But this formal structure of the Soviet business to business market was not the only one that existed as organisations had to create their own informal exchange networks with other firms, these informal networks are called “blat” (Johanson, 2001; Michailova and Worm, 2002). This resulted in an informal face to the Soviet business network which encouraged the spread of bribery and the grey or black market (Salmi, 2004).

As a result the form of inter-organizational interaction, exchange, and relationships as they existed in the western economies did not exist in Soviet Russia. Only a few organisations that existed during the Soviet era displayed supply chain interaction, relationships and cooperation then (Tornroos and Nieminen, 1999). One of these organizations is McDonald’s, a multinational company that established itself during the time of Soviet Russia and it has managed to integrate and control its relationships in the local supply chain since then. McDonald’s strategy started from the bottom of the supply chain in Russia, by carefully selecting the potato farmers and meat suppliers and educating them. Tornroos and Nieminen (1999) see the role of such multinational companies as very important in teaching local managers how operations are managed through cooperation and the establishment of relationships in the organisational network. Meyer (1999) sees the role of multinationals as not just limited to local networks, but to integrate Russian business to business networks to the global network.

So how does the old regime affect the current new one in the business to business market? The old hierarchical organizational structure has a big effect on the current

one (Salmi 1995; Salmi, 2004; Shresheva and Tretyak, 2004; Tretyak and Shresheva, 2005). After the transition the old structure of organizations broke down but employees who operated these organisations remained with the same mentality running the same organizations or new ones (Salmi, 1995). This gave the new business to business operations two features. First, to do business organisations did not try to establish new relationships with new partners but they resorted to old relationships from their old informal connections (Dolgopiatov, 1994). Second, the one manager way of doing business still takes place, which causes the business to operate through their connections and information (Salmi, 2004).

Evidence for these practices in the current Russian business to business market was provided by three current studies (Linz, 2002; Sheresheva and Tretyak, 2004; Haaparanata et al., 2004), of organizations from different regions of Russia. The results from this study confirm that it is a practice for organisational managers to resort to old connections to borrow funds rather than borrowing from banks. This finding is in line with Hendley (1998) who confirmed from his study of organizations in Russian business to business market that managers resort to old connections rather than choosing to get involved in negotiations with new ones.

Sheresheva and Tretyak, (2004) presented a study on Russian supermarkets and their supplier-retailer relationships and one of their findings is that local Russian retailers still consider selling firms as their adversaries not collaborators. They found that Russian retailers' focus is more on creating a successful one-off transaction rather than concentrating on building a long term win-win relationship where both partners benefit. Sheresheva and Tretyak, (2004) found similarities between Russian and UK

retailers in the bad criticism they both get for unfair dealings with suppliers. Only the UK retailers are governed by laws of fair practice while Russian relationships between retailer and suppliers are developing more impulsively. The main characteristics of UK retailers which makes them different from Russian ones is that the UK retail market is characterized by over supply and stagnant annual growth, which drives retailers to integrate and collaborate more with their supply chain (Hingley and Lindgreen, 2004).

Although the study by Sheresheva and Tretyak, (2004), highlights problems in the supplier-retailers relationships which are a result of non comprehension of Russian managers of how to establish a win-win relationship in the Soviet Russia, but they do not support the idea of using the old network of relationships in the current organisations. They see the network model in the Soviet Russia as hardly useful.

Haaparanata et al. (2004) presented a study of middle sized and large manufacturing companies from several regions in Russia. In their results they found that most of the businesses studied tended to be involved to a great extent in social service provision, which meant that most of them had their own housing or local support for accommodation and employees leisure facilities. This indicated that businesses are playing the same role as before in their local economy, and that the behaviour of the soviet economy still exists.

Huber and Worgotter (1998), distinguish two major types of industrial networks in the new Russian business market; entrepreneurial and survival networks. Both of these networks differ in their view of trade in a market economy or competition in Russia.

Survival networks include firms that do not have high expectations for themselves in competitive market conditions; they are created with the clear goal of isolating participants from market competition (Huber and Worgotter, 1998). Huber and Worgotter (1998) argue that the network is basically established on the old connections they had in the pre transitional market. Entrepreneurial networks are completely different from survival networks as they tend to base their operation on market rules and fair competition. Two types of entrepreneurial networks were identified: those that build on old structures and those composed of new structures.

In the new Russia the government no longer creates the plans for firms to carry out, firms have the right to choose who to operate and interact with just as in a mature market economy (Hallen and Johanson, 2004). Ledeneva (1998) believes that the transition to a market economy has changed primarily the way Russians build personal networks and exploit them for business and personal goals, but the study by Linz (2002) discovered that up to 90% of their study sample was paying bribes.

Only a few organizations in Russia comprehend the importance of an organisation's intangible asset, such as the relationship with other organisations, value, loyalty and satisfaction (Shresheva and Tretyak, 2004). The association between these intangible assets and increasing the long term profitability and competitiveness of the organization is still not established in many firms.

In Russia, everyday business practice is characterized by the transition from a command economy to a market economy and the repercussions of the economic breakdown in 1998 (Aslund, 2002). Manevich (2002) conducted a study in the

Russian wholesale bottle market. The study detected an increase in the production of glass containers from the year 1998 to 2002 but the market was also dominated by foreign imported products although they were priced high due to their original high price plus the transportation costs they incurred.

The study of glass containers by [Manevich \(2002\)](#) was seen by Wagner (2005) as identifying opportunities and limitations in the Russian business to business markets. In Russia limitations for marketing is seen in shortages in resources and fashionable designs or packages. But Manevich (2002) sees these boundaries as restricted to a few aspects of marketing such as the legal issues of marketing certain products such as tobacco, cigarettes and alcohol as well as financial and insurance services.

“The Russian business-to-business markets provide challenges in particular to foreign investors” (Wagner, 2005, p.202). They can be described by “three Russian cultural traditions” ([McCarthy and Puffer, 2002](#)):

1. Bypass laws and regulations
2. Little trust, and
3. Networks of personal relationships

So the opportunity to develop transaction-focused market relationships is restricted due to the institutional infrastructure which existed during the command economy and continues to exert an influence on the current business (Wagner, 2005). [Hoskisson et al. \(2000\)](#) see this institutional deficit being overcome by companies’ commitment to the relationship notion and aspects of business.

Considering consumers in the Russian market, Treadwell and Pridemore (2004) refer to the fact that although they were faced with unfamiliar emerging market economy practices such as unforced legislation and currency fluctuations. The market has experienced a booming consumerism (Belton, 2002, Manrai at al., 2001). The fast growing consumer market has turned Russia into the fastest growing market for many multinationals such as Ikea, L'Oreal, Nestle, Procter and Gamble (Belton, 2002).

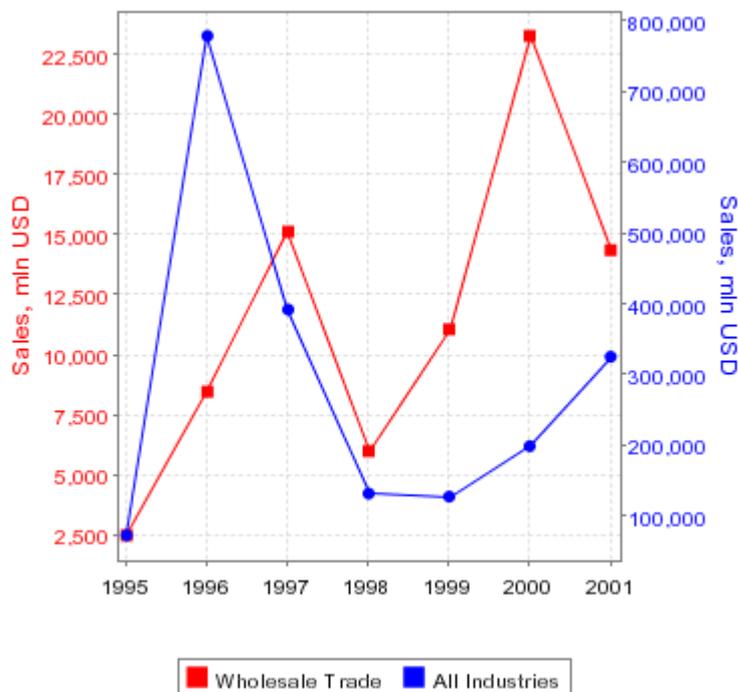
### **2.3.1 The Wholesale Market in Russia**

The previous analysis of the Russian business to business network identified problems that the market is having with inter organisational relationships and applying the new marketing paradigm. It is also necessary to present all the relevant data on the market under study that is the wholesale carpet market. Data on local production, foreign competitors, local demand for carpet, and fluctuations over time is a good indicator if the market is having problems that could be overcome by applying the marketing paradigm.

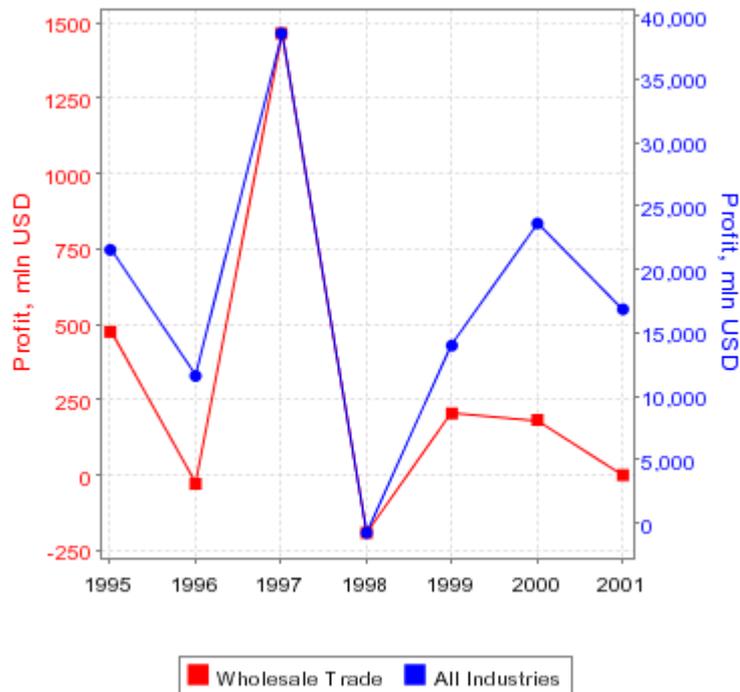
Research performed at the beginning of the 1990s (Boeva, Dolgopiatova and Shironin, 1992, *Predpriytiya and Pravitel'stvo*, 1992) indicated a dramatic loss of importance of the wholesale level and a reduction of the volumes of industrial products sold under brokerage of specialized supply and sales organizations. A number of objective reasons were behind this negative trend. One of the reasons for that was a historically formed artificial monopoly of former state-owned supply and sales organizations (Yakovlev and Kokore, 1994). Liberalization of prices has significantly eased the problem of shortages but also contributed in the increase of the

additional charges made by wholesalers to the original prices from manufacturers to 25% from the previous 7-9% in 1992 (Predpriytiya and Pravitel'stvo, 1992). This resulted in an abrupt reduction of the demand on the services of wholesale enterprises and a decrease in their cargo turnover. Yakovlev (1996) reported a changed in the structure of the wholesale market. In particular, the share of former state-owned wholesale brokerage organizations has significantly reduced and continues to do so.

There are 87,251 top companies in the wholesale Trade industry of the Russian federation. Total output was 6 million USD in 2001. Total sales are recorded at 14,345 million USD, representing a fall of 34% over the previous year (DIHK, 2003) illustrated in figures 2.3 and 2.4.



**Figure 2.3 The wholesale trade measured by sales volume (Source: German Chamber of Industry and Commerce (DIHK, 2003).**



**Figure 2.4 The wholesale trade measured by profits, Source: German Chamber of Industry and Commerce (DIHK, 2003)**

### 2.3.2 Wholesale carpet trade

#### a. Carpet Sales

According to the local office of the German Chamber of Commerce and Industry (DIHK), compared with international figures, there is a backlog demand for carpets in Russia (DIHK, 2003). The increase in demand is consistent with a long-time noticeable increase in purchasing power which if combined with the Russian addiction to a comfortable home, will explain the increase in demand which will continue until 2013 according to the forecast (Freedonia reports, 2006) (see table 2.3). Provided that the positive income development of the population is continued, market analysts expect brisk business activities for related textiles. The main beneficiaries are likely to be foreign suppliers such as Belgium, Moldova, Belarus, Turkey, India, Ukraine, USA, France and Germany who already bear a market share of 80%, out of which Belarus and Belgium are up to now counted among leading suppliers as illustrated in table 2.2.

By means of official statistics, a significant decline in Russia's average carpet sales compared to leading developed nations during the previous years have been calculated. The average carpet sales in Russia is only 0.4 sqm per inhabitant p.a., while Western Europe, Germany and the UK achieve 3.5 sqm per inhabitant p.a., IN the USA which, following the market observation of the business magazine (Russian Focus, 2004), the US-average carpet sales accounts for 6.0 sqm per inhabitant p.a.

<b>Product (ZTPos.)/Country of origin</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Carpets and other floorings, made from spintextiles, weaved, neither tufted nor befloct, also converted (5702)</b>	18.883,0 *)	25.880,8 *)	35.554,3
<b>among these from:</b>			
<b>Belarus</b>	12.260,0 *)	20.724,0 *)	21.027,3
<b>Belgium</b>	289,4	1.234,9	8.436,5
<b>Moldova</b>	3.368,9	2.113,5	3.118,1
<b>Turkey</b>	73,8	27,2	644,5
<b>India</b>	k.A.	342,2	561,3
<b>Carpets and other floorings, made from spintextiles, tufted (Nadelflor), also converted (5703)</b>	8.322,8	12.869,1	23.281,2
<b>among these from:</b>			
<b>Belgium</b>	1.359,3	3.377,1	8.411,5
<b>Belarus</b>	k.A.	k.A.	2.502,2
<b>Ukraine</b>	3.739,4	5.607,1	6.662,5
<b>USA</b>	565,3	617,2	1.165,3
<b>France</b>	183,7	436,2	888,1
<b>Germany</b>	444,7	340,2	623,0

\*) For the first time, imports from Belarus have also been recorded by the Russian Customs Statistic for 2001.

For those positions for which countryspecific data have been available, the data concerning the years 1999 and 2000 result from the National Commission for Statistics' (Goskomstat) census.

Source: Compiled following the data from the Russian Federation Foreign Trade's Customs Statistics for 1999, 2000 and 2001; National Customs Commission (GTK) (T.J.)

**Table 2.2 Russian Carpet Imports (in 1000 US \$). Source: German Chamber of Industry and Commerce (DIHK, 2003)**

### **c. Production**

However, even though there is an acceleration in demand, experts cannot identify any chances for a local manufacturers' increase in market share, as already in the past even low-quality mass-production suffered from outdated equipment (DIHK, 2003). The spin- and weave- technology in Russia is frequently 40 years old. Due to a lack of cash assets, the necessary modernisation of this equipment cannot or can only inadequately be implemented. Accordingly, the decline of the local carpet industry was preassigned, starting from an annual production of 34.8 million sqm, to bottom out at 2.8 million sqm in 1997 (DIHK, 2003). Also the production development in the following years was not characterized by significant progress. After all, carpet manufacturers could benefit from the devaluation of the rouble as a result of the finance crash in summer 1998. Thanks to temporary regulation instruments such as import quotas and licenses, an increase in carpet production of 28.8% from 7.3 million to 9.4 million sqm between 1998 and 2000 was recorded. Nevertheless, compared to the figures of 1990 when 43.5 million sqm carpets have been produced nationwide, these numbers are rather low. On top of this, the carpet industry experienced a slump reaching only 5.7 million sqm in 2001, which was a decline of 39.5% compared to the previous year, without experts being able to identify the reasons. Though, reviewing the development in 2002, the National Commission for Statistics reported a 17.8% rise in local producers' carpet sales after four months compared to the figures of the period from January to April 2001.

In 2003 the total supply (local and imported products) of carpets in the Russian market increased to 160 million sqm which is a development but still did not catch up with the demand which totalled up to 210 million sqm (Freedonnia reports, 2006) illustrated in table 2.3. This difference between supply and demand is expected to still carry on until 2013 according to statistics: year 2008 supply is expected to be 245 million sqm while demand is expected to be 285 million sqm, and in 2013 supply is expected to be 330 million sqm while demand is expected to be 355 million sqm (Freedonnia reports, 2006). Table 2.4 shows the demand according to the type of market, it shows that residential buildings show highest demand level, non residential comes second, and third comes transportations and other markets.

The big gap between demand and supply even till 2013 forecasts reveals the opportunities that lie in this market. With the unsatisfied demand and shortage in suppliers there is a huge potential for investments and developments in this market.

<b>Item</b>	<b>1993</b>	<b>1998</b>	<b>2003</b>	<b>2008</b>	<b>2013</b>
<b>Carpet &amp; Flooring Demand</b>	<b>235</b>	<b>150</b>	<b>210</b>	<b>285</b>	<b>355</b>
Nonresilient Flooring	76	54	80	115	155
Resilient Flooring	85	53	75	100	120
Carpets & Rugs	74	43	55	70	80
net exports	-90	-70	-50	-40	-25
Carpet & Flooring Shipments (sales)	145	80	160	245	330

\* All figures are in million square meters

**Table 2.3 RUSSIA - CARPET & FLOORING SUPPLY & DEMAND BY TYPE 1993-2013.** (Source: Freedonia reports, 2006)

Table 2.3 illustrates that the level of imports is decreasing over the years but still confirms the fact that the carpet wholesale market shows a high level of imports.

<b>Item</b>	<b>1993</b>	<b>1998</b>	<b>2003</b>	<b>2008</b>	<b>2013</b>
Building Construction Expenditure (bil 2000 US\$)	89.7	59.4	82.5	109.5	134.8
sqm flooring/000\$ building construction*	2.62	2.53	2.55	2.60	2.63
<b>Carpet &amp; Flooring Demand</b>	<b>235</b>	<b>150</b>	<b>210</b>	<b>285</b>	<b>355</b>
Residential Buildings	122	78	110	145	180
Nonresidential Buildings	94	60	85	120	150
Transportation Equipment & Other	19	12	15	20	25

\*The amount of flooring that is sold per every \$1,000 that is spent on building construction, overall

**Table 2.4 RUSSIA - CARPET & FLOORING DEMAND BY MARKET (mil sq meters) 1993-2013 (source: Freedonia reports, 2006)**

#### **d. Imports**

Experts blame Belgian carpet exporters for the decline in 2001, referring to the fact - revealed by the official customs statistics- that within twelve months all carpet deliveries from Belgium rose almost the sevenfold. This circumstance is traced back to the liberal allocation of import licenses for carpet deliveries to Russia, fostered by the implementation of the bilateral agreement in the middle of 1999, concerning trade with textiles of all types between Russia and the EU. Prior to the licensing, there was a temporary quota fixing carpet imports from the EU. The Russian Government was forced to tighten the quotas in December 1997 in order to decrease carpet imports which were also enlarged by smuggled goods. The reason is that while official statistics reported an import value of less than \$40 million, the actual imports from the EU amounted to \$300 million, with Belgians being identified as the main sinners. Considering the Russian National Customs Commission's (GTK) 2002 publications, the significant increase in Belgian carpet imports reflects the fact that regulating interferences had an effect and led to a tightening of "legal" imports. Nevertheless, substantial amounts of carpets from unknown sources entered the Russian market "grey" or "black".

Beside Belgian suppliers, local manufacturers see themselves exposed to competition with the neighbouring Belarusian producers when fighting for new customers. Within the bilateral movements of goods with Russia, the producers from Belarus benefit from the exemption from import duties as part of the Customs Union between both nations. Moreover, the production costs of Belarusian carpet manufacturers are below the Russian ones. By reason of the fact that their market potential is limited due to the rather weak purchasing power in Belarus, carpet producers from Belarus have concentrated on the Russian market for a long time, and estimations are based on the assumption that up to 70% of products are exported to Russia.

#### **e. Luxury Market Niche**

In order to be able to coexist with this superior competitor, several local manufacturers look for niche carpet markets, such as the production of exclusive carpets. One such niche exists in Moscow, where there are many carpet manufacturers who serve the special orders as well as the high demand for exclusive carpets of the relatively large upper-class with above average income. Following a report by “Russki fokus”, the prices of these luxury-carpets range from \$250 to \$530 per sqm (2004). In general, the local market for carpets offers a large assortment of carpets of various sizes and forms which is constantly being modernized and adapted to customer demand, varying between the different regions. Despite the fact that domestic manufacturers provide only about 5 million sqm out of the market volume of 35 million sqm, the potential of the Russian carpet market is considered as rather significant (Russki focus, 2004).

From the data presented on the Russian wholesale carpet market several conclusion can be made about the market. There are fluctuations in the production level of local producers (DIHK, 2003) for which the main reason is the out dated equipment and technology used to produce carpets (DIHK, 2003), which is a common problem for other Russian manufacturers in other markets (Johanson, 2001; Salmi, 2004). This lack of new machinery, as well as the lack of the appropriate investment causes local manufacturers to lag behind international production levels. Local producers are doing better at the production of expensive (niche) carpets but still are not able to keep up with competition (DIHK, 2003).

Russian carpet producers face vigorous competition especially from Belarus and Belgium who are taking over the Russian carpet market with a share of 80%. Also competitions is coming from the black and the grey market which is a feature of the Russian market and have an effect on all products including carpets (Manevich, 2002; GTK, 2002; DIHK, 2003).

Similarities can be established between the Russian business to business carpet market and the glass market analysed by Manevich (2002). Both markets show shortages in supply and local production, although there is a high demand which is expected to rise even more in the future (Manevish, 2002; DIHK, 2003). Also the dominance of foreign suppliers in the market is another feature similar to both markets.

To overcome these problems in the carpet markets producers will have to increase their investment in the industry to be able to push the production levels higher to meet the expected increase in demand. Adopting a marketing paradigm will help in their understanding of the market needs and be able to meet its demands. Also part of the marketing paradigm is not just beating competition but sometimes necessitates working closely and cooperating with competition (Porter, 1985) as well as working closely with other members of the network such as wholesalers and retailers, which is still not in the Russian business mentality as discussed earlier (Sheresheva and Tretyak, 2004).

## **2.4 Conclusion**

From the discussion in this chapter a clear picture can be drawn of the Russian business network and its evolution through time. Business networks are a mirror image to economic and political factors in the country and that is what makes Russian networks a point of interest. After the transition to a market economy Russia has been changing together with every aspect of life. From the above analysis of the pre transition and after transition in Russia it seems that organizations still hold on to the old ways of doing things in their organizations, and what has really changed is the formal organizational structure only. Managers are coming to understand more and

more every day that working in a network is important for both the development of their business and their country in order to catch up with the race in the rest of the world (Sheresheva and Tretyak, 2004).

Several problems in the Russian business to business market and especially in the carpet market have been identified. These problems can be summarized as shortage of supply from local manufacturers compared to of the higher supply of foreign carpets; dominance of foreign suppliers; dominance of black market smuggled goods; shortages of resources in the market including relative investments; a need to change managers ability to build a long-term win-win relationship to be able to keep up with the competition; establishing value added supplier-customer relationship; and having a more integrated supply chain through collaborating with suppliers.

In the following two chapters, 3 and 4, theories and the development of relationship marketing including the network approach concentrating more on distribution networks and relationship value, will be discussed. All of this is analysed in an effort to find how to increase the value of relationships to customers which will mean developing a network approach to supplier-retailer relationships in the Russian business to business carpet market.

# Chapter three

## Relationships in business to business markets

### 3.1 Introduction

As the main concern of this research is relationship value within business-to-business markets it was necessary to review the literature on business-to-business markets in different dimensions and justify the choice of relationships as a unit for analyzing business to business markets. A background of business to business marketing literature is presented including the classification and how it differs from consumer markets, which is an important point to start from to justify the fact that business markets needs to be analysed differently from consumer markets. Relationship marketing which is considered the heart of business marketing is discussed in detail including a review of the literature.

### 3.2 Business to business marketing

“Business marketing is the marketing of products and services to organisations rather than to households or end user customers” (Gross, Banting, Meredith and Ford, 1993, p.6), when the purchase is made, it is not to reward one’s self or to satisfy a personal need, but rather to achieve organisational objectives. Business to business marketing has also been defined as “the management process responsible for the facilitation of exchange between producers of goods and services and their organisational customers” (Brassington and Pettit, 2003, p.136).

“Industrial marketing is the marketing of goods and services to industrial and institutional customers. These include manufacturing firms, governments, public institutions, educational institutions, hospitals, wholesalers and retailers and other formal organisations (Webster, 1990, p.2). Hutt and Speh (1998), agreed on the different terms given to business to business marketing adding commercial marketing and institutional marketing. They use the definition given in the prospectus of the Institute for the study of business markets of the Pennsylvania state university, when

they define industrial or business markets. According to their definition, business markets are markets for products and services, national to international, bought by business, government bodies (such as schools) for use in production processes (for example, raw materials or components), for business consumption (for example, office equipment, R&D services), for use (for example, machinery), or for wholesale. They also outlined the most important difference between business marketing and consumer marketing which is the nature of the customer and how that customer uses the product. In business marketing, “customers are organisations such as other businesses, government and institutions” (Hutt and Speh, 1998, p.4).

Business marketing offers a comprehensive and realistic image of the non-consumer marketing world (Hutt and Speh, 1998). A firm manufactures carpets and then sells to distributors and retailers. Although the product in such a case is clearly a consumer product as at the end of the distribution channel it is consumed by the final consumer, but the decision-making and purchasing behaviour of the distributor or retailer is a business marketing process.

Business customers have been classified into different types as different organisations have different philosophies and different approaches to purchasing. Authors have agreed on a common classification into three types commercial, government bodies and institutions (Hutt and Speh, 1998, Brassington and Pettit, 2003)

**Commercial enterprises**, include organisations that operate for profit, producing products and services or resell them for the sake of making profit for themselves.

**Governmental bodies**, the specific way in which governments purchase their products/services is what makes them so distinctive. Government’s orders are usually done in very large amounts that is considered the biggest in the country Brassington and Pettit (2003), in addition to having a very strong purchase power in terms of money or influence, and their buying behaviour is usually characterised by stability and routine purchase which means secure business for suppliers if they manage to keep up to the standards.

**Institutions**, largely non-profit making organisations such as universities, churches, and independent schools. In general they follow the same pattern of purchasing

behaviour as governmental bodies but they are more elastic in their choice of their suppliers (Brassington and Pettit, 2003)

### **3.2.1 Difference between consumer and business marketing**

As marketing theories have developed over many years, dichotomies which propose that marketing practice is “different” have increased (Ames, 1970; Webster, 1978; Cooke, 1986; Lilien, 1987). These dichotomies tried to differentiate between different types of marketing practices on different scales. Organisation could differ in terms of the sort of customer they have, either consumer or industrial customers; or in terms of the product offered, either physical product or service product; or in terms of the range of their market coverage, either local or international; or in terms of their size, either small or big businesses. As a result these different views were reflected in the definition given by the AMA (American Marketing Association) in 1985 (ANON, 1985):

“...The process of planning and executing conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organisational goals.”

This definition was then changed by the AMA in 2004. The new definition is more of a value oriented one,

“Marketing is an organisational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationship in ways that benefit the organisation and its stakeholders.”

Anon, 2004

The definition change acknowledges that consumer value drives the market place. The dichotomies established in marketing gives the chance to identify separate markets with separate characteristics as a result tailoring offers to suit each market which guarantees delivering superior value (Passikoff, 2005).

Many authors have discussed the difference between consumer and industrial marketing in their works, what they all agree is that consumer marketing differs from

industrial marketing (Ames, 1970; Webster, 1978; Cooke, 1986; Lilien, 1987). Ames (1970) sees marketing in business to business as a task assigned to management while in consumer markets task is assigned to its marketing department where all the appropriate marketing activities are taking place. Webster (1978), argues that industrial marketing is characterized by complex product offering and the purchasing process.

Both Ames (1970) and Webster (1978) argue that within industrial marketing buyers and sellers tend to depend on each other in carrying out certain functions such as mutual product development. Gruen (1995) along with Håkansson and Snehota (1995) later reinforced this point; they argued that business markets are identified by relationships which are uniquely characterised by continuity, symmetry, and informality.

Earlier Webster (1978) called for new practices that are designed to suit the nature of industrial markets, which are different from those used in consumer markets. Cooke (1986) later expressed that same view, arguing that marketing practices cannot be used impulsively for both consumer and industrial markets.

Lilien (1987) proposes that the buying process in business markets takes a different form to that in consumer markets, as it tends to be more complicated involving different people, sometimes from different departments of the buying and selling organisations. It is also characterized by a derived demand and considerably longer purchase cycles.

Lilien (1987) also proposes that using consumer based approaches in business to business will result in problems in inaccuracy and simplification due to differences. The principle summarised from this argument is that business to business markets should be treated in a different way to consumer markets (Roderick, 2001).

Another way to distinguish between consumer and business markets is by defining their position in the supply chain. Consumer purchase is a final transaction which comes as the last stage of the supply chain, whereas business purchases are middle transactions taking place at various stages during the chain. The latter are always

followed by related transactions in which the buyers are considered as sellers (Sushi, 1990).

A new stream of thought has developed in the nineties where relationships play an important role in the marketing process and the management and development of relationships forms the centre of attention (Gummesson, 1994; Gronroos, 1997). The scope of relationships extend beyond end customers to consider distribution channels, and other parties in the marketing environment (Gronroos, 1990; Kotler, 1992; Webster, 1992; Morgan and Hunt 1994). Hutt and Speh (1998) summarised this as;

“...Relationship management constitutes the heart of business marketing.” (p.32)

From the previous review of the difference between business to business markets, it is concluded that they are different and that the defining character that distinguishes business to business markets is the relationship established between organizations. To build on that it is necessary to analyze relationships in business to business market in the literature to understand how they happen and consequently how their value can be increased.

### **3.3 Relationship marketing**

Relationships were emphasised as early as the 50s by Druker (1954). This proponent of the marketing concept says;

“Marketing...is the whole business seen from the point of view of its final result, that is, from the customer’s point of view.” (Druker, 1954, p.36)

The late 70s and 80s saw the beginning of the development of the role of relationships in the marketing literature. In Europe researchers (Baker, 1976; Ford, 1980; Håkansson, 1982; Johanson and Mattsson, 1984; Gummesson, 1987) began considering a longer term perspective for relationships between buyers and sellers rather than a simple one off transaction. Services marketing and network theory in business to business are the more fundamental theories that have contributed to relationship marketing (Gummesson, 2002). This confirms the main concept of marketing which is satisfying customer needs.

In the UK, Baker (1976) suggested that marketing is defined as: “mutually satisfying exchange relationships” (p.15), which stresses the concept of relationship marketing. This concept is based on the idea that both parties in a business relationship should try to achieve gains rather than one party’s profit and the other’s loss. This will increase profits for both parties and results in mutual satisfaction.

Baker, 1976 also emphasises customer retention as a result of relationships marketing, this requires extending the length of the relationship which is the most important step for both parties as they develop a greater understanding of each other’s needs and wants.

In the American literature, Berry (1983) used relationships in marketing to describe how service organisations were developing and strengthening their customer relationship. He defines relationship marketing as “attracting, maintaining and enhancing customer relationships" Berry (1983, p. 25). Berry and Parasuraman (1991) later used the same definition applying it to service marketing “attracting, developing, and retaining customer relationships” (p. 133).

Berry’s definition was developed within services marketing, he explains his concern for keeping customers and strengthening relationships through customer retention, and not just attracting new customers. He emphasises the extended definition of marketing, which puts customers first in the firm’s marketing strategy, making a good foundation for building customer’s relationships, and focusing on the long term aspects of the relationship.

Berry’s definition of relationships in marketing reflects other researchers who considered service marketing earlier, such as Levitt (1983) or after him Gummesson (1987) and Gronroos (1990). Early work by Levitt (1983) is a major contribution to the literature of relationship marketing. In his view relationship marketing is considered as part of any organisational life (Levitt, 1983). The relationship was described as marriage, where the two parties have to manage it and express how much both care about developing it and taking it to the next stage, for a long time.

Levitt (1983) reasoned the growing importance of relationship marketing to purchase cycles of products and major components, which have increased in terms of the length of time they are stretched over, this means that buyers are entering a relationships not for a one off transaction, but for a longer relationship and stronger ties. Sales people have to have a clear idea of the objective of any transaction with customers which is not only to get them to be involved in the purchase but the focus is on building and maintaining the relationship with the customer. The physical product is no longer a central issue, more attention is paid to the augmented product, which means that the relationship is going beyond the simple short-term transaction to include a whole bundle of values that satisfy customers (Levitt, 1983).

Although each one of them is emphasizing the value of interaction in marketing and how it affects customer relationships, Gummesson (1987) and Gronroos (1990) have a more general point of view and support the argument that relationships with customers ought to be the focal point in marketing practice and research. Gronroos (1997) defined marketing as “establishing, maintaining, and enhancing, and when necessary also terminating relationship with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met; and this is done by a mutual exchange and fulfilment of promises” (p.407). In his definition he emphasized the importance of achieving profits for both parties as a win-win situation, which is reached through fulfilling promises and mutual exchanges. Gronroos’ is proposing that relationships with customers are the rationale for the existence of an organization, which is an incentive for marketing to initiate and develop such relationships.

The definition is also considered to be a rather comprehensive and generic marketing definition. Gronroos (1997) relates the concept of marketing to the relationship between the organisation and its marketing environment. Initiating, building and maintaining activities with parties in the surrounding environment are seen as marketing’s responsibility that includes preparing individuals in the organisation to act upon this principle. The traditional 4Ps marketing model is no longer useful in building such long term relationships with customers and stakeholders. By using this definition organisations are able to plan their marketing activities based on transactional or relational strategies depending on their marketing needs.

Earlier Gummesson (1995) provided a definition that identifies three fundamental pillars of relationship marketing. Relationship marketing was identified as a marketing concept that "is based on relationships, interactions and networks" (Gummesson, 1995, p.3)

Relationship marketing literature is based on research from the IMP Group who develops on the concepts of interaction and network to develop practices in industrial marketing, (Håkansson, 1982; Håkansson and Snehota, 1995; Ford et. al., 1997), and the Nordic school of services which conducts most of its research to service marketing (Gronroos and Gummesson, 1985; Berry and Parasuraman, 1994; Gronroos, 1997).

The Industrial Marketing and Purchasing (IMP) Group was formed in the middle 1970s by researchers originating from the Universities of Uppsala, Bath, UMIST, ESC Lyon and the Ludwig Maximilians University (Munich) (Håkansson, 1982; Turnbull and Brennan, 1998; Cheung and Turnbull, 1998). The group reported the first extensive study into business to business relationships. In their research they go beyond the simple business to business relationship that involves a buyer and a seller to take account of relationships with surrounding parties in the network (Johanson and Mattsson, 1984; Thorelli, 1986; Håkansson and Snehota, 1995; Araujo and Easton, 1996). Other authors considered all possible partnerships with the focal organisation such as partnerships with the distribution network or partnerships with customers (Morgan and Hunt, 1994; Gronroos, 1997). Other writers from the IMP group have analysed international relationship networks (Laine and Kock, 2000; Johnsen and Ford, 2000; Barrett and Fletcher, 2000).

Some authors described relationships in more general terms (Webster, 1992; Hastings and Gardiner, 2001). Webster (1992) considered relationships as part of the strategic marketing continuum on which one end has the one-time transaction and on the other end is the full partnership or integration developing the stages from one end to the other. Hastings and Gardiner (2001) have developed the marketing relationship trilogy, which has described how the literature on relationship marketing has developed through three main these stages are:

(1) **Relationship marketing**, ignores the role of other elements in the distribution channel and the role of other stakeholders, concentrating only on the buyer-seller relationship (Hastings and Gardiner, 2001).

(2) **Relationship marketing plus stakeholders**, or what he call the neo-relationship marketing which refers to a body of literature, which goes beyond a simple buyer-seller dyadic relationship to include other stakeholders involved in marketing activities. For example, Morgan and Hunt (1994) concluded, "Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges". Further still, Gronroos (1996) expanded the concept to include "other stakeholders".

He defines the role of relationship marketing is to "identify and establish, maintain and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met. This is achieved through mutual exchange and fulfilment of promises" (Gronroos, 1996. p.220). The interest in buyer-seller relationships in relationship marketing has been extended to other relationships (Mattsson, 1997).

The main difference between neo-relationship marketing and relationship marketing is that it expands the simple dyadic relationship to take into account any other and any number of connected relationships. A number of authors have pinpointed this characteristic of new neo-relationship marketing (Turnbull, 1987; Christopher et al., 1991; Gummesson, 1993; Morgan and Hunt, 1994; Styles and Ambler, 1994; Moini, 1995; Gronroos, 1997).

(3) **Network theory**: most of the works done on networks were done by the IMP group and take account of networks with more than two actors (Håkansson and Snehota, 1992; wilkinson and Mattsson, 1993; Ford et al, 1995; Gummesson at al, 1997).

### **3.4 Relationship marketing in business to business**

Relationship marketing is a very broad and general term to discuss. For an effort to narrow down the literature to the focus of this research, the emergence of relationship marketing in business to business is introduced and more attention is drawn to distribution networks, which focuses more on inter-firm relationships with members of the distribution channel.

The focus in marketing literature has slowly started to change from a one-off transaction and short term benefits to long and strong relationships between organisations this change has been seen on both industrial practice and scholarly research (Gummesson, 1994; Grönroos, 1997). Sheth and Parvatiyar (1995b) have taken this point further to argue for not even using the traditional marketing methods and start to put more effort on developing the use of relationship value as a core concept in relationships marketing. This is one of the arguments that support the purpose for this research to use value as a unit of measurement of relationship as will be discussed in the next chapter.

The early definition by Jackson, 1985 “Relationship marketing is marketing to win, build, and maintain strong lasting relationship with industrial customers” (p.165) involves industrial customers and individual accounts as compared to mass markets and segments. Her concern is to make the business-to-business supplier choose whichever strategy for the individual customer is appropriate in each specific situation, either relationship marketing or transactional marketing.

Jackson has used the relationship marketing term in her research on business to business marketing from the late 1970s; she used the term as the contrary of transactional marketing. She pointed out different approaches, which are needed in different purchase situations using examples of different industrial buying situations, including computer systems and shipping services. She introduces a continuum of buyer behaviours based on what she calls ‘always-a-share’ which assumes that a customer can easily switch all or part of its business from one supplier to another and ‘lost-for-good’, which emphasises a customer highly committed to one vendor.

Any business has various types of relationships with its customers or suppliers. Any of these relationships carries a certain burden in the business whether direct or indirect. Only relationships that offer mutual benefits and profits to both parties should be carried on and developed. Relationships have a direct effect on the effectiveness and efficiency of the relationship marketing process in any organisation, so the degree of intimacy depends very much on a cost/benefit relationship between the seller and the buyer.

The definition of relationship marketing provided by Thorelli (1986) is considered to be an important evolution in the paradigm as he was one of the first authors to consider networks and relationships between companies. In addition his definition shows the transition from transaction based to relationship based marketing. "Relationship marketing is part of the developing paradigm, which recognises that global competition occurs increasingly between networks of firms" (Thorelli 1986, p.47).

Thorelli (1986) stresses that networks are dependent on administrative processes and negotiations, rather than market-based processes. He regarded networks in general as something between markets and hierarchies. According to Webster (1992), who has agreed with the view of Thorelli; new forms of business organization became common in the 1980s. The new organisations emphasised partnerships between firms, and could be characterised by flexibility, specialisation, and emphasis on relationship management instead of market transactions. In addition he argued that the purpose of these new organisational forms is to respond quickly and flexibly to the changing technology, competition, and customer preferences taking place in the environment surrounding any organisation (Webster, 1992).

Earlier Dwyer, Schurr, and Oh (1987) characterise relationship marketing as consisting of "relational exchange" to differentiate it from a "discrete transaction" which they describe as that which has a "distinct beginning, short duration, and sharp ending by performance". They also argued that a certain level of trust has to exist at the beginning of the relationship as an indication for organizations to whether it should boost the long term ties and invest in resource connections with the other firm or not.

Gummesson (1987a, 1991, and 1993) was a supporter of the relationship strategy where the notion of the marketing department does not exist as it used to be. All parts of the organisation are involved in the marketing process and in carrying out marketing plans. With relationship marketing, the marketing department almost disappears as the company depends on managers from different departments in the firm to put together marketing plans. He refers to the non-marketing specialists outside the sales and marketing departments as part-time marketers. Compared to the full-time marketer, part-time marketers are usually more in number and include all the people that interact directly with the buying organisation. Such interactions across functions of buyer-seller organisations decrease both transaction and quality costs. With a mutually satisfactory relationship customers can easily reduce costs endured from changing suppliers.

Similar to Jackson's (1985) continuum was Gronroos's (1990) marketing strategy continuum. It started with transaction marketing at one end and relationship marketing at the other end. He added various elements to the continuum such as the product continuum, which presented examples of type of products that suited each marketing strategy. For example consumer packaged goods best suited transaction marketing as manufacturers for this type of good produced for mass markets and little involvement or interaction with the customer was required. At the top of the product continuum are services, which required full interaction, thus more relationship marketing efforts. Industrial marketing lay somewhere between consumer durables and services. Although industrial products most of the time needed the same interaction level as services (Gronroos, 1990).

*Different* authors have associated relationship marketing, in their definitions, with networks, and commitment, customer retention and trust (Achrol, 1991; McKenna, 1991; Doyle and Roth, 1992; Shani and Chalasani; 1992). Achrol (1991) gives a definition that explicitly states that interrelationships between organizations are mainly built on sharing and commitment which in turn is based on trust. He states that interrelationships between organizations are held together and coordinated through norms of sharing and commitment. McKenna (1991) sees the change to a relationship marketing concept developing only by changing the role of the customer from "selling

and telling” to involving customers more in product development and exchange of knowledge.

The definition given by Doyle and Roth (1992) stresses the long term investment that a company has to put into a relationship, and the key factor in this investment is trust, but their definition is seen as describing a particular relationship end state rather than indicating anything about achieving or determining the best type of relationship, "The goal of relationship selling is to earn the position of preferred supplier by developing trust in key accounts over a period of time" (p.70). While *Shani and Chalasani (1992)* stressed the notion of network and value added contacts in their definition of relationship marketing “an integrated effort to identify, maintain, and build up a network with individual customers and to continuously strengthen the network for the mutual benefit of both sides, through interactive, individualized and value-added contacts over a long period of time” (p. 44).

Morgan and Hunt (1994) provided a definition of relationship marketing, “relationship marketing refers to all marketing activities directed to establishing, developing, and maintaining successful relational exchanges” (1994, p. 22). In their theory they have considered commitment and trust as the key constructs to successful relationship marketing behaviour, as it leads directly to a cooperative behaviour.

Commitment and trust, which are key characteristics of relationship marketing, increase along the buyer-seller relationship continuum. According to Morgan and Hunt (1994) they encourage marketers to out weight the benefits generated from an investment in a long term relationship rather than accept the short term benefits that could be more appealing, which will generate greater benefits and lowers the uncertainty of high-risk action, as a mutual trust will be created.

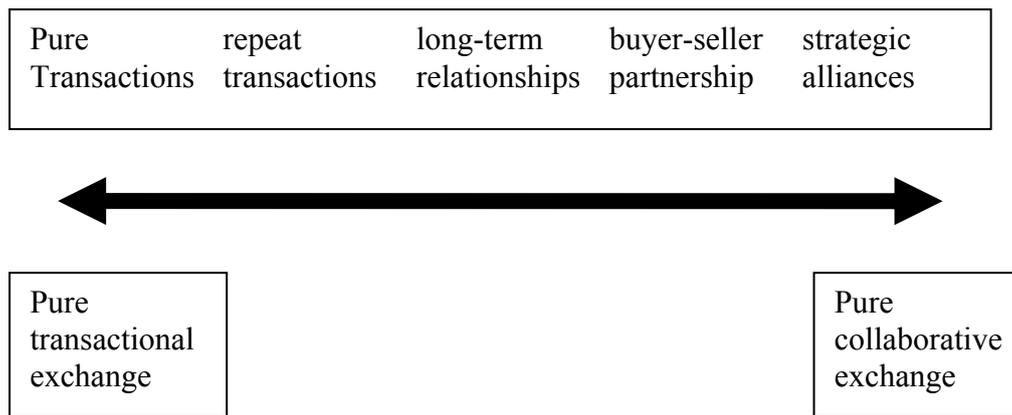
Morgan and Hunt (1994) acknowledged satisfaction as leading to trust and commitment from both sides of the relationship, Jüttner and Wehrli (1994) and Gruen (1995) supported Morgan and Hunt’s view noting that relationships become value-generating assets between firms creating a network of business relationships.

Cooperation with customers and other parties in the firm's environment yields good results presented in different aspects such as increased loyalty, higher profits, more customer satisfaction (Evans and Laskin, 1994). A higher number of satisfied customer will be a direct result of improved relationships which boosts trust and commitment (Busacca, 1994; Gruen, 1995).

Morgan and Hunt's (1994) definition has come under a lot of attacks from authors such as Peterson (1995) and Sheth (1996), who stated that the use of both relationship marketing and marketing terms leads to uncertainty and only one should be used and the other removed.

Based on Peterson's opinion, Sheth (1996) argued for limiting the scope of relationship marketing to marketing activities designed to fulfilling customers' needs. He argued that satisfying customers has been at the core of the marketing philosophy, other business relationships such as internal or supplier relations could be left to other functions of the business such as human resources (HR) or distribution management.

Hutt and Speh (1998) described relational exchange as that which is based on prior agreements and has also a long life span which reflects ongoing transactions. This could be seen as moving along the continuum which they presented. Through this continuum Hutt and Speh (1998) also supports a relationship between a buyer and a seller similar to the continuum of buyer behaviours introduced earlier by Jackson (1985), that varies from a pure transactional to a pure collaborative exchange, as depicted in Figure 3.1.



**Figure 3.1 Buyer-seller Relationship Continuum (Source: Hutt and Speh 1998, p.108)**

In the model in Figure 3.1, pure transactional exchange refers to timely exchange of basic products at highly competitive market prices, whereas pure collaborative exchange involves, as was identified earlier by Anderson and Narus (1990), customers and suppliers forming well-built and deep links. These links combine various aspects of business whether it is social, economic, service or technical aspects. All that is for the purpose of lowering the total costs, achieving economies of scale, and increasing value by generating benefits on both sides.

Gummesson (2000) sees relationship marketing as a paradigm shift in marketing, where he has introduced his concept of total marketing. He identified three factors that form the bases for total marketing they are relationships, networks and interaction. Organisations use the three factors of total marketing to achieve a win-win relationship with individual customers while optimum value is achieved by both parties of the relationship. Total marketing is not only embedded in the management of the selling organisation's network, but also in the market and the society. It is made tangible through the thirty markets, mega, and nano relationships, which he named the 30Rs (Gummesson, 2000).

From the review of the development of relationship marketing in business to business, outlined in table 3.1, common issues were raised such as collaborative relationships between organisations, evaluating cost/benefits in the long-term not just the short-term and satisfaction, commitment and trust are key constructs of relationships within

business to business markets. Relationships are used in this research to analyse the interaction between organisations in the Russian carpet wholesale market. The reason for choosing the notion of relationships for the analysis of inter firm interaction has been justified by Håkansson and Snehota (1995) as it induces the concepts of mutual orientation and commitment over time, which are common in interactions between firms.

Håkansson and Snehota (1992) considered the relationship notion as the base for the network theory, and defined it as “mutually oriented interaction between two reciprocally committed parties” (p.188). It is also seen as the key construct of business to business markets (Hutt and Speh, 1998). Business to business networks are made up of several relationships that are connected to each other. This research analyzes the Russian wholesale carpet market, which means that it studies not one relationship but several connected ones. As a result it is necessary to review the literature on network theory to analyse how different interactions within these networks happen and consequently how does it affect the value gained from these relationships. This is supported by the fact that the network theory was introduced in the literature as a tool used to analyse the Russian economy and market (Peng and Heath 1996, Salmi 1996 and 2004).

### **Summary of relationship marketing development in business to business**

<b>Author</b>	<b>Contribution to relationship marketing in business to business.</b>
Jackson (1985)	<ul style="list-style-type: none"> <li>• B to B suppliers design custom strategies for customers.</li> <li>• Buyer behaviour continuum</li> <li>• Keeping relationships with mutual benefits</li> <li>• Relationship cost/benefit.</li> </ul>
Thorelli (1986)	<ul style="list-style-type: none"> <li>• Networks are based on administrative processes and negotiations.</li> <li>• Characteristics of the new forms of network organisations.</li> </ul>
Dwyer, Schurr and Oh (1987)	<ul style="list-style-type: none"> <li>• Relational exchanges is a character of relationship marketing, and it is the opposite to discreet transaction</li> <li>• Trust as a prerequisite of relationship building.</li> </ul>

Gummesson, 1987a, 1991 and 1993.	<ul style="list-style-type: none"> <li>• Mutual satisfactory relationships between suppliers and buyers reduce the costs of the firm.</li> <li>• Everyone in the organization is a part time marketers.</li> </ul>
Gronroos (1990)	<ul style="list-style-type: none"> <li>• Marketing strategy continuum according to product.</li> <li>• B to B at the same level as service (customization)</li> </ul>
Achrol (1991)	<ul style="list-style-type: none"> <li>• Interrelationships between organisations are based on trust and commitment.</li> </ul>
Suraman (1991)	<ul style="list-style-type: none"> <li>• Attracting, developing, and retaining customer relationships</li> </ul>
Mckenna (1991)	<ul style="list-style-type: none"> <li>• Involving customers more in product development and exchange knowledge.</li> </ul>
Doyle and Roth (1992)	<ul style="list-style-type: none"> <li>• Developing trust with key customers</li> <li>• Trust is an investment to make in relationships</li> </ul>
Shani and Chalasani (1992)	<ul style="list-style-type: none"> <li>• Strengthening the network of relationships through mutual benefits and value-added contacts.</li> </ul>
Morgan and Hunt (1994)	<ul style="list-style-type: none"> <li>• Commitment and trust as key constructs to successful relationships</li> <li>• Out weight long-term benefits</li> <li>• Satisfaction as leading to trust and commitment.</li> </ul>
Juttner and Wehrel (1994) Gruen (1995)	<ul style="list-style-type: none"> <li>• Relationship become value generating assets creating a network of business relationships</li> </ul>
Hutt and Speh (1998)	<ul style="list-style-type: none"> <li>• Buyer-seller relationship continuum.</li> <li>• In a pure collaborative exchange suppliers and customers form well-built and deep links.</li> <li>• Collaborative supplier-buyer relationships achieve lower total costs, economies of scale and added value.</li> </ul>
Gummesson (2000)	<ul style="list-style-type: none"> <li>• Relationship marketing paradigm shift in marketing.</li> <li>• Total marketing (relationships, networks and interactions)</li> <li>• Achieve a win-win relationship.</li> </ul>

**Table 3.1 A summary of relationship marketing development in business to business.**

Morgan and Hunt (1994) highlight the importance of Commitment and trust as they convincingly argue that relational “trust” and “commitment” are critical in relationship development. They also share the view that Relationships characterized by effective communication, shared values, and keeping promises generate inter-firm trust, which promotes cooperation with Gronroos, (1990 and 1994).

Some authors have presented a narrow view of relationship marketing addressing single-issues such as establishing and enhancing, presented by Gronroos (1990), network interaction presented by Gummesson (1994; 1997) and ongoing collaborative presented by Sheth (1994). Shani and Chalasani, (1992) presented their view of relationship marketing in niche markets domain and express their view that there is always the threat of a niche drying up because of a change in customer preferences, and this is where relationship marketing becomes important to strengthen relationship with those niche customers. Other definitions are general such as the one by Gronroos (1990).

Some authors share the view that developing employees who view themselves as part of the overall marketing process is important (Gronroos, 1990; Gummesson, 1991, 1997; Gummesson, 2000) point out that not all marketers have to be full time, outsourcing employees could influence the success of relationship marketing. But while Gummesson (1991) view is that all parts of the organization should be involved in the relationship marketing process, Sheth (1996) argues for limiting the scope of relationship marketing to the marketing activities with customers. Sheth’s (1996) view is considered a limited view of relationship marketing.

Generally most academics’ work in relationship marketing represent a paradigm shift from a one off transactional with customers to building a long lasting relationship. As most academics clarify the importance of adopting a relationship marketing approach rather than limiting the view of dealings with customers to a short-term one off transactions. Nevertheless some authors acknowledge the fact the firm’s marketing approach will depend on the type of customers and the type of product/service offered by the firm (Jackson, 1985; Gronroos 1990; Hut and Speh, 1998). Jackson (1985) and Hutt and Speh (1998) presented a relationship continuum depending on the type of customer ranging from customers whom a firm has a one-off or short term

relationships with to customers with long-term relationships with the firm. Gronroos (1990) presented the relationship continuum depending on the type of product/service offered by the firm, where a short-term orientation is most suitable for the type of consumer durable goods while a long-term orientation is most suitable for services putting industrial products and the same level as services. These views are represented in Gummesson (1994) argument that not all relationships should be nurtured;

*“Not all relationships are important to all companies all of the time . . . some marketing is best handled as transaction marketing.” p. 17)*

Following from Gummesson’s (1994) argument, there are relationships in an organisation’s network that are considered very important, and hence called key account. Key account management (KAM) is a concept that has been used by companies to introduce the concepts of relationship marketing and establish closer relationships with customers (Iven and Pardo, 2007). KAM is described as relationships with customers that the supplier believes that in managing them in a specific way they offer a greater commercial efficiency (Pardo, 2001). Mainly KAM is perceived as an activity with the primary aim to increase efficiency and effectiveness of the supplier (Pardo and Naude, 2006) and to strategically serve important customers in a more individual manner than the ordinary accounts (Iven and Pardo, 2007).

The origin of KAM can be found in suppliers’ realization that not all customers are equal, with some typically representing an extremely high percentage of sales or profits (Hakansson and Snehota, 1995). As a result, suppliers dedicate most of their resources to that core portfolio of clients representing the highest stakes: their key accounts resulting in stronger relationships with these clients (Pardo, 1997). It is not just relationships with customers that research has been focusing on; a strategic focus of firms has shifted to relationships with firms' suppliers as well (Sharma and Sheth, 1997). The reason for this shift to supplier relationship was given by Sharma and Sheth (1997) as increased cost efficiency, increased effectiveness, enabling technologies, and increased competitiveness.

### 3.5 Network theory

Inter-organisational relationships and relationships between buyers and sellers literature is expanding as is also the case for networks in business markets (Anderson et al. 1994, Achrol 1997, Achrol and Kotler 1999, Moller and Halinen 1999). Different inter-organisation models have been developed and applied in different marketing and distribution scenarios (Anderson and Narus 1990, Morgan and Hunt 1994, Wilson 1995).

The basic characteristic of networks was introduced in the late 1970s by Cook and Emerson (1978). They addressed that fact that relationships are connected, i.e. exchange in one relationship is conditioned by exchange in others. The connection may be positive or negative. A positive connection between two relationships implies that exchange in one relationship has a positive effect on exchange in the other. This is, for instance, the case with relationships handling a sequence of independencies along a production chain. Correspondingly, two competing suppliers to a customer are usually negatively connected via that customer.

Of the various approaches/models that explain factors influencing business relationships, the IMP is the best equipped to deal with the various issues that shape buyer-seller relationships (Metcalf et al., 1992), also the Industrial Marketing and Purchasing (IMP) group contributed significantly to the development of literature and research on business networks and relationships (Welch and Wilkinson, 2002). The group consists of European based researchers who began their research in the 1970s and since then has undertaken various studies that includes industry cases and applied research on networks and relationships (Johanson and Mattsson, 1987; Axelsson and Easton 1992, Johanson and Mattsson 1994, Turnbull et al. 1996, Ford 1997).

Johanson and Mattsson (1987) identified three elements of relationships: mutual orientation, interdependencies, bonds, and investments. Mutual orientation reflects the fact that two firms in a relationship try to achieve common objectives, benefits and try to access the connected network through this relationship. As a result there is a price that an organization pays for the benefits incurred from a relationship and this is the second feature of relationships, that they are interdependent. Bond refers to the

length and strength of the relationship, the stronger the relationship is the more defined the network is (Johanson and Mattsson, 1987). Finally when entering a relationship an organization incurs some costs such as: losing out on other opportunities for other relationships; or the time spent on the relationship, this is the investments part of the relationship.

Industrial network literature was developed from earlier work in transaction marketing where the main focus was on single transactions and there was a lack of long-term relationship orientation. The network literature doubted the benefits of transactional marketing in gaining a long term customer satisfaction and providing added value, and started considering relationship marketing instead (Bonoma et al., 1977; Håkansson, 1985). This is where their theories on networks and relationships were developed, and they began looking at relationships between buyers and sellers and taking it further to discuss networks that involve relationships between more than two actors. During the 1990s a number of researchers followed the IMP group which expanded the literature available on networks and relationships (Ford, 1990; Håkansson and Snehota, 1990; Axelsson and Easton, 1992; Blankenburg-Holm et al., 1996; and Lehtinen, 1996).

Interactions, relationships and networks have formed the centre of IMP research in business markets. The pillars of their analysis is built on actors, activities and resources (AAR) model, which was introduced by Håkansson and Snehota (1992), as the fundamental dimensions of relationships. The AAR model proposes that networks have a dynamic nature and consist of interdependent and connected actor bonds, activity links and resource ties (Håkansson and Johanson, 1992; Håkansson and Snehota, 1995). The development of network theory has also been influenced by the IMP Group by US, Australian and UK research that analyse inter-firm relationships (Christopher et al. 1991; Young and Wilkinson, 1992; Wilkinson and Mattsson 1993, Wilkinson and Young 1994, Perry and Pyatt 1995, Ford et al. 1995, Wilson and Moller 1995 and Gummesson et al. 1997).

Håkansson and Snehota (1995) have explained, through their AAR model, business networks, and differentiated them from social networks. While social networks are made of actors, business networks are made of actor, activities and resources. These

elements of business relationships produce different layers or types of connections. Together they form a business-to-business relationship between buyers and sellers:

**Activity links**, embrace activities of a technical, administrative and marketing kind. The linkage of each of the activities form activity cycles. Several actors are needed to carry out this cycle, which means that relationships are created in order to realize a transaction chain (Håkansson and Snehota, 1995)

**Resource ties** include exchanging and sharing resources, which are both tangible such as machines, and intangible such as knowledge. Its development depends on the exchange between organisations and the ability to access each other's resources during transactions. The process usually involves changing and adapting old resources while developing new ones (Håkansson and Snehota, 1995)

**Actor bonds** are created by people who interact and exert influence on each other and form opinions about each other. It refers to how these people see or act accordingly within a relationship. Actor bonds develop over time and are jointly tailored through experiences and information which is the result of the interaction (Håkansson and Snehota, 1995). Actors can be both enterprises and individuals, who are in some way connected within a network. These actors control resources and carry out transactions. The foundation of the network is established based on the exchange processes that happen between parties. Actors in a network are goal oriented, often striving to increase their control of the network (Håkansson and Snehota, 1995).

Researchers have used the AAR model to analyze the Russian business to business network (Johanson, 2001; Salmi, 2004). Johanson (2001) used the model to analyse the pre-transition Russian network, which he describes as hierarchical, stable and anonymity. He blames the hierarchy and the stability of the Russian network for actors not gaining experience of dealing within relationships. According to him relationships are transmitters of experience and due to the anonymity that existed in the Russian network; organizations were not able to deal directly with each other. In addition the hierarchy in the network caused the same information to be transmitted over and over again without allowing any room for creativeness. Because of the harsh nature of the Russian networks Johanson (2001) goes to the extent of stating that Russian businesses have to develop a network approach that is suitable for their context which is different from the western context.

While Johanson (2001) used the AAR model to describe the pre transition Russia, Salmi (2004) used it to describe the current Russia. Analysing relationship resources, the after transition Russia is suffering from outdated equipment and machinery as most of it is from the pre transition time. To update resources investments are needed in the market. But the problem is the lack of investments due to a high rate of capital flight outside Russia; Linz (2002) reasoned this to the lack of property protection which has caused many Russian organizations to invest outside Russia. Low investments in the market are seen as an obstruction to actions. There also seems to be a shortage of new actors for which Salmi (2004) provided reasons such as geographical constraints, more investments, and different adoption from different organisations of new market rules. A study by Kosonen (2002) identified six types of organisations in the Russian market ranging from market economy thinking to socialist thinking; opportunities, neutrals, disputing constructors, constructors, strugglers and reactionaries (p.202), with constructors as the most adaptive to new market and network ideas.

A buyer seller relationship or the "focal relationship" relies upon connected relations in the network, which may result in a relationship with a third actor (Anderson *et al.*, 1994). Based on a number of related network researches, Moller and Halinen (1999) describe industrial relationships that a network of an organisation is built upon. From the organisation's point of view, relationships could be viewed in two ways; horizontally and vertically. Vertically starting from top level suppliers down to the customer's customer while horizontally, from merging or working together rivalry to partnerships with government units and R&D. Maintaining relationship with customers as well as suppliers, government units, research units and keeping close relations to rivalry is very important for the selling organisation to be able to maintain its competitive role in the network.

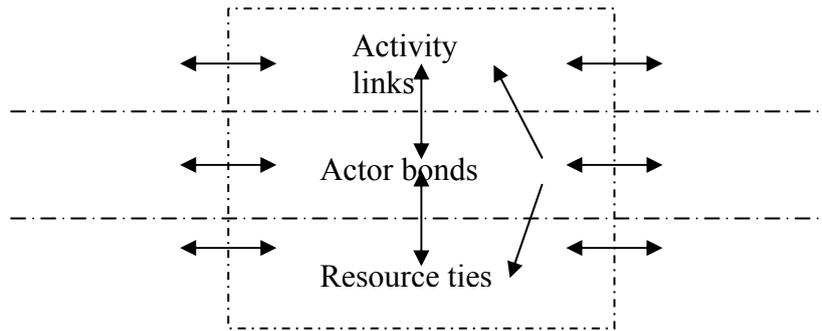
Sheresheva and Tretyak (2004) report on several studies that confirmed the prevalent integration between organizations in the Russian market (Kuznetsov and Simatchev, 2001; Ernst and Young, 2003). The study by Kuznetsov and Simatchev (2001) reports a tendency for intensified integration including conglomerations and horizontal integration. Another study by the higher school of economics in Russia reported overwhelming vertical integration tendencies. In line with this study, Ernst

and Young (2003) reported a growing number of mergers and acquisitions. Also a recent study reported that the 10 top integrated business groups in 2002 provided 39% of manufacturing production and 21% of Russian investment. Sheresheva and Tretyak (2004) reasoned the tendency in the growing vertical integration to the need for more control over suppliers and distributors. The reason behind this need to exert more control is due to “weak enforcements of contracts, low transparency of legal system, persisting corruption and general economic instability” p.4, which causes suppliers to behave in an opportunistic way pushing the need of manufactures to have more control on them. These recent integration tendencies give the Russian network a homogeneous structure with defined boundaries (Radygin, 2001).

Russia reflects characteristics of an emerging market such as those identified by Dawar and Chattopadyay (2002), they are; low incomes, variability in consumers and infrastructure, and the relative cheapness of labour, which is often substituted for capital. They also address an important deficiency in the literature on strategies for companies operating in emerging markets as only a few of the companies working in those markets consider strategy development.

The exchange in an industrial relationship is shaped by the connections customers and suppliers have with other actors in the network (Anderson et al. 1994). The result is a business network consisting of “a set of two or more connected business relationships” (Anderson et al. 1994, p.2). As a result the actor bonds, activity links and resource ties in a single business relationship are connected to the wider net of actors, activities and resources forming the business network (Welch and Wilkinson, 2002).

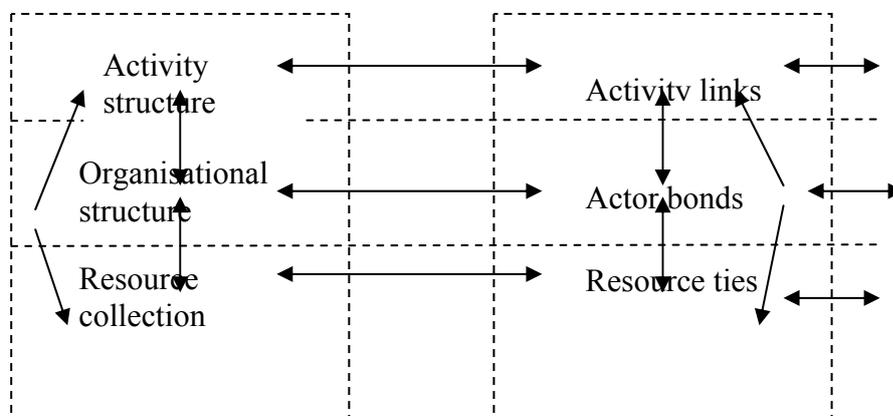
Using the AAR model Håkansson and Snehota (1995) identified three functions of the business relationship; functions for the individual company, functions of the dyad, and functions for third parties. Functions for the individual company reflects how a relationship affects the company itself, its internal operations and its other relationships depending on what is produced in the dyad illustrated in Figure 3.2.



**Figure 3.2 functions of the individual company (source: Håkansson and Snehota, 1995)**

The individual company context is the context in which the characteristics of the actor are developed. This context works at unit level and is limited by the activities internal to the organization and the relationships developed here can be best described as intra organizational relationships Ghoshal and Bartlett (1990). The actors, activities and resources act as the main factors in the individual company context Håkansson and Snehota (1995). The AAR factor reflects the fact that the end points of the relationship links are connected at different points and levels in an organizational structure. In addition to these factors other important factors comes into operation such as; national culture, employment system links, and Subsidiary policies.

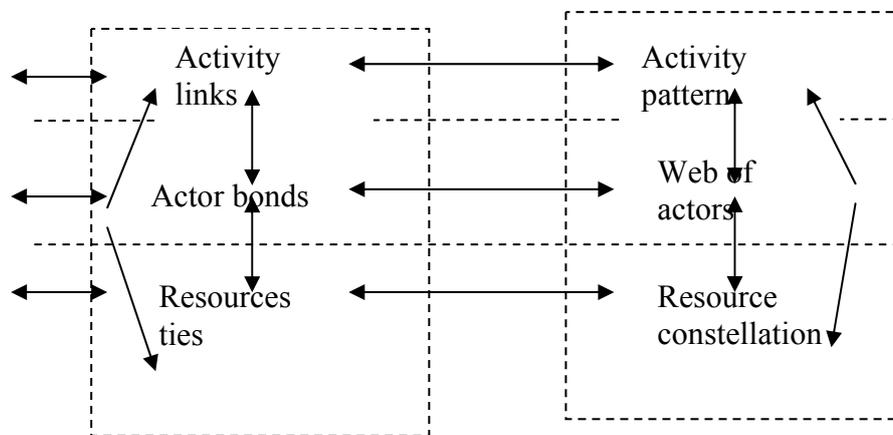
Functions for the dyad are a result of the conjunction of the two actors where something is produced from the interaction. Activity links, resource ties and actor bond in a relationship integrate various elements and thereby some unique outcomes and effects are produced illustrated in Figure 3.3.



**Figure 3.3 Relationship is a dyad (source: Håkansson and Snehota, 1995)**

The dyad context is the context in which inter-organizational relationships develop between the subsidiary and external dyadic partners such as customers and suppliers. These relationship types can be adversarial, collaborative or partnering types of relationships. In this case the interactions happen externally at the dyadic level. There are less strong relationship links that can connect the local unit to higher structural level linkages.

Functions for the third parties are a result of interaction of one relationship with the other relationships from the connected network. The interaction has an effect on the relationship itself and on other connected relationships in the network illustrated in Figure 3.4.



**Figure 3.4 relationships in a network (source: Håkansson and Snehota, 1995)**

The network context is the context that develops externally to the subsidiary with all external organizations. That includes all types of dyadic relationships and suppliers tiers such as government departments, union organizations and customers that form part of the wider business network. The links in the network context are of a relational nature with the subsidiary influencing and being influenced by the network effects that flow through the network. The factors that operate within the network context are activity patterns, web of actors and resource constellations (Håkansson and Snehota, 1995). Håkansson and Ford (2002), indicated that each context does not operate independently of the other context because the organization is embedded within a business network of other organizations.

In Soviet Russia, organisations had to solve their resource dependence problems outside their official distribution networks, because of shortages that were a feature of

the market at that time (Berliner 1957; 1976, Grossman 1977, Nove 1984, Puffer and McCarthy 1995). The networks also experienced a gap between the exchange level and the use level which resulted from activities related to exchange and resource use that were not being handled in the same relationship (Hallen and Johanson, 2004).

One of the early authors to argue against the IMP theory was Hellgren et al. (1993) who saw that a major drawback of the existing IMP theory is ignoring the role of “meaning”, which he considered as an important factor within networks. Their argument was that the ideological dimension in the industry should be added to the rational dimension. Hellgren et al. (1993) proposed the concept of “industrial wisdom” to overcome this gap. They defines it as “shared beliefs about the competitive rules of the game and the structural freedom of action within an industrial field “(p.93).

The opinion of Hellgren et al. 1993 has been supported by Fairhead and O’Sullivan (1997) and Welch and Wilkinson (2002) in adding a fourth dimension of the network model. The actors, activities, and resources model should be extended to include underlying patterns of cognitions and decision making process (Fairhead and O’Sullivan, 1997). Welch and Wilkinson (2002) proposed that to be complete a fourth dimension of relations and networks has to be added to the IMP theory; it’s what they called ideas and schemas. They argued that in IMP theories cognitions did not properly fit or it was not made clear how they fit within the AAR model.

Cognitions are only obvious in actor bonds, where shared meanings, perceptions and norms are created through the interaction between actors in the relationship “a kind of network logic” as specified by Håkansson and Snehota (1995, p.53). Welch and Wilkinson (2002) have suggested analysing the development of shared ideas and meanings as a separate network process as they affect each AAR dimension in different ways. “Focus on meaning, logics, norms, theories, knowledge system, paradigms, cognitive, maps, ideologies, schemas, scripts and mental models-in short, ideas-can contribute to the understanding of network development and behaviour” (p.29). Welch and Wilkinson (2002) used a case study approach of an Australian sugar exporter, which is a short coming of the study that the authors admit themselves

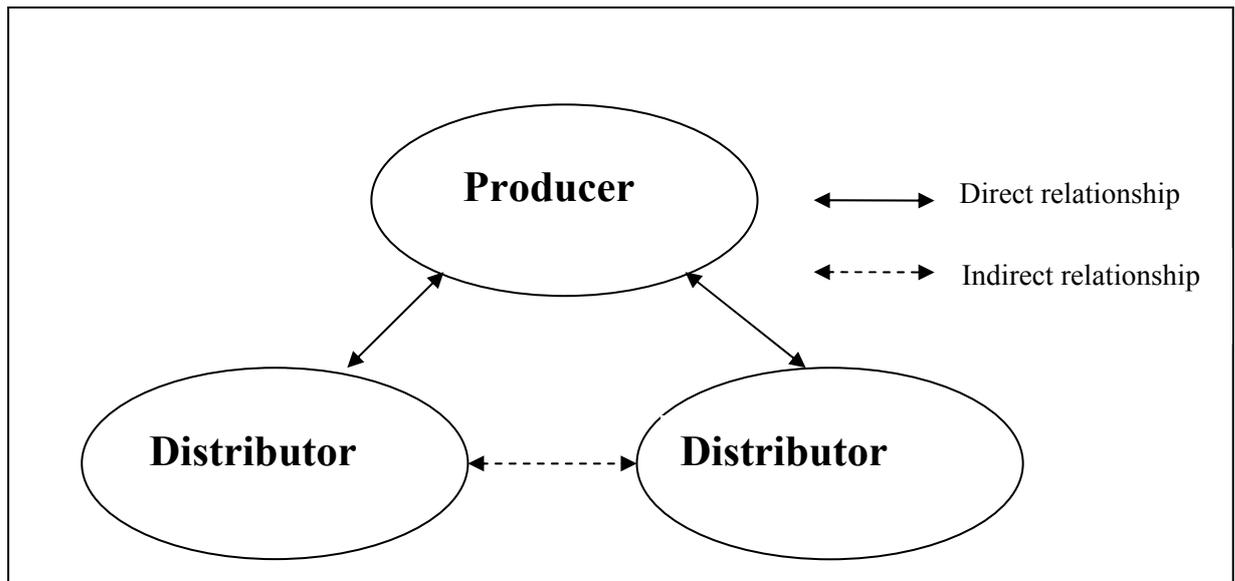
as it is only applied to one industry that was heavily affected by socio-political environment.

Mörch and Persson (1999) identified 3 types of distribution networks, which is based on the work of Smith and Laage-Hellman (1992). They identified several triads in a distribution network.

1. • Producer - Distributor - Distributor
2. • Producer - Producer - Distributor
3. • Producer - Distributor - Wholesaler – Retailer

The Producer - Distributor – Distributor distribution network is a network where the producer has more than one distributor (Mörch and Persson, 1999) illustrated in Figure 3.5. The tasks performed by intermediaries/middlemen in distribution networks may take different forms such as carrying inventory, selling, physical distribution, after-sale service and extending credit to customers (Stern and El-Ansary, 1992).

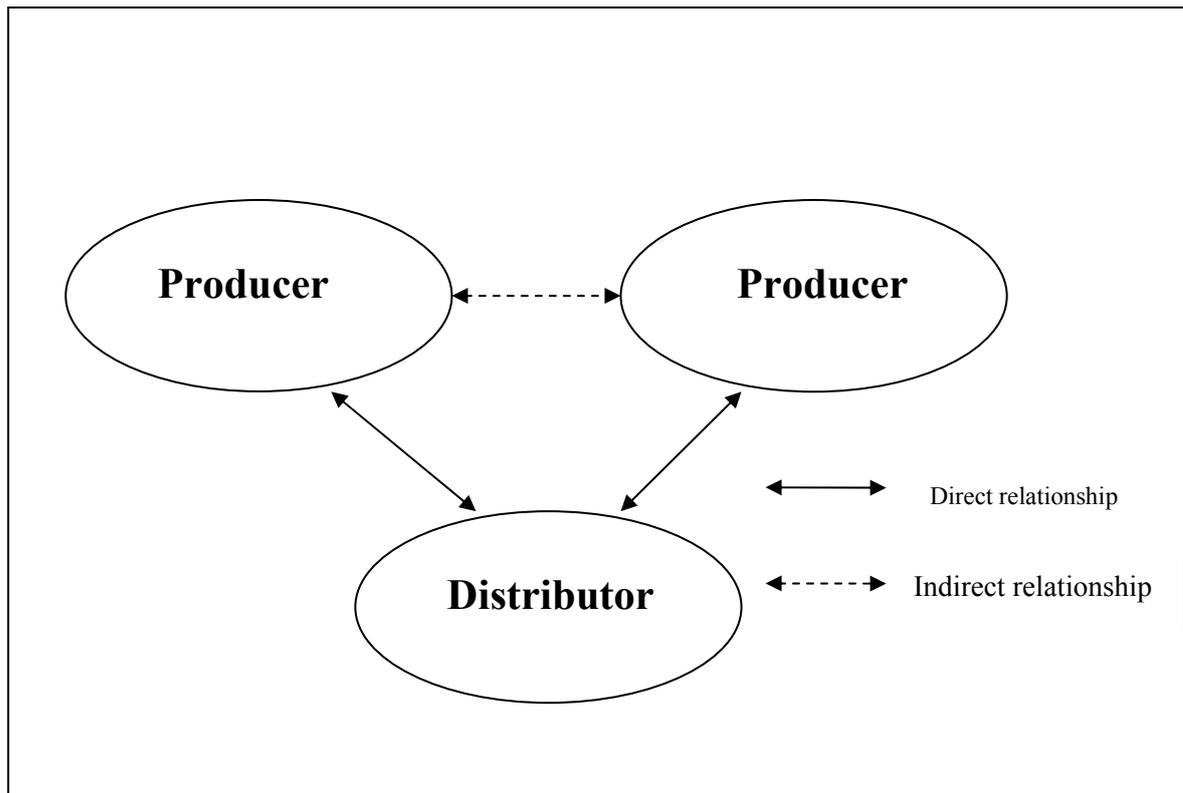
Mörch and Persson, (1999) identify the benefits and risks from a similar network structure; potential gains and overall benefits for every partner in the network such as; economies of scale gained from a using the same information and technology as well as developing a standard logistics network. For the producer it increases the bargaining power but problems arise when producers develop a standard strategy for all distributors, while some relationships are more valuable than others and deserve customized strategies.



**Figure 3.5 Producer-distributor-distributor (Source; Mörch and Persson, 1999).**

Gadde and Snehota (2001) described the role of the middleman, in this case as a trader. The trader is able to offer to the customer a product/service package that is different from what the supplier organization is offering, without any significant transformation of physical resources.

The Producer - Producer – Distributor distribution network is where two producers share the same distributor (Mörch and Persson, 1999). Mörch and Persson (1999) identify some benefits that could be gained from working in a network that has this structure. The benefits are gained when producers are selling or agree to sell complimentary products to the same distributors and this is where the overall benefits and win-win relationships are established in the network. In a case where producers are not selling complementary products, they are likely to have negative relationships which gain the distributor a bargaining power illustrated in Figure 3.6.

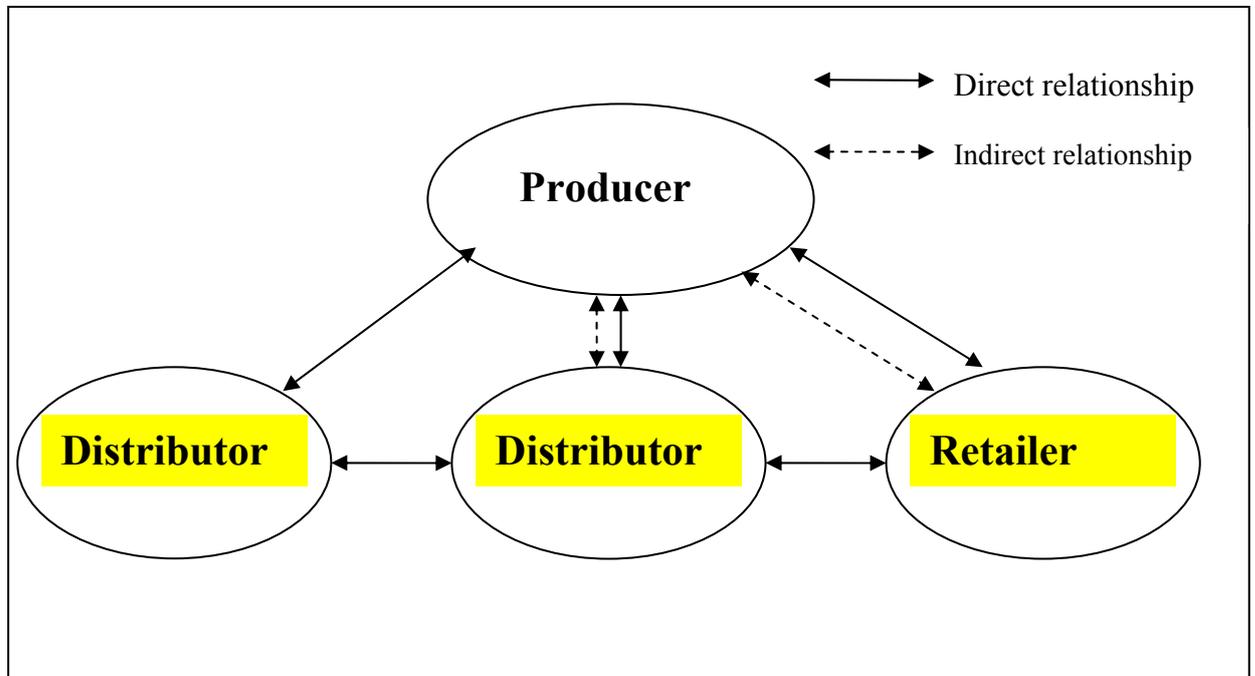


**Figure 3.6 Producer-producer-distributor (Source: Mörch and Persson (1999))**

Gadde and Snehota (2001) describes middlemen's role in this type of distribution network as a distributor who deals with more than one organization. They still exercise the same functions as a trader but their shift to a distributor makes them independent in holding their own inventory and applying marketing strategies to push their products to the market. A study using a case study approach in consumer durable goods in Russia by Mörch and Persson (1999) confirmed that distributors in this market perform three functions import, wholesale, and retail functions. As a result most distributors who work in that market operate independently working with competitive manufacturers.

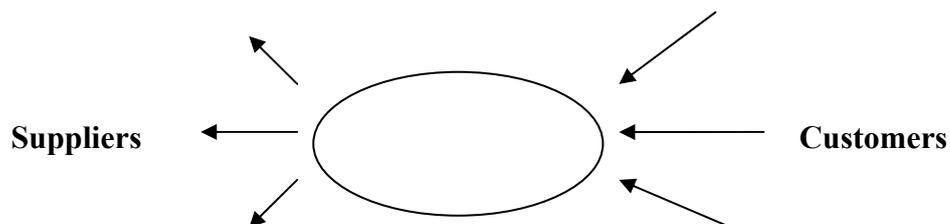
A Producer – Distributor – Wholesaler – Retailer distribution network is where large producers resort to distributors and large distributors resort to other distributors/wholesalers to sell their products to retailers (Mörch and Persson, 1999) illustrated in Figure 3.7. Mörch and Persson (1999) reasoned the structure of this network to the fact that each organization has a large number of relationships that it has to work with, but it's a costly procedure to have direct relationships with all organizations in the distribution network. That pushes producers to deal with

distributors and distributors to deal with other distributors/wholesalers to handle their product distribution. The producer depends on whether the relationship chain between the distributor, wholesaler and retailer is functioning, for his/her products to reach the market and also to get market information.



**Figure 3.7** Producer-distributor-wholesaler-retailer (Source; Mörch and Persson, 1999)

The role of the middleman as a distributor has the advantage of dealing directly with consumers. The distributor in this case is in a good position to exploit the closeness to users as a result this gave rise to the shape of the middlemen's role from distributors to providers (Gadde and Snehota, 2001) illustrated in Figure 3.8. In this role the middleman is a part of the consumer/user network rather than the manufacturer's distribution channel.



**Figure 3.8** The middlemen as a provider. (Source Gadde and Snehota, 2001)

The seller (producer) and the buyer (retailer) can always choose to have direct dealings with each other, taking over some or all of the tasks of the intermediary (distributor/wholesaler) (Cunningham and Turnbull, 1982). As a result the role of the intermediary varies according to whether the buyer and the seller have a direct or an indirect relationship. The role of the intermediary becomes important where a non direct relationship is established between the buyer and the seller. This gives the second distributor an important role in the business relationship (Hägg and Johanson, 1982), not only because of specific tasks performed, but also because of the positive or negative impact on the business relationship as a whole. Survival of the business relationship would depend therefore of the role of the intermediary (Havila, 1998).

Many manufacturers have hardly any direct contact with the end-users of their products, but instead have major relationships with industrial distributor companies, that act as intermediaries for them (Gadde and Snehota, 2001). On many occasions it is the distributor that specifies the product for the market not the manufacturer, in which case many distributors develop new product types for their own customers. In this case manufacturers have to comply with distributors' requirements as they have more experience and are more in touch with the end users (Gadde and Snehota, 2001). A study on the Russian wholesale durable goods by Morch and Persson (1999), reported that distributors play the most important role in the distribution network as the market for consumer durable goods in Russia is 100% dominated by imported goods. As a result the distributors in this market control the import, distribution and sales through retailers. The same study has also reported an underdeveloped distributor-retailer relationship. Another recent study by Tretyak and Sheresheva (2006) in the Russian fresh fruit distribution networks showed that the main role in the fresh fruit supply chain belongs to wholesalers as they are the leading suppliers of retail chains.

One of the main reason for the rise in relationship-based channel structures has been the growing importance of channel intermediaries (wholesalers and retailer) who as a result of increased size, product knowledge development, technical competence, and specialization, have shifted attention from unilateral to bilateral control mechanisms (Nickolaus, 1990; Webster, 1992; Heide, 1994; Hogg, Kalafatis, Blankson, 1996).

The traditional vertical distribution channel has more or less disappeared according to recent channel research. Instead distribution channels are viewed as dynamic webs or networks (Anderson, Day and Rangan, 1997). The network perspective has broad support according to Gadde (2004) when it comes to studying distribution structures. Based on a comparison of traditional channels and the evolving networks in distribution he also concludes that the network model seems to be a useful conceptual tool for understanding the changes that has faced distribution.

Distributors exist in business networks because of their value to other companies in joining together the different and otherwise separate networks that centre on their suppliers and users. That has led to a lot of research performed within distribution channels during the last 50 years but Frazier (1999) notes that little is known about the specification of channel roles and their required functions, as well as which functions are best shared between channel members and in what context. Frazier (1999) also asks for research from the intermediaries' perspective as most research is either manufacturer or retailer oriented. This concern is also addressed by Gadde and Snehota (2001) as they argue that distribution networks are often studied one-sided out of the manufacturer's perspective or as in-between two other actors. Furthermore, trying to grasp all kinds of middlemen in one concept is, due to the heterogeneity, not feasible and Gadde and Snehota (2001) ask for differentiation of the middleman's role to create more accurate analytical tools.

Gadde and Wilson (1998) have referred to the term 'perennial distribution networks conflicts' which is the result of differences in the motivation of companies in relationships and the frequent misperceptions of each others' objectives. Earlier Alderson (1965), one of the founding fathers of distribution study, addressed the fact that the conflict aspects, between actors in distribution networks, had received far more attention than the co-operative ones, both by researchers and practitioners. Alderson (1965) commented that sometimes because of the attention given to the conflict factor and the lack of attention towards the cooperative, an efficient channel rarely exists.

It was realized that previous research on the Russian carpet wholesale market does not exist; as a result accurate information on the structure of the distribution network of the market is not available. Objective 3 of the research study addresses this problem;

- **To identify the structure of the Russian wholesale carpet industry.**

### **3.6 The network unit in the current study**

A realistic study focusing on networks involves some restrictions, as to the number of relationships that should be studied. This research restricts the size of the network by focusing on the value of a net of relationships, a triad, within Russian carpet distribution network. As Caplow (1968), put it: "the elucidation of social processes within a triad is sufficiently challenging in itself" (p. 10). Cook and Emerson (1984) argue that a triad is the smallest unit of analysis which allows researchers to study connected relationships. Smith and Laage-Hellman (1992) agree that a triad is the smallest possible network; it simplifies the study yet still permits the investigation of different network flows and effects. Within the Industrial Network Approach both Laage-Hellman (1989) and Blankenburg (1992) claim that it is useful to study connected relationships within triads because of the possibility to delimit the phenomenon in different ways.

"The addition of a third actor represents a leap-wise increase in complexity which makes it possible, in a simplified way, to analyze connections and other network phenomena which cannot be handled in the received interaction model" (Laage-Hellman 1989, p. 31).

Also within the Industrial Network Approach most of the studies which more or less explicitly focus on the concept of 'connection', have used the concept of triad (Holmen and Pedersen, 2000).

To conclude from that, the triad distributor, distributor, and retailer, highlighted in Figure 3.7, is the most appropriate unit for the current study. This is supported by conclusions, from previous discussions on distribution networks, that there is a lack in research from the intermediaries' perspective (Frazier, 1999; Gadde and Snehota,

2001) and a triad is the most appropriate unit for studying industrial networks (Caplow, 1968; Cook and Emerson, 1984; Laage-Hellman, 1989; Smith and Laage-Hellman, 1992; Blankenburg, 1992; Holmen and Pedersen, 2000). Also the fact highlighted in the previous chapter that the carpet wholesale market is 80% dominated by foreign products (DIHD, 2003), gives distributors an important role to play in this market, which makes an analysis of their relationships with other distributors and their relationships with retailers an important unit of the carpet distribution network in Russia.

Ahmad and Simitiras (1994) have presented a study of variables involved in determining customer-supplier relationships. Their study resulted in the highest 8 out of 16 studied variables involved in different forms of relationships. The variables were later retested by Hogg, Kalafatis, Blankson (1996) who also tried to identify if there are any differences in the importance of the variables at each of the three levels in the distribution channel (manufacturer, wholesaler, retailer). The study concluded that there are no significant differences between the three types of intermediaries but still it is important to simultaneously examine the views of both suppliers and customers at different levels. The study also concluded the fundamental relationship forming factors are interpersonal, integrative, monitoring price and product criteria.

**What is created during the interaction between partners within distribution networks?** Value is created within these interactions, relationships and networks (Morgan and Hunt, 1994). If marketing is regarded as comprising a continuum of exchanges between actors in distribution networks (Dwyer et al., 1987, Grönroos, 1991 and Webster, 1992), more value is added in relational exchanges than in transactional exchanges (Day, 2000). This is why firms must examine all the interactions that create value in any given customer relationship instead of just the (augmented) product (Ravald and Grönroos, 1996 and Grönroos, 2000a). There is a greater need for companies to devote part of their effort to maintaining customer relationships where value is created.

### 3.7 Conclusion

Combining findings from the previous chapter, which identified relative characteristics of the Russian wholesale carpet market, with findings from the analysis of the network approach and associated research done of the Russian market some conclusions can be drawn:

The characteristic of importers taking over the Russian market, which gives dominance to the role of wholesalers and distributors in the market, and the unsatisfied demand, is not unique to the carpet market. Other wholesale markets in Russia share the same characteristic. The glass market, consumer durable goods, and the fresh fruit supply have shown the same tendencies (Morch and Persson, 1999; Manevich, 2002; Tretyak and Sheresheva; 2006).

In an effort to promote an integrated network approach for Russian wholesale market, research has analysed it through the AAR model;

**Actors:** there is a lack of new actors in the market, as a result firms resort to old relationships with old suppliers in the market (Linz, 2002; Shresheva and Tretyak, 2004; Haaparanta et al., 2004). Vertical integration is common in Russia as a tool to have control over suppliers (Radygin, 2001; Kuznetsov and Simatchev, 2001; Ernst and Young, 2003). There is a need for new actors to play new roles in the market (Salmi, 2004)

**Activities:** geographical constraints have put limitation on activities between organisations (Salmi, 2004). Relationships are not the main criterion in Russian business but it is growing in importance and in length as long-term connections prevails more now than they used to (Shresheva and Tretyak, 2004).

**Resources:** there is a lack of investments in the market which is also a reason for the outdated equipment (Johanson, 2001; Linz, 2002; Salmi, 2004).

In general the Russian wholesale market is lacking management skills and efficiency (Karhunen, Kosonen, Lewonen, 2003); lack of trust between organizations and professionalism (Shresheva and Tretyak, 2006) and an underdeveloped relationship between suppliers and customers (Morch and Persson, 1999). Russian organisations need to develop their relationship with multinational organizations, which will

promote learning new business norms and marketing approaches in a network context (Meyer, 1999; Tornroos and Nieminen, 1999).

The unit used in the analysis of the Russian carpet distribution network is the triad distributor-distributor-retailers, the triad and the two relationships that constitute the triad is highlighted in Figure 3.7. The choice of this model is supported by the finding from the literature that research is lacking from the perspective of the middleman, as research is either consumer or manufacturer's perspectives (Frazier, 1999; Gadde and Snehota, 2001) and the nature of the wholesale Russian carpet market that the market is dominated by importers (DIHK, 2003). This makes distributors play the most important role in the distribution network of carpets. Also the triad is found to be the smallest unit in networks that generate the most accurate results (Caplow, 1968; Cook and Emerson, 1984; Laage-Hellman, 1989; Smith and Laage-Hellman, 1992; Blankenburg, 1992; Holmen and Pedersen, 2000).

To analyse these relationships in the Russian wholesale carpet market, it is necessary to ask the question; what is the outcome of these relationships? As value is the outcome of business to business interactions (Dwyer et al., 1987; Grönroos, 1991; Webster, 1992; Morgan and Hunt, 1994) measuring what makes relationships more valuable in the Russian carpet market will contribute to the development of these relationships and consequently the objective of this research which is,

- To increase the value for business customers in the Russian carpet wholesale market.

In the following chapter, relationship value is discussed in more detail to find the most appropriate way of measuring it and increasing it.

## **Chapter 4**

### **Relationship value in business markets**

#### **4.1 Introduction**

The previous chapter identified the main current characteristics of the wholesaler Russian market. Also the chapter points out characteristics of the Russian wholesale carpet market such as the dominance of importers, which means that there are more wholesalers, and an unsatisfied demand. These characteristics do not seem to be unique to the carpet market only, but are also shared with other markets such as the fresh fruit wholesale, glass bottles wholesale and consumer durable wholesale market. The concept of value is used to analyse the relationships under study in the Russian wholesale carpet market, which will contribute to achieving the aim of the research;

- **To explore the value for business customers in the Russian carpet wholesale market.**

This chapter outlines the concept of relationship value in business markets. Through a background review of the value concept, its origins and history in the literature is covered. Value in relation to business markets is discussed with regard to value as a replacement for satisfaction in business markets and components of value. Relationship value in business markets is covered in more detail presenting the different views in the literature of relationship value, how it is calculated, as well as its dimensions. The objective of this chapter is to understand how to measure value for relationships in business to business markets, to use it for the purpose of this research.

## 4.2 The value concept

The first to popularise the use of value analysis in the U.S. industry in the 1940s and 1950s as meaning different things to different people depending on the way it is used was Miles (1961). Customer value has been an important research topic for the Marketing Science Institute. The centre for industrial and business marketing (CIBM) and The Institute for the study of business markets (ISBM) have conducted joint studies on customer value putting it at the top of their research plan (Ulaga and Eggert, 2002). Customer value is regarded as a fundamental part of relationship marketing and as an essential foundation for all marketing activities (Holbrook 1994). Value formation and sharing is also regarded as the main purpose of any mutual customer supplier relationship (Anderson, 1995).

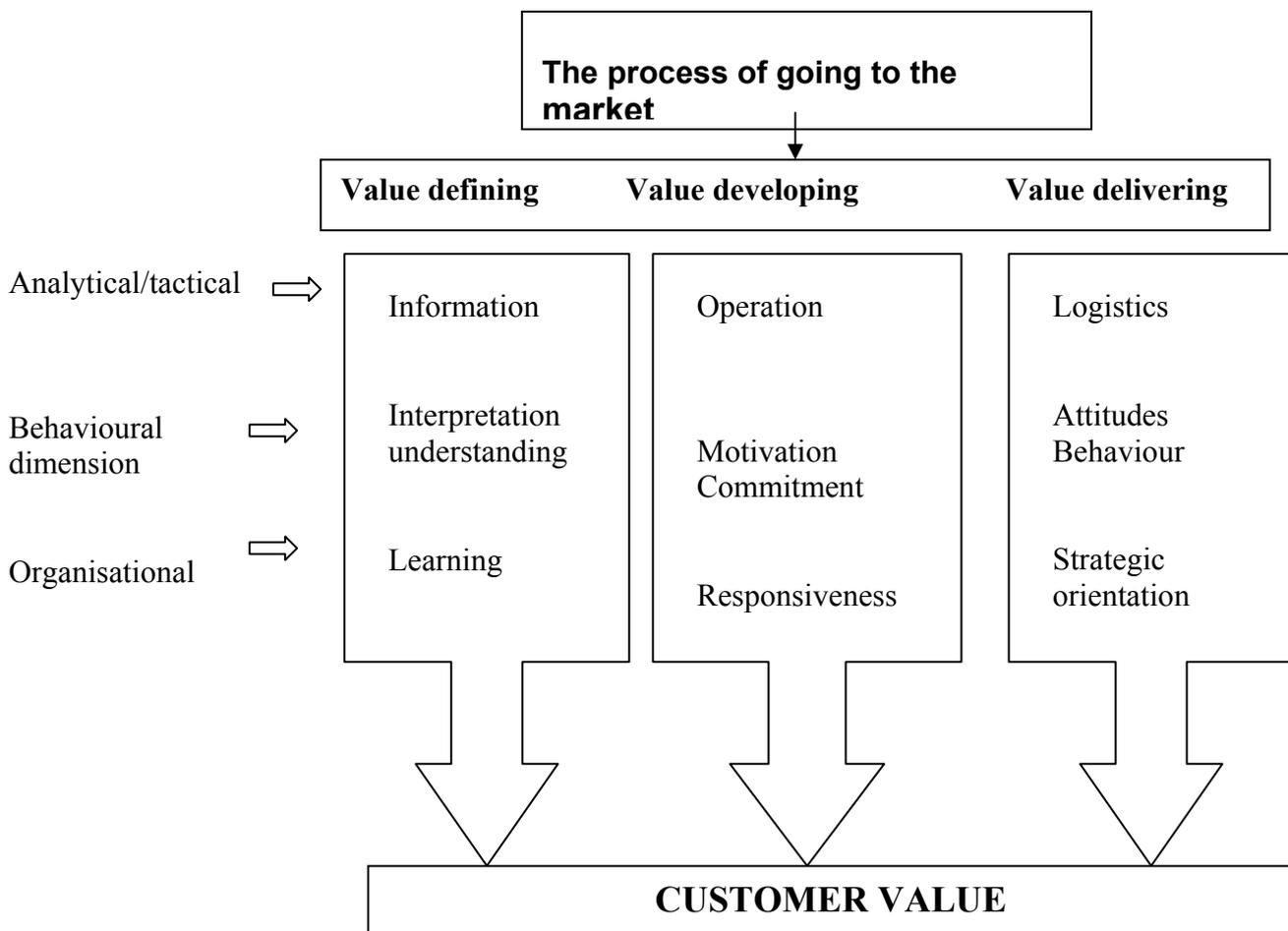
In social exchange theory, the social behaviour between parties is seen as an exchange of valuable activities (Homans, 1958). The parties involved are either rewarded or punished in a reciprocal process based on the value one party sees in the other party's behaviour. However, the reward of the action taken by partners is not always direct and immediate (Homans 1961). The value of the exchanged activities is determined more by higher, or long-term goals of the partners and often also by involved third parties. In order to determine the value of an exchange relationship, indirect transaction between the exchange partners and other involved parties also needs to be considered (Blau 1964).

Exchange theory and value has been correlated as a concept in the literature, where the correlation stems from the fact that voluntary transactions in the market are central to the notion of value (Alderson 1957, Kotler 1972, Houston 1987). The effects of this could be seen on two dimensions first, parties willing to enter an exchange have a list of wants. Each party has a list which is different from the other and this shows how diversified exchanges are, (Aldrich and Whetton 1981) because organisational actors exchange different things for various reasons (Sydow 1998). Organisations expect their wants to be satisfied as a result of the exchange and this is the driving reason for entering it. The reason why perceived value is considered to be at the heart of marketing is because actors expect that entering into an exchange will earn them more benefits. Second, a package of attributes is what is offered by one party to the other.

These attributes are a determinant of the value of the exchange thought. Perceived value is at the core of marketing.

The concept of the value chain was initiated by Porter (1985), who viewed a manufacturing/service organisation as a system. The system is divided into smaller subsystems each with its own production processes. Each stage involves the acquisition and use of resources such as materials, equipment, labour, money, and land. Determining costs relies on activities in the value chain and it has an effect on profits.

In line with Porter’s strategic dimension of value, Piercy (1998) provided an analytical framework (Figure 4.1), that illustrates how the different dimensions of organisational processes lead to customer value.



**Figure 4.1 The Dimensions for Organisational Processes.** (Piercy, 1998, p. 223)

Earlier Monroe and Kirshnan (1985) defined consumer perceived value as the difference between the utility inferred from the perception of quality and utility (sacrifice) associated with the price to be paid, where perceived quality is “the

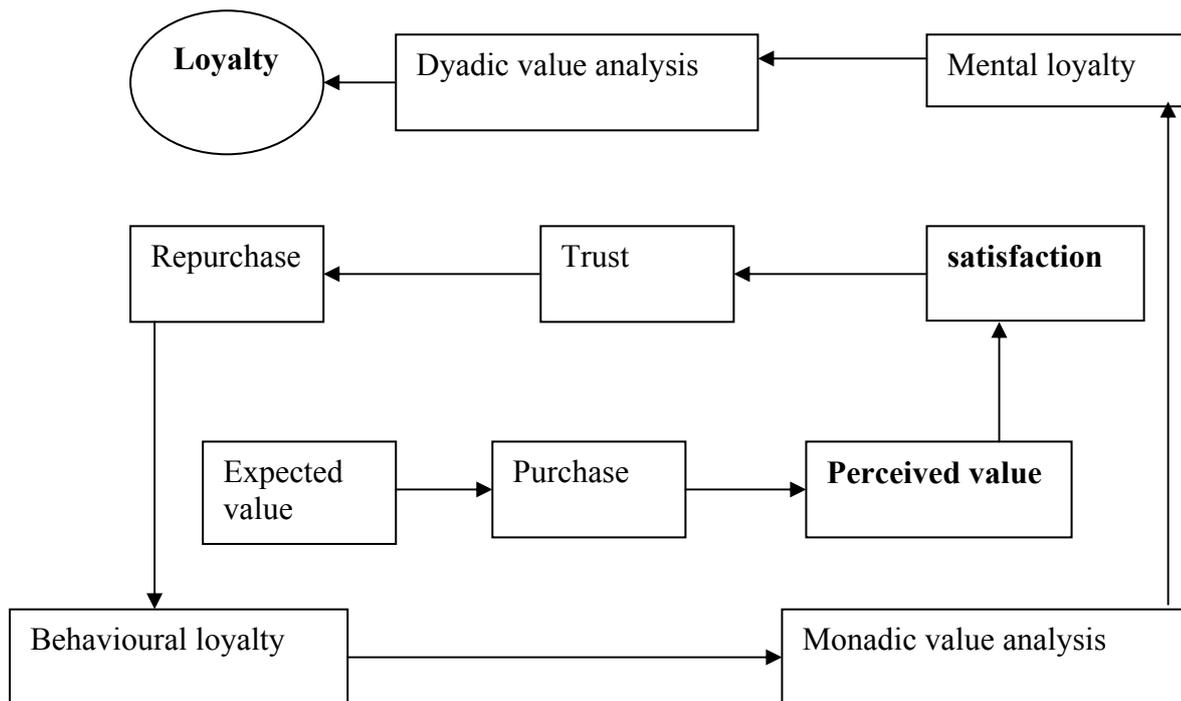
perceived ability of a product to provide satisfaction relative to available alternatives” (p.212). Their opinion of value captures the notion of the difference, or trade off (Dodds and Monroe 1985) between perceived worth and price paid. This is reflected in the definition given by Zeithaml (1988) for consumer perceived value (cpv), as she saw value as the quality received in exchange for the price paid or generally what is received compared to the price paid.

### **4.3 Value in business markets**

Scholars and marketers have had cumulative concern for the value concept (Gale, 1994; Sinha and DeSarbo, 1998). Customer value was described as the “new marketing mania” (Anon, 1991). Since 1997, the value concept is considered as a priority research for the Marketing Institute, since then research on the subject has continued to develop. Within business-to-business relationships, research on customer value is still growing, and it has been done only at the theoretical level (Wilson and Jantrania, 1997). Despite the major function within the exchange notion of marketing a lot of research has been done on value as a main construct (Sinha and DeSarbo, 1998). Researchers have concentrated on developing measurement methods of value, and tools to assess products/services in industrial markets (Anderson and Narus, 1999).

#### **Value as a replacement for satisfaction in business markets**

Customer satisfaction has been used as a major construct to assess a business relationship, and as a determinant of trust and loyalty as shown in figure 4.2



**Figure 4.2 The dynamic model of customer loyalty** (Costabile, 2000, p.4)

Satisfaction has been recognised as an important criterion for customer loyalty (Heskett *et al.*, 1994). Satisfaction has also been identified as better at predicting the intent to repeat purchase than quality (Lijander and Strandvik, 1995a). The disconfirmation model has a fundamental influence on customer satisfaction (Parasuraman *et al.*, 1998). The model states that customer satisfaction is an outcome of a process of comparing the actual performance of the product/service or the perceived value and the expected outcome or the expected value that a customer expects to gain from a transaction before entering it. A positive disconfirmation means satisfaction where the perceived value exceeds expected value, a negative disconfirmation, where expected value exceeds the perceived one and is considered as dissatisfaction. Finally where expected value matches perceived value and that is a zero satisfaction.

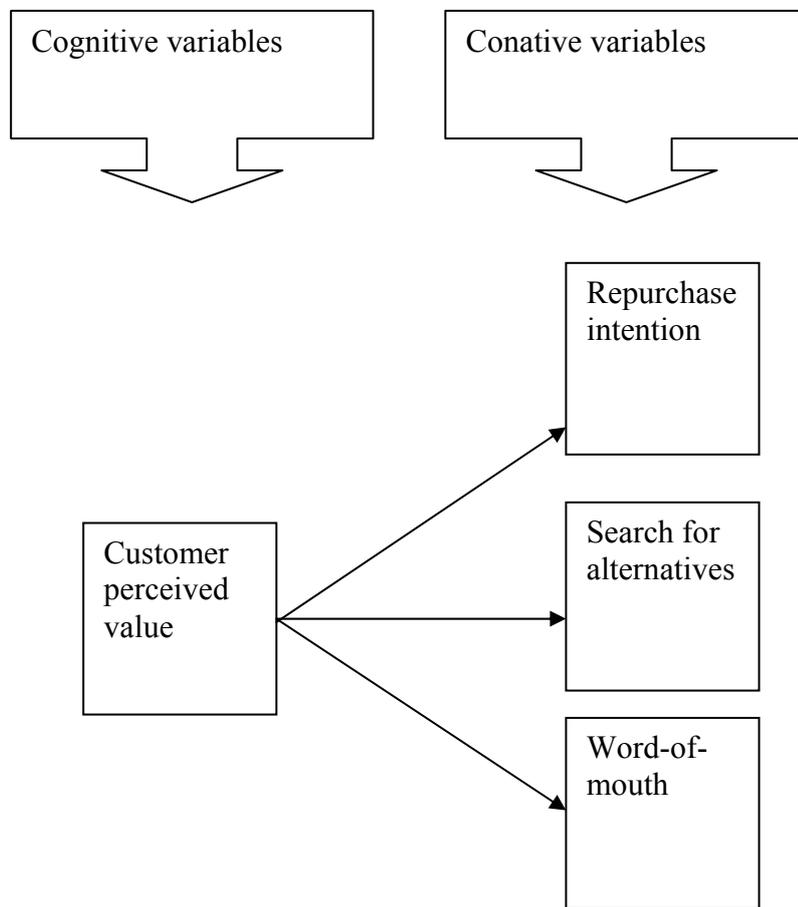
A satisfied customer is expected to become loyal to the firm building a long term relationship while repeating purchases. In spite of scholars agreeing with the disconfirmation paradigm, the important role for customer satisfaction has been questioned (Gale, 1994; Anderson *et al.*, 1994; Jones and Sasser, 1995; Eggert and Ulaga, 2002).

One important issue that was raised by researchers is associated with the disconfirmation paradigm and contradictory research outcomes of a declining market share combined with high satisfaction scores (Gale, 1994; Jones and Sasser, 1995). Not taking account of non-customers as well as customers or rivals is a draw back for the model (Gale, 1994). It is not only taking account of the perception of price/costs incurred from the transaction but also the whole relationship (Eggert and Ulaga, 2002).

Earlier Kotler and Levy (1969) and Howard and Sheth (1969) confirmed that value precedes satisfaction. Eggert and Ulaga (2002) agreed by confirming that value depends on satisfaction using the basic construct of customer satisfaction. To confirm their argument they started from traditional quality models where customer satisfaction is claimed to depend on quality. Two researchers (Grönroos, 1982; Parasuraman *et al.*, 1988) have defined perceived service quality as the difference between real performance and outcome expectations. Quality could also be seen as an appraisal of how superior or excellent is a product (Zeithaml, 1988). One criticism for these models is that it does not include customer's perception of price or costs in quality judgment (Ravald and Gronroos, 1996). Suggestions have been raised for the inclusion of financial factors as well, so that the comparison will take account of what the customer has paid (Iacobucci *et al.* 1994), which is the stage at which value enters.

Based on these arguments, Gross (1997) and Eggert and Ulaga (2002) have argued for the substitution of the concept of satisfaction by the concept of value considering it more accurate at predicting the variables within industrial markets. Gross (1997), sees satisfaction as an ambiguous and an unfit concept to be used in business markets as it is adopted from consumer markets. Economic reasons have more influence on purchase decisions in business markets, which make them more influential than in customer markets. Cognitive factors rather than affective ones guide the purchase decisions of managers in business markets. The main limitation of customer satisfaction measurement is its tactical level, which means it does not provide a lot of data concerning new product development or useful feedback for correcting defects and faults in current products and services (Eggert and Ulaga, 2002). As a result they developed a model (as in figure 4.3), where resulting variables are directly influence by customer perceived value. This is the "direct impact model".

Satisfaction is considered to be a post purchase construct as it is at the centre of the disconfirmation model, while perceived value is not related to the time the market offering is used (Ravald and Gronroos, 1996, Ulaga and Chacour, 2001). As a result customer perceived value is considered as a pre- or post-purchase construct (Woodruff and Gardial, 1996). The aim of satisfaction models is to evaluate present customers' perception of existing offerings. As a result it provides standards for developing existing products/services. On the contrary to satisfaction, Customers' perceived a value deal with the offering before it is created, trying to deliver to customers an offering that matches their needs.



**Figure 4.3 Parameters estimated in the direct impact model** (Eggert and Ulaga, 2002, p.9)

#### **4.4 Relationship value**

Most research on customer value adopts a transactional approach focusing on product-related issues, neglecting relational dimensions of customer-perceived value (Dwyer and Tanner, 2002; Parasuraman and Grewal, 2000). In reviewing the value literature and its implications for relationship marketing, Payne and Holt (1999) found that the recent development in the literature on value in business markets has considered the concept from the viewpoint of relationship marketing. This is described as 'relationship value'.

Lindgreen and Wynstra (2005) have found two major streams in the literature on relationship value, they are: one that focuses on the creation of value through – or in – relationships and one that considers the (resulting) value of relationships. The first stream resulted from various researches in the Contemporary Marketing Practice Group (Berry, 1983; Jackson, 1985; Morgan and Hunt, 1994; Brodie et al., 1997; Coviello et al., 1997; Coviello and Brodie, 1998; Wyner, 1999; Brodie et al., 2000; Palmer, 2001; Lindgreen, 2001a; Coviello et al., 2002 and Lindgreen et al., 2003), which involves contemporary marketing practices around the world, conducted by a network of marketing academics at various universities. The group considered the nature of the changes in marketing's context and, in turn, marketing practice. One of the group's findings has been that managers are placing a greater importance on managing longer term marketing relationships, networks, and interactions by focusing, internally, on the organization's own employees and, externally, on the organization's customers and customer's customers, suppliers and supplier's suppliers, and other influence markets.

There are also similar earlier ideas such as competition being conducted between networks of alliances (Gummesson, 1996) or customer webs (Hagel, 1996) and organizations participating in webs of alliances (Ghosh, 1998). Value is created within these interactions, relationships and networks. If marketing is regarded as comprising a continuum of exchanges between actors (Dwyer et al., 1987, Grönroos, 1991 and Webster, 1992), more value is added in relational exchanges than in transactional exchanges (Day, 2000). This is why firms must examine all the interactions that create value in any given customer relationship instead of just the

(augmented) product (Ravald and Grönroos, 1996 and Grönroos, 2000a). There is a greater need for companies to devote part of their effort to maintaining customer relationships where value is created.

The second stream focuses more on the value of relationships. According to the Industrial Marketing and Purchasing Group, a relationship has value for the buyer because, firstly, exchanges between the supplier and buyer become predictable and reassuring since the actors have learnt how they each organize their business operations and, secondly, the actors' learning and adapting in the relationship are likely to result in new product or service solutions. This group posits that three aspects of a relationship provide value, namely activity links, resource ties, and actor bonds (Håkansson and Snehota, 1995; Axelsson and Easton, 1992; Håkansson, 1982; Ford, 2001; Ford et al., 2002 and Ford et al., 2003).

In general there is an agreement in the literature on defining value in business markets in terms of the trade off between benefits and sacrifices (Monroe, 1981; Christopher, 1982; Zeithaml, Parasuaman, and Berry, 1990; Gronroos, 1992; Anderson, Jain and Chintagunta, 1993; Woodruff and Gardial, 1996; Flint, Woodruff, and Gardial, 1997, Walter et al., 2001, Eggert and Ulaga, 2001). Perceived value is defined as the ratio of perceived benefits relative to perceived sacrifice (Monroe 1981). Christopher (1982) considered value in terms of the price a customer is ready to pay for an offering, and he pointed out that willingness to pay needs to be understood in terms of the set of perceived benefits that the product offering provides to a customer firm. He related this aspect of value to the notion of a customer surplus, which he expresses as the amount by which the monetary equivalent of the set of perceived benefits exceeds the price paid for it. While Zeithaml, Parasuaman, and Berry (1990) defined customer perceived value as the customer's overall assessment of the utility of a product based on a perception of what is received and what is given. Even though the price sensitivity may decrease over time in a supplier relationship, the price as well as the total costs will have an impact on the customer's evaluation of an alternative offering. Gronroos (1992) discusses three types of supplier relationship costs/sacrifices: direct, indirect and psychological. Direct costs are resembled in those that are necessary to sustain the relationship such as insurance costs, while indirect costs result from incorrect actions or defaults from suppliers such as delays in operations. Finally

psychological costs are cognitive one such as those related effort spent worrying about whether a supplier will complete his order or not (Gronroos, 1992).

Value in business markets has been defined by Anderson, Jain, and Chintagunta (1993) as the perceived worth of non monetary evaluation of economic, technical, service and social benefits of a customer firm in exchange for the price paid for a product offering. This is while taking into account the available alternative suppliers' products and prices. Later Anderson and Thomson (1997) have omitted "perceived" from their definition as they regarded value in business markets as a construct, similar to trust or cooperation in customer and supplier working relationships. They regarded value as an estimated construct just like trust or cooperation is being estimated. This argument is in line with Werani's (2001), which was based on the decision theoretic value concept mentioned earlier.

Relating perceived value to supplier's offering, Flint, Woodruff, and Gardial (1997) defined it as "the customers' assessment of the value that has been created for them by a supplier given the trade-offs between all relevant benefits and sacrifices in specific-use situations" (p.171). Addressing the same point regarding the value of supplier's offering to the customer are Eggert and Ulaga (2001), who define relationship value in business markets as the trade-off between the multiple benefits and sacrifices of a supplier's offering, as perceived by key decision-makers in the customer's organisation, taking into consideration the available alternative suppliers' offerings in a specific use situation.

Walter et al. (2001) defines perceived value in terms of a combination of benefits and sacrifices and the trade off between them. Throughout the customer relationship with the suppliers and other connected relationships, benefits and sacrifices are sought. Walter et al. (2001) adopts a supplier's perspective because by focusing on customer relationships suppliers gain competitive advantage. There has to be a mutual exchange of benefits between suppliers and customers in other terms. Both of them have to gain benefits. Lindgreen and Wynstra (2005) argue that for suppliers to be able to survive they have to know how to create value for their customers throughout their relationships with them. They developed a model of the functions of customer relationships by relating these functions to value creation and they test this model

empirically. Functions of a customer relationship refer to performed activities and employed resources of the customer.

Other important contributors to the literature of value and its operationalization are the work by McKinsey and company, Bain and company and the work by Pardo and Naude (2006) on value in key customer accounts. McKinsey and Company is a global management consulting firm that focuses on solving issues of concern to senior management in large corporations and organizations. The company comes first in the Vault Top 50 consulting firms list (Vault, 2008). The firm has developed its own reengineering approach, which they called core process redesign. The focus of the McKinsey approach is primary on, customer value adding processes and the necessary changes of organizational variables to establish these processes (Kaplan and Murdock, 1991). Core process redesign is defined as “an approach that looks across business functions- and specifically at the processes that define a company's strategic competitive advantage” (Kaplan and Murdock, 1991; p.28)

The core process approach involves a fundamental rethinking of how a company does business. Work flows, decision making, organization, and information systems are redesigned in a parallel, integrated fashion rather than sequentially or independently (Kaplan and Murdock, 1991). Kaplan and Murdock (1991) identified five phases for this approach. The first phase identifies the core processes, this is where the role value becomes important as the organization is forced rethink its value chains and re-evaluates their organization structures. The second phase defines the performance requirements, or objectives, for each core process. The third pinpoints causes of performance problems. The fourth develops the overall redesign vision and specific action initiatives. And, finally, the fifth makes the redesign happen.

Bain and Company is a management consulting firm, which is recognized as one of the leading business institutions in the world with many influential publications (Reichheld, 2006; Rigby, 2007; Zook, 2007; Gottfredson and Schaubert, 2008; Gadiesh and MacArthur, 2008). It comes third in the Vault Top 50 consulting firms list (Vault, 2008) and its slogan is helping make companies more valuable. Reichheld (1996, 2001, and 2006) introduced a loyalty based cycle of growth. He postulates that the physics that governs the interrelationships and energy states of a business system's

elementary particles-its customers, employees, and investors, which he called the forces of loyalty. He also argues that there are linkages between loyalty, value and profits which can be measured in cash flow terms. A measure of loyalty will be able to measure whether or not the business has delivered a value or not (Reichheld 1996).

Reichheld (2006) argues that the failure to develop new measures for organisational performance and relying on current cash flow or profits only as a measure has slowed the progress of management science. To study and manage it customer's net present value Reichheld proposes (1996) a customer value flow statement, which includes the following;

- Brief statement of the company's value proposition which identifies the company's target customers
- Critical measures, used to monitor the relative value of the firm's offering such as pricing, quality, reliability, timeliness and features.
- Summary gauge which Reichheld (1996) describes as "the light on the instrument panel that will blink as soon as the company begins to wander off course of run low on fuel" (P. 228) such as retention rate and wallet share.

Besides cash flow, discounted cash flow (DCF) has also been used to appropriate risk adjustment for an effective value assessment (Hibbert, Hogan and Smith, 2003). It uses metrics such as cost savings, price premiums, and cost to serve. As a measure DCF, is considered a subsume of net present value, which requires a manager to forecast future revenues, cost and investments, discounting them based on cost of capital and specific risk of the investment (Hibbert, Hogan and Smith, 2003). But DCF has been met with criticism for not providing an accurate measure of value in all circumstances because of its underlying assumption that the timing and magnitude of investment are fixed at the time of valuation as a result it does not capture value over an expended period of time, which is the very core of relationship marketing (Dixit and Pindyck, 1994; Lueharman, 1998; Trigeorgis, 1999; Amram and Kulatilaka, 1999; Copeland and antikarov, 2001).

A recent study by Pardo and Naude (2006) is considered a Multi-faceted approach towards value in key account management (KAM), discussed earlier in chapter 3, and it is the first to link the notion of value to key account programs. They emphasize that key account programs are often formed between companies in order to achieve mutual gains but this is not reflected in the current and tradition view of value where the focus is more on the supplier as a creator of value to the customer.

To explain how value is created and appropriated in a relationship, Pardo and Naude (2006) disaggregate value in KAM interactions into the following three levels: exchange value, proprietary value, and relational value:

1) Exchange value. Included the notion of relationship value that has been introduced on the early discussion of value. It also describes value that comes into existence because of the key account exchange relationship. Pardo and Naude (2006) argue that the notion of exchange value does not capture any value that is created by the exchange relationship where the relationship itself becomes the resource that creates value (Ritter and Ford, 2004).

(2) Proprietary value is the value created and consumed by the supplier from the relationship with KAM resembled in increased efficiency and effectiveness of the supplier. Proprietary value may not even be recognized by the customer as it is only realized by the supplier.

(3) Relational value. The notion of relational value is adopted by Pardo and Naude (2006) to describe a co-produced value that emanates from the specifics of being party to a dyadic key account program they define as “value being appropriated by both supplier and customer.” P.1365

Pardo and Naude (2006) do not suggest that these types of values are independent from each other in fact they argue that key account relationship work at exploiting all of them at the same time. Their view reflects the move from a more relationship value approach where the focus of the creation of value is either from supplier or from customer to a relational value approach where value is a result of the mutual and cooperative efforts of both the supplier and the customer. They support this view by

arguing that the separation of actors into customer and suppliers is less important as value is essentially linked to both partners in the interaction.

“Relational value cannot, exist without the cooperation of both customer and supplier” (p. 1367)

A relationship value is reflected more in the exchange level where the focus is on suppliers concentrating on creating the value for their customers which gains suppliers in the long run the benefits of satisfying and retaining customers but the main benefits is experienced by customers. Relationship value is also reflected in the propriety supplier value where suppliers establish key account that contributes primarily in improving their internal efficiency and effectiveness, while relational value is reflected in the third level where the relationship itself becomes the source of value.

#### **4.5 Characteristics of relationship value:**

The discussion of the value concept started in the fifties and sixties and it generally took place in the German-language literature on business administration from the perspective of the firm (Wittmann 1956; Engels 1962). Four general views have been identified from that time: a value concept based on decision theory, value objectivism, value as subject-object relation and identification of value with price (Werni, 2001).

Werani (2001) reported on the decision theory value literature, researched by German theorists such as Engels (1962), Stutzel (1976), Wohe (1986) and Roeb (1994), which formed the basis for value concept and calculation. The basic idea of this theory is that subjects infer an objective process on the calculation of value of any economic product. They value the product based on a realistic calculation taking into consideration the environment and other subjects in it. Goals are considered to be a variable determinant of value as each product is valued differently based on what goals it is to achieve. As a result value carries a subjective character. Although the decision theory concept carries a subjective nature, it still has the general objective character as long as it can be tested between subjects taking into consideration relationship goals and environmental factors (Werani 2001).

Researchers (Eggert and Ulaga, 2000; Ulaga and Chacour, 2001) have agreed on similar characteristics of value namely, the subjective nature of value perception, the multiple components of value, and the role of rivalry. First, value has a subjective nature as each segment of the market has a different perception of what is a valuable product/service. The subjective nature applies also to those who are involved with the buying process from the customer organisation, as to what is a valuable supplier (Perkins, 1993). Mandjak and Simon (2004) confirm the subjective nature of relationship value in business markets by recognising the role that individual and group perceptions play in the judgment of the relationship.

That is the reason why the value of a relationship as a whole is inherently difficult to gauge in precise terms because it is a composite concept and is “perceptual in nature” (Anderson and Jain, 1993, p.5), as there are a lot of other complex considerations that have to be considered when valuing a relationship. A participant’s perception of relationship value owes much to the “personal values” or “beliefs system” of the person making the valuation. Also, perceptions of overall value of a relationship owe much to the specific outcomes that the individual anticipates in the relationship.

Following from the subjective nature of relationship value in business markets, Mandjak and Simon (2004), confirm that the perception of value is different from the suppliers’ point of view and the customers’/buyers’ point of view. The difference shows at the different levels of the network, identified in chapter three, the exchange, relationship and the network level. The difference in perception between suppliers and buyers in business markets at the exchange level is due to the difference in the importance and complexity of the product for both of them (Hallen et al. 1987), while the difference at the relationship level arises due to different perceptions of power relations for the participants (Håkansson, 1982) and finally at the network level the difference in perception arises due to differences in the appreciation of the relationship of the participant from other members in the network, which represents the notion of network position (Anderson et al, 1984). Second, throughout literature different, but related, components of value have been identified (Ravald and Gronroos, 1996; Ulaga and Eggert, 2001) which are discussed later in this chapter in more detail.

Third, rivalry plays an important role in constructing value as no matter how perfect products and service are, if they are not better than the competition they will be rated by customers as lower in value. The competitive advantage is to provide a better trade-off between benefits and sacrifices that is of a better value than competition; this gains the supplier a competitive advantage over suppliers (Ulaga and Chacour, 2001). This view was confirmed earlier by Forbis and Mehta (1981) who emphasized the aspect of competition in considering value. They introduced the concept of “economic value to the customer (EVC)”, which refers to the maximum amount a customer firm would be ready to pay, given comprehensive knowledge of focal product offering and the other, available competitive product offerings. This suggests that customer firms consider the value of a product offering relative to alternative offerings.

The previous discussion confirms the appropriateness of using value to analyse the buyer-supplier relationships involved in the study, this confirmation is drawn from several reasons:

- Value is a predictor of relationships in business markets (Gross 1997; Eggert and Ulaga, 2002)
- Customer perceived value is a pre and post purchase construct (Woodruff and Gardial 1996), as well as dealing with the customer before the product is offered which is the opposite of satisfaction.
- Understanding the value created in business to business makes it easier to negotiate a position within the relationships (Wilson and Jantrania, 1994).
- Within business to business networks firms jointly create value through interrelationships, partnering and alliances (Wilson and Jantrania, 1994, Wilson, 1995)

#### **4.6 Measurement of Relationship Value**

In addition to the conceptualization of relationship value, researchers have presented ways in which to measure and operationalize the concept and its definition (Wilson and Jantrania, 1994; Ravald and Gronroos, 1996; Gronroos, 1997; Flint and Woodruff, 2001; Lipierre, 2000; Day, 2000; Ulaga and Chacour, 2001; Ulaga and Eggert, 2001) for the supplier and for the customer or for both. Their discussion

serves the purpose of this research to measure the value of the supplier-customer relationship to the customer.

Wilson and Jantrania (1994) have presented ways in which value has been used/measured across different disciplines, for example, accounting and finance, purchasing and material management, economics and marketing. They have suggested three different dimensions to measure value for both buyers and suppliers. The three dimensions are first economic, which considers the costs savings associated with having a close relationship with partners in business markets. Second the strategic dimension considers the competitive advantage and the market position gained from a relationship with a partner and third the behavioural dimension, considers trust and commitment development between people in the relationship and also ensures the long term development of the specific relationship. Through these dimensions Wilson and Jantrania (1994) have provided their own understanding and insight into how value is perceived, they see value as “a very problematic concept which cannot be ignored” (p.63). They have also offered a suggested order or importance to these three dimensions when estimating value. Economic value has to be assessed first, evaluate the strategic value created second, and finally estimate behavioural aspects of the relationship value. Tzokas and Saren, (1999) criticised the three-dimensional value model on not providing further explanation for the interrelationships among the dimensions. Despite this shortcoming of the work by Wilson and Jantrania (1994), their work is among the few to consider the concept of value within relationships.

Ravald and Gronroos (1996) and Gronroos (1997) have proposed ways of measuring the true customer perceived value of an episode or total episode value and customer perceived value (CPV), Ravald and Gronroos (1996) recommend that the trade-off between benefits and sacrifices should not be restricted to the single episode level. Instead, measurement of customer perceived value should take into account both episode and relationship benefits and sacrifices. As it is not the physical attributes of the product that forms perceived value, one of them could be the length of the relationship, which means the judgement will not only be on one episode but also on a series of episodes. Based on this argument Gronroos (1997) developed the equation for calculating customer perceived value which is illustrated in figure 4.4.

$\text{Total episode value} = \frac{\text{Episode benefits} + \text{relationship benefits}}{\text{Episode sacrifice} + \text{relationship sacrifice}}$
$\text{Customer perceived value (CPV)} = \frac{\text{core solution} + \text{additional services}}{\text{Price} + \text{relationships costs}}$
$\text{Customer perceived value (CPV)} = \text{'core value'} + \text{or} - \text{'added value'}$

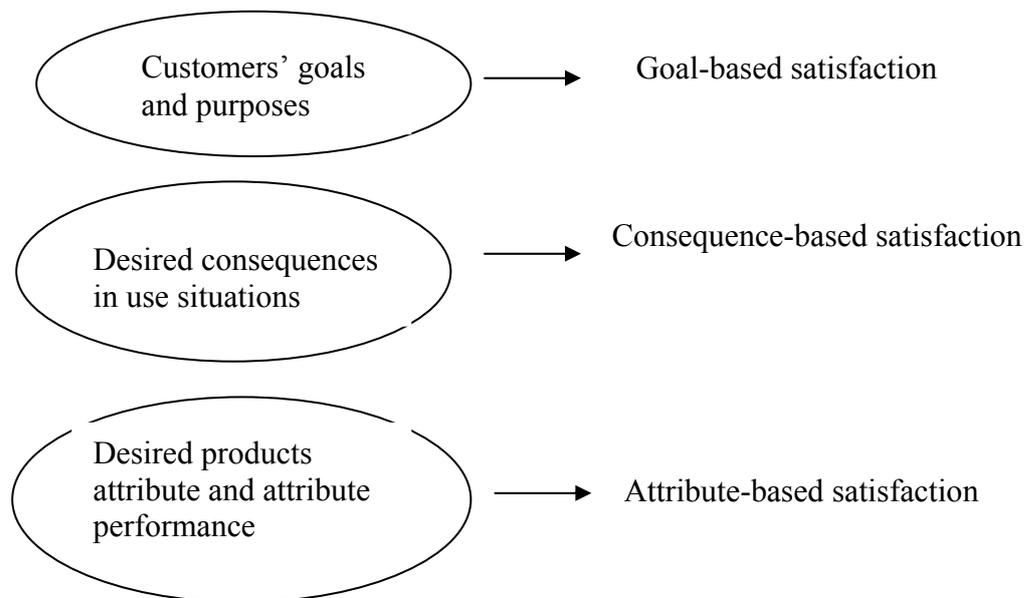
**Figure 4.4 Total Episode Value and Customer Perceived Value** (Gronroos, 1997, p.214)

The concept of value with benefits and sacrifices as the main components has been used when calculating the value of the relationship and by using this calculation a firm will be able to increase the value of the customer either by reducing sacrifices or increasing benefits. These activities are defined as “creating added value by relieving the customer and creating added value by enabling the customer” (Gronroos, 1997, p.27). Tzokas and Saren (1999) considered this view as an important contribution to the concept of value as it realizes the benefits and costs of the relationship itself as an essential part of customer perceived value.

To confirm this view Woodruff (1997) developed the concept of customer value hierarchy, the model includes required and received value and emphasizes that value is an outcome of customers learned perceptions, preferences, and evaluations. It is the product and relationship related experiences that form the perception of value of the customer and the supplier. Flint et al. (1997) added that the value of a relationship incorporated three value categories; the expected value, the perceived value and the appreciated value. Both Woodruff (1997) and Flint et al. (1997) and later Flint and Woodruff (2001) outlined the dynamic nature of customer value and presented a number of trigger events which can change customers’ perceptions of value (Figure 4.5).

In the model Flint and Woodruff (2001) made a distinction between customer received value and customer desired value. Received value is the actual product or service that the customer receives from the transaction and desired is the value that

the customer wants to receive. The desired value according to Woodruff and Flint (2001) is “the entire bundle of products attributes, and resulting consequences, both positive and negative and monetary and non monetary, that the customer wants to have happen” (p.323).



**Figure 4.5 Customer Value Hierarchy Model (Source, Woodruff, 1997, p.140)**

DeRuyter, Wezels, Lemmink and Mattsson (1997), have used a framework for measuring value based on the axiological dimensions of value developed by Hartman (1967) and adapted later by Mattsson (1990). They have used generic dimensions of value, emotional, practical, and logical to assess the perceived value at different stages of the service delivery process. What they have found out is that perception of value dimensions and the overall customer perceived value changes depending upon the stage of the delivery process. This is one of the main reasons why value has been defined as “relativistic (comparative, personal, situational) preference characterising a subject’s experience of interacting with some object” (Holbrook 1994, p.27). It reinforces the suggestion that consumers play an active role in their perceived value thus acting as co-producer of the value.

This has an implication on the notion of value in business-to-business context as different customers hold different combinations of benefits and sacrifices for the same

service, and a benefit that is a priority to one customer may be secondary for another. It is not the sole responsibility of the supplier to form the notion of value and to create it; the customer has a big role to play in this. The role of the customer is mostly important where there has to be a certain level of communication in the relationship especially about non-product attributes. Suppliers work out their customer's value using their knowledge of what the customer perceives as valuable and part of this could not be worked out solely by the supplier "The company's role is no longer limited to supporting the customer by providing goods or services. Rather it is a question of designing a system of activities within which customers can create their own value" (Wikstrom, 1996, p.360).

Gassenheimer et al (1998) used similar dimensions proposed by Wilson and Jantrania (1994), to measure relationship value for buyers and suppliers namely economic (transaction cost analysis), social (social exchange theory) and distributive (distributive justice theory). In their analysis they find that the economic value is higher in situations where the relational distance between partners is high, while the social value is more predominant where the relational distance between partners is low.

Holm, Eriksson and Johanson (1999) defined relationship value as the result of the performance of both customers and suppliers together. To measure relationship value they identified supplier profitability and customer profitability as the main elements to consider in terms of costs and reviews over a period of five year. Ramirez (1999) contradicted this view of value co-creation as he advocated the view that value production is a responsibility of the supplier to their customers as result value is expected to increase as it moves up the value chain from suppliers to customers.

In her study, Lipierre (2000) has used 13 drivers of relationship value for the customer and grouped them into benefit dimensions (products benefits, service benefits, and relationship benefits) and sacrifice dimensions (price costs and relationship costs). Lipierre (2000) defined customer value as the difference between benefits and sacrifices, explicitly including all monetary and non-monetary costs among the sacrifices. Although data collection was restricted to two industries and the generalizability of findings remain an unsolved issue, the study by Lipierre (2000)

remains the best empirical study published in an international journal that researches the multiple dimensions of relationship value (Ulaga and Eggert, 2005).

Day (2000) proposed the value equation which estimates customer perceived value (Vc), gained from a transaction with a supplier, as the difference between perceived cost and perceived benefits, the equation is  $Bc - Cc = Vc$ , where Bc is benefits for customers, Cc is costs for customers and Vc is the total value for customers (illustrated in table 4.1).

Perceived-benefits (Bc) (additions to gross profit)	Perceived life cycle costs of product or service (Cc)	= Perceived value (Vc)
<ul style="list-style-type: none"> <li>• Improved performance</li> <li>• Reduced operating costs</li> <li>• Reduced working capital</li> <li>• Reduced risk</li> </ul>	<ul style="list-style-type: none"> <li>• Ordering costs</li> <li>• Purchase price</li> <li>• Set-up costs</li> <li>• Operating and maintenance costs</li> <li>• Financing costs</li> <li>• Disposal costs</li> </ul>	

**Table 4.1 The Customer’s Value Equation (source; Day, 2000)**

In his model, Day (2000) provided variables that are easy to measure, he did not address the intangible benefits and costs which are essential to the customers. Day argues that if each supplier gains a good understanding of their customer’s value equation, it will give the supplier the advantage of being able to concentrate on relationship variables that are more valued by the customer, providing higher customer satisfaction through a more valuable offer.

Based on the work of Day (2000), Blois (2003) has proposed the supplier’s value equation. The supplier’s value equation is  $Bs - Sx = Vs$ , where Vs is the value a

supplier offers to its customers, Bs is perceived benefits and Ss is perceived life cycle sacrifices for the supplier. (Illustrated in figure 4.8)

As in business relationships, where at least two parties are involved, the customer and the supplier have the same chances to initiate an exchange. This makes the suppliers' value equation as important as the customer's equation and has to be taken equally into account. The Suppliers' value equation can be constructed for itself with respect to how customers perceive their suppliers' equations to be.

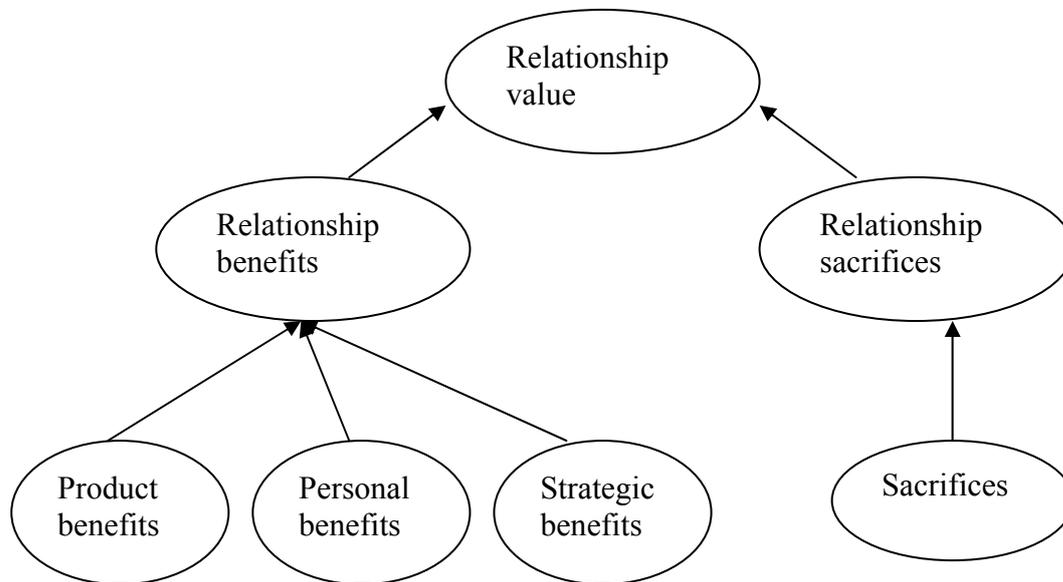
The benefits that suppliers seek from customers could be the benefits of large revenue, some are more profitable, some are consistent in their requirements and require less attention, some are less demanding, some offer help with new product development or improved procedures, others are important reference sites that can lead to more business from others. The same simple formulation has been developed for supplier's perceived value by Blois (2003). (Illustrated in table 4.2)

Perceived-benefits (Of supplying a specific customer)	Perceived life cycle of supplying the product or service	= Perceived value
<ul style="list-style-type: none"> <li>• Purchase price</li> <li>• Reputational effects of association with customer</li> <li>• Access to market</li> </ul>	<ul style="list-style-type: none"> <li>• Cost of production and delivery</li> <li>• Service and servicing costs</li> <li>• Financing costs</li> <li>• Disposal costs</li> <li>• Restraint on choice of customers</li> </ul>	

**Table 4.2 Supplier's Value Equation (Blois, 2003, p.18)**

Uлага and Chacour (2001) found that managers group benefits received from a supplier's offering into three categories: product-related components, serviced-related and promotion related components. Customers assign weights to each of these components depending on their specific use situation. These benefits are then compared to the price paid for the supplier offering. According to their research within the food processing industry these categories are product related components,

service related components, and promotion related components. This view was taken one step further by Ulaga and Eggert (2001), by conceptualising relationship value as a higher order construct composed of three benefit components and one sacrifice component as illustrated in Figure 4.6.



**Figure 4.6 The Component of Relationship Value (Ulaga and Eggert, 2002, p.6).**

Product related benefits as argued by (Ulaga and Eggert, 2001) would always be part of the overall evaluation of value created in a buyer seller relationship. They used examples of product benefits such as superior product quality, improved product performance, better maintenance and repair services etc. of a given supplier in comparison to alternative suppliers.

These long-term oriented relationship benefits are described by Ulaga and Eggert (2001) as strategic relationship benefits, which are investments that companies do to gain access to benefits beyond the exchange of products and services. They provided examples of strategic benefits such as know-how transfer between the supplier and the customer, new product development, improved time to market or increased overall competitiveness.

Finally, although business relationships are established between organisations, they are actually managed by individuals within these organisations. Hence, personal

benefits which could be referred to as “actor bonds” (Håkansson and Snehota, 1998) can be added as a third dimension of relationship benefits. Examples given by Ulaga and Eggert (2001) of personal benefits are, better knowledge of the counterpart or ease of doing business within the relationship.

Lately, Ulaga and Eggert (2005) conceptualized relationship value in business relationships as “ the trade-off between product, service, know-how, time-to-market and social benefits, as well as price and process costs in a supplier relationship, as perceived by key decision-makers in the customer’s organisation, and taking into consideration the available alternative supplier relationships.” (p.81)

In general all authors agree on the multi-dimensionality of relationship value, they also propose common dimensions. Although their conceptualization of relationship value differ, a summary of authors’ contributions to the operationalization and measurement of the relationship value concept is illustrated in table 4.3.

It is necessary to exclude the models that are not relevant to this study and choose these which are more appropriate and serve the research objective. Based in the previous discussion of the characteristics of relationship value in business to business markets it is concluded that relationship value is subjective (Anderson and Jain, 1993; Perkins, 1993; Eggert and Ulaga, 2000; Werani, 2001, Eggert and Chacour, 2001).

<b>Authors</b>	<b>Value measurement</b>	<b>Dimensions used</b>	<b>comments</b>	<b>perspective</b>
Wilson and Jantrania (1994)	3 dimensions	<ul style="list-style-type: none"> <li>• Economic</li> <li>• Strategic</li> <li>• behavioural</li> </ul>	Theory based	Buyer and supplier
Ravald and Gronroos (1996) Gronroos (1997)	Ratio model with price in the dominator Benefits and sacrifices	<ul style="list-style-type: none"> <li>• Episode benefits</li> <li>• Relationship benefits</li> </ul>	Theory based	Customer perceived value
Gassenheimer et al. (1998)	3 dimensions	<ul style="list-style-type: none"> <li>• Economic</li> <li>• Social</li> <li>• Distributive</li> </ul>		Value for buyer and supplier
Holm, Eriksson and Johanson (1999)	2 dimensions	<ul style="list-style-type: none"> <li>• Customer profitability</li> <li>• Supplier profitability</li> </ul>		Value for buyer and supplier
Lipierre (2000)	Benefits and sacrifices	13 drivers of relationship value	included a number of marketing variables	Customer perceived value
Day (2000)	Benefits and costs	Trade off	No intangible benefits and costs were included	Customer perceived value
Flint and Woodruff (2001)	Desired and received value	Studying trigger events that changes customer perceptions of value		Customer perceived value
Blois (2003)	Benefits and sacrifices		Subtractive function not a trade off	Supplier perceived value
Ulaga and Eggert (2001)	Benefits and sacrifices	Trade off Psychometric measure for relationship value		Customer perceived value

**Table 4.3 Summary of relationship value measurement Operationalization across literature (own summary)**

From the review of literature of relationship value and relationship value measurement it is concluded that over the past years, researchers investigated the multiple facets of relationship value (Eggert and Ulaga, 2002, Lapierre, 2000, Möller

and Törrönen, 2003, Ravald and Grönroos, 1996, Ulaga and Eggert, 2005, Walter et al., 2003, Walter et al., 2003 and Wilson and Jantrania, 1994), but scope and dimensions on which the concept has been analysed and presented has varied.

Though scholars propose some common dimensions, their conceptualizations of relationship value vary considerably. Most scholars agree that the supplier's product offering is at the core of relationship value that was reflected in different terms, such as "technical and economic benefits" (Anderson et al. 1993), "economic value" (Wilson and Jantrania 1995), "core solution" (Grönroos 1997) or "product quality" (Lapierre 2000).

While some scholars concluded that customer-perceived value is a trade-off between benefits and sacrifices perceived by the customer in a supplier's offering (Zeithaml, 1988; Monroe, 1990), other conceptualisations conceive benefits as a combination of economic, technical, service, and social benefits (Anderson et al., 1993) or economic, strategic, and behavioural benefits (Wilson and Jantrania, 1995). There has also been a difference over the scope over which the concept is measured ranging from a monetary estimation of benefits and sacrifices (Day, 2000), to inclusion of more non monetary attributes such as relationship related costs (Gronroos, 1997).

The relationship value literature is still at its infancy as different scholars analyse it and use it in different ways and that is a motivation for more research in the concept and its operationalization to achieve a common and a better understanding.

Following from the subjective nature of relationship value, what is valuable for a consumer in their supplier relationship is different from what is valuable for a supplier in their customer relationship (Mandjak, 2004). Taking into consideration the subjective nature of relationship value in business markets and the scope of this research and limitations in terms of time and money it will not be possible to evaluate the relationship value for both customers and suppliers. A need to focus on one of them is important if better and more accurate results are to be obtained for this research. As a result this research focus customer relationship value, which gives rise to the research objective 1;

- **To identify attributes in the supplier relationship that customers perceive as most valuable in the Russian wholesale carpet market.**

Proposed research question to achieve this objective is, research question 1;

**What are the attributes that customers perceive as most valuable in their relationship with suppliers?**

As the focus of the research is customer relationship value, the models that discussed the measurement of relationship value of the supplier (Wilson and Jantrania, 1994; Gassenheimer et al., 1998; Holm, Eriksson and Johanson, 1999) as well as relationship value for both suppliers and customers (Blois, 2003), were excluded from the list of potential models that can be used for this study.

The trade-off between benefits and sacrifices has been met with agreement between academics that it is the defining character of business relationship value in specific (Monroe, 1981; Christopher, 1982; Zeithaml, Parasuaman, and Berry, 1990; Gronroos, 1992; Anderson, Jain and Chintagunta, 1993; Ravald and Gronroos, 1996; Woodruff and Gardial, 1996; Flint, woodruff, and Gardial, 1997, Gronroos, 1997; Day, 2000; Lipierre, 2000; Walter et al., 2001; Ulaga and Chacour, 2001; Ulaga and Eggert, 2001). As a result it is concluded that the relationship value of the Russian carpet business market will be measured using the two dimensions benefits and sacrifices. Models, in table 4.3, which are not based on the trade-off characters of benefits and sacrifices to estimate relationship value (Gassenheimer et al., 1998; Holm, Eriksson and Johanson, 1999; Flint and Woodruff, 2001) are excluded from the potential models to be used for this study. Day's (2000) benefits and costs model did not take account of intangibles; he only measured benefits and sacrifices of products/services. Intangibles are considered the differentiating factor between a product/service value and a relationship value. Based on this, the model by Day (2000) has to be excluded as he did not take count of intangible benefits and costs which is important.

The findings of Lapierre's (2000) study cannot be generalized to industrial buyer-seller relationships. In addition, the conceptualization of relationship value in her study included a number of marketing variables, for example, trust and solidarity, which the marketing literature typically considers as distinct constructs. Such a conceptual overload may pose significant problems of discriminant validity (Ulaga, 2003). As a result the model used by Lipierre (2000) is excluded from the potential models to use for this study.

After excluding all the irrelevant models to this study, only two models are left, namely Ravald and Gronroos, (1996) and Ulaga and Eggert (2001). For the sake of the study a more operational model is needed, the model given by Ravald and Gronroos (1996) is a ratio model of benefits and sacrifices putting price in the dominator and it is theory based which makes it impractical to use for this study. In effect this makes the model by Ulaga and Eggert (2001) the most appropriate model to base the study on, the model actually includes all the relevant attributes discussed for relationship value of benefits and sacrifices and it was conducted using a large scale survey. The model is made for suppliers to estimate what their customers perceive as most important in their supplier-customer relationship.

This gives rise to research objective number 2;

- **To construct a customer relationship value concept for suppliers in the Russian wholesale carpet market to use in their supplier-customer relationship.**

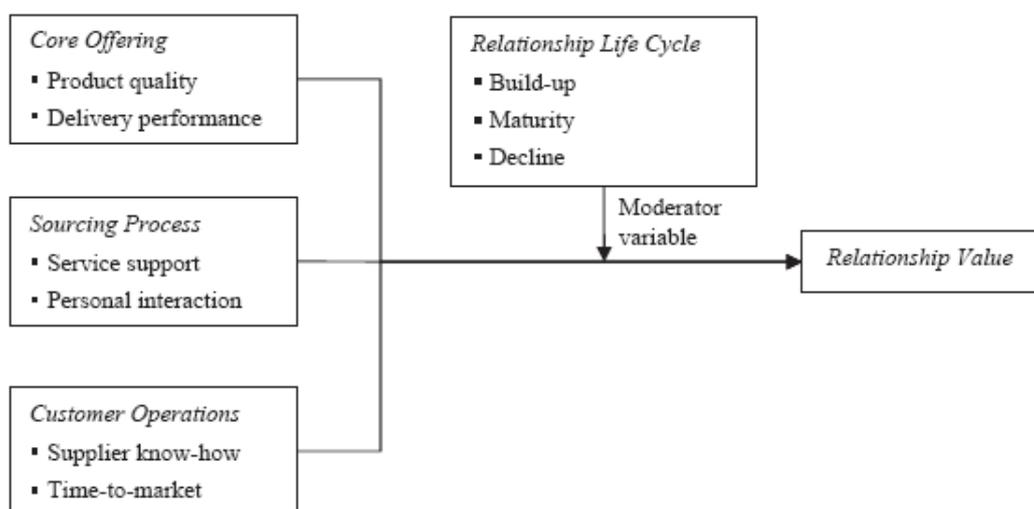
And hence 2 and 3;

- 2. What are the values assigned to each attribute in the customer-supplier relationships?**
- 3. What are the values assigned for each attribute level in the customer supplier relationship?**

Moller (2006) discussed the limitations of the approach presented by Ulaga and Eggert (2005). He based his argument on four main issues in the approach namely;

- The approach is very limited to customer's perspective and limited to the supplier's perspective,
- The approach lacks the joint value creation effect as a result of the focus being mainly on customer's rather than supplier's,
- The approach does not identify those buyer-supplier activities that create value in the future,
- And finally, there is no mention of competences and activities that produce value.

Recently Eggert, Ulaga, and Schultz (2006) have presented a study on how relationship life cycle moderates the role of the various sources of value creation in business relationships. They based their study on Cannon and Homburg's (2001) three sources of value creation namely; core product, the sourcing process, and the customer's firm's internal operations. Eggert, Ulaga, and Schultz (2006) aligned these sources with the generic benefits dimensions identified by Ulaga (2003). They used a longitudinal approach which in their opinion is able to capture the dynamic nature of business relationship rather than a snapshot approach studying a single transaction. In their model (see figure 4.7), they argue that relationship life cycle moderated the link between the three sources of value creation and the relationship value construct.



**Figure 4.7 Conceptual Model (Source: Eggert, Ulaga, and Schultz, 2006, p.22)**

They concluded the following;

1. There is a stronger need for personal interaction and service support in the sourcing process during the build up phase as opposed to the maturity and decline phase.
2. 'Know-how transfer' and 'time-to-market' explain more variances as the relationships moves through its life cycle.
3. The relationship life cycle does not have an effect on the suppliers value creation through the core offering.

#### **4.7 Value segmentation of business markets**

The process of “market segmentation” is a cornerstone of modern marketing and an essential task for relatively smaller seller organizations as they address themselves to markets which are much larger and/or more diverse than their limited output capacity (Elliott and ang, 2001). And it is also seen as one of the fundamental principles of marketing (Kotler, 1997). Marketing theory suggests that businesses adopting a market segmentation approach can enhance their organisational performance (Kotler 1997). Market segmentation is grounded in economic pricing theory, which suggests that profits can be maximized when pricing level discriminate between segments (Frank et al, 1972). It has been widely accepted that organisations cannot normally serve all of the customers in a market, and that is the rational behind segmentation. Kotler (2000) states that, “*customers are too numerous, and diverse in their buying requirements. The company needs to identify the market segments that it can serve more effectively.*” (p. 256)

Customers who belong to the same market segment show similar responses, and that is due to their similar needs and behaviour (Choffray and Lilien, 1987; Wind, 1978). In pursuing marketing segmentation a range of benefits are gained by organisations (Beane and Ennis, 1987; Weinstein, 1987; Dibb, 1998). Beane and Ennis (1987) and Weinstein (1987) argue that segmentation can increase marketing effectiveness while developing an organisation’s ability to exploit on marketing opportunities. Reasons for that is that segmentation develops a greater understanding of customers and

competitors and this results a much more customized marketing programs to suits those customers better than competition.

Day et al. (1979) that there are two characters that needs to be me if organisations want to achieve an effective segmentations; first customers in a segment are not only attracted to the product or the service rather they are attracted to the whole bundles of benefits the come with the product or the service. Second customers in the market segments need to view the offered product/service differently. This view is consistent with an earlier view by smith (1956) that segmentation is based on the fact that customers are different with different needs.

Dibb (1998) argues that by targeting marketing programs to specific segments rather that the whole market a competitive advantage is obtained as a concentrated customized offering is being special formulated to target that segment. Organisations keep this competitive advantage as long as other competitors do not go for an even smaller segment and hence better targeting.

McDonald and Dunbar (2004) define segmentation as “the process of splitting customers, or potential customers, in a market into different groups, or segments, within which customers share a similar level of interest in the same, or comparable, set of needs satisfied by a distinct marketing proposition” (p.37). They even go the extent to position market segmentation as fundamental to corporate function.

Dibb (1998) argue that there is a gap in the literature of segmentation of marketing this gap presented between the theory and the practice of the concept. As there is a difference between what practitioners need in their practice of marketing segmentation and academics who usually have different priorities for research purposes than those of practitioners. Dibb (1998) also presents another problem in segmentation literature which is failing to provide a practical tool for managers to use in their marketing programs. This view was also presented earlier by Dibb and Simkin (1996), Hooley and Saunders (1993), and Wensley (1996) as they argue that the actual practice of segmentation is comparatively neglected. In business to business markets, where the most practical implementation guidance is offered, it is suggested that organisations tend to over-emphasise the procedure of segmentation, while failing

to accurately execute the findings (Webster, 1991). Weinstein (1994) postulates that even if these hurdles are removed, there will always be financial burdens linked with carrying out and implementing the segmentation process.

One of the first frameworks in business markets is the one by Bonoma and Shapiro (1984). Their framework involves the following segmentation variables:

- Demographic (industry, company size, location)
- Operating (technology, user / non-user status, customer capabilities)
- Purchasing approaches (purchasing-function organisation, power structure, nature of existing relationships, general purchase policies, purchasing criteria)
- Situational factors (urgency, specific application, size of order)
- Personal characteristics

Elliott and Ang (2001) postulate that the framework by Bonoma and Shapiro (1984) and other common segmentation frameworks provide little insight into which of these variables may be most useful and in what combination or sequence. Segmentation in business markets has been given little attention. Hass (1992) argues that it should be just as important for business markets as it is for consumer market, although that has not been the case for business markets. Elliott and Ang (2001) summarize their opinion as “most industrial market segmentation processes suffer from being piecemeal and idiosyncratic.” (P.7) and the reasons they give for the lack of appropriate segmentation models for business markets are;

- Comparative lack of attention to segmenting industrial markets.
- The widespread presumption that industrial markets are not mass markets and that, consequently, there is little to be served in decomposing what are, already, inherently small markets.

In line with Elliott and Ang’s (2001) argument is the argument by Goller, Hogg, and Kalafatis (2002) that the theory development in industrial segmentation has received far less attention than consumer segmentation and, in recent years, has proceeded slowly.

The roots of value segmentation extend from consumer markets where it was introduced as benefit segmentation by Haley (1968). The method has received widespread acceptance since. The term benefit segmentation was brought into business markets by Doyle and Saunders (1985). The only drawback to their use of benefit segmentation in business markets is that they estimated the physical benefits of the product while disregarding the intangible ones.

Elliott and Ang (2001) proposed a model where organizations may analyze, and manage, their customer base from the perspective of a balanced portfolio, in the same way they keep a balanced product or business portfolios. The model proposed (see figure 4.7) is based on two dimension; customer value and buyer loyalty. The model segments business customers based on their value to the supplier. The drawback to this model is that it does not say how to measure value and loyalty of the customers.

		Buyer Loyalty	
		Low	High
Value to Seller	Low	(1) Simple Exchange	(2) Buyer Exploitation
	High	(3) Seller's Over-investment	(4) Partnership

**Figure 4.8 Value/loyalty model for analyzing and managing customer base (Elliott and Ang, 2001, p.9).**

Another explanation for the slow growth of business segmentation is the increase in marketing to individual customers, using customer lifetime value models (CLV) and database marketing strategies (Kumar and Petersen, 2005). Although difficulties in predicting CLV, is seen as a hurdle to achieving results (Malthouse and Blattberg,

2005). Other scholars suggest that the use of database marketing does not preclude the significant scale advantages that can be obtained through segmentation, but rather that the two strategies should be used in tandem (Steenkamp and Hofstede, 2002).

Flint et al. (2002) proposed an initial model of customer desired value change (CDVC) that arose out of business customers' perceptions of their changing needs and desires from suppliers. The CDVC model posits that changes in desired value can take numerous forms, such as (1) changes in the desired attributes, consequences, and/or end goals in a customer's value hierarchy; (2) the emergence of completely new desires; (3) a rise in the standard of existing desires; and (4) changes in relative priorities for existing desires. It has been suggested that firms could use customer desired value change as a factor in segmenting customers (Flint et al., 2002). In this way, types and/or degree of change might be factored into the way customers are grouped.

The proposed segmentation variable in this study is the relationship value to the customer. If suppliers segment their customers according to values their customers give to their relationships with them, a more accurate realization of customers needs will be sought. Hence it is important to evaluate the use of the relationship value as a segmentation tool. As a result a subsidiary question 4 was added to the research questions of this study;

#### **4. How to segment customers in the Russian wholesale carpet market using the value concept?**

Blocker and Flint (2006) propose a theoretical framework for business segmentation based on Segment instability (SI), which refers to

“A state of change in customers' needs and what they value within identified market segments, as well as changes in segment membership, as triggered by internal to the customer and external to the customer change drivers, and reflected by changes in segment contents and segment structure.”  
(P. 812)

The framework helps firms to proactively measure and understand SI which helps them to position themselves to not only track along with customers, but potentially give themselves the opportunity to shape the change as it occurs.

## **4.8 Conclusion**

In this chapter a review of the literature on 'value' in business to business markets and more specifically on 'relationship value' has been presented. The literature review has concluded that that value is a problematic concept in business markets, it is perceptual in nature and it is measured and achieved through the trade-off between benefits and sacrifices.

The findings from chapter two on Russian wholesale markets confirm that they are undergoing problems such as the non comprehension of win-win relationships; shortages of local supply; dependence on intermediaries in the market; and the dominance of foreign product. Secondary research showed that the Russian wholesale carpet market shared some of the problems of the general wholesale market. This supported the research objective to investigate the relationship between supplier and customers in this market and to find ways to contribute to more win-win relationships and cooperation between suppliers and customers. The research then goes on to investigate business to business markets and turning the direction of the research to focus more on relationships with the business to business market. It is also necessary to find a unit in the wholesale market to analyse for the purpose of this research. This was the purpose of chapter three, as for the scale of the study it is not possible to study all relationships in the wholesale carpet market. From chapter three it is concluded that the triad of analysis used for this research is the network wholesaler-wholesaler-retailer. Studying the two relationships involved in this network will contribute to the achievement of the research objectives 1, 2, and 3. Combining these findings with findings from this chapter, it is concluded that relationship value will be the triad to analyse these relationships (importance). Attributes in the relationship value model by Ulaga and Eggert (2001) will be used in this study to analyse the supplier customer relationship under study. The next chapter will provide an illustration for the methodology used for this study in an effort to achieve the research's objectives.

# Chapter Five

## Methodology: part one

### General research methodology

#### 5.1 Introduction

The purpose of this chapter is to explain the development and implementation of research design. Saunders, Lewis and Thornhill (2003; p.107) propose the following framework for deciding upon a research design:

- “Return to the research question/s and objectives; decide on a research paradigm;
- Decide on a research strategy i.e. what approach/es and method/s will be used to gather the data; consider strategies used in existing studies;
- Consider the constraints on the research and the possible preclusion of specific strategies;
- Consider the possibility for, and advantages of , combining different research methods;
- Identify the threats to reliability and validity contained in the research design.”

This model is useful because it emphasises the variety of theoretical and practical considerations that are pre-requisite to the choice of final research such as the acknowledgment of the need to consider previous studies and their research strategies as well as the need to audit the situation in which the data will be collected.

#### 5.2 Purpose of Study Reviewed

Amaratunga, Baldry, Sarshar, and Newton (2002; p.18) identified three common factors in the definitions of research which are;

- Research is a process of inquiry and investigation
- It is systematic and methodical; and
- Research increases knowledge

Any research needs to start with a purpose which is identified by its questions. The way in which the research questions are asked results in either exploratory, descriptive and explanatory answers (Saunders et al, Lewis, Thornhill, 2006). Exploratory research is to “assess what is happening, seeking out new insights, to ask

questions and assess phenomena in a new light” (Robson, 2002; 59). Descriptive research is “to portray an accurate profile of persons, events or situations” (Robson, 2002; 59). This may be an extension or a forerunner of a an exploratory research, as a descriptive studies does not allow for drawing conclusions about data or synthesising ideas, it just allows for accurate description (Saunders et al, Lewis, and Thornhill, 2006). Explanatory research, establishes the causal links between variables. As a result many tests could be done on the data to analyse and draw out conclusions (Saunders et al, Lewis, and Thornhill, 2006). For example this piece of work represents an explanatory study as it establishes the relationship between supplier relationship’s attributes and relationship value for the customer in the Russian wholesale carpet market.

The literature review identified the following problems in the Russian wholesale market:

- Organisations resorting to old connections
- Vertical integration – in order to have more control over suppliers
- Geographical constraints put limitations of relationships between organizations
- Relationships are not the main criterion but they are growing in importance
- Lack of management skills
- Lack of trust between organisations
- Underdeveloped relationships between suppliers and customers

Problems identified that are specific to the carpet market but are shared with other wholesale market such as consumer durables, glass and fresh fruit supply are:

- Dominance of import products which increases the dependence on wholesalers
- The existing supply is not satisfying the increasing demand.

As a result the main objectives on this research suggested to overcome these problems are

1. To identify attributes in the supplier relationship that customers perceive as most valuable in the Russian wholesale carpet market.
2. To construct a relationship value concept for suppliers in the Russian wholesale carpet market.

3. To identify the structure of the Russian wholesale carpet industry.

Saunders et al (2006) refer to the research process as an ‘onion’ illustrated in figure 5.1. Within this ‘onion’ the second layer refers to the subject of the research approach that flows from the first layer which is research philosophy. Based on the research approach, Saunders et al (2006) identify six common research strategies: experiment; survey; case study; grounded theory; ethnography; action research; and archival research. The different layers of Saunders et al (2006) onion will be explained in the following sections.

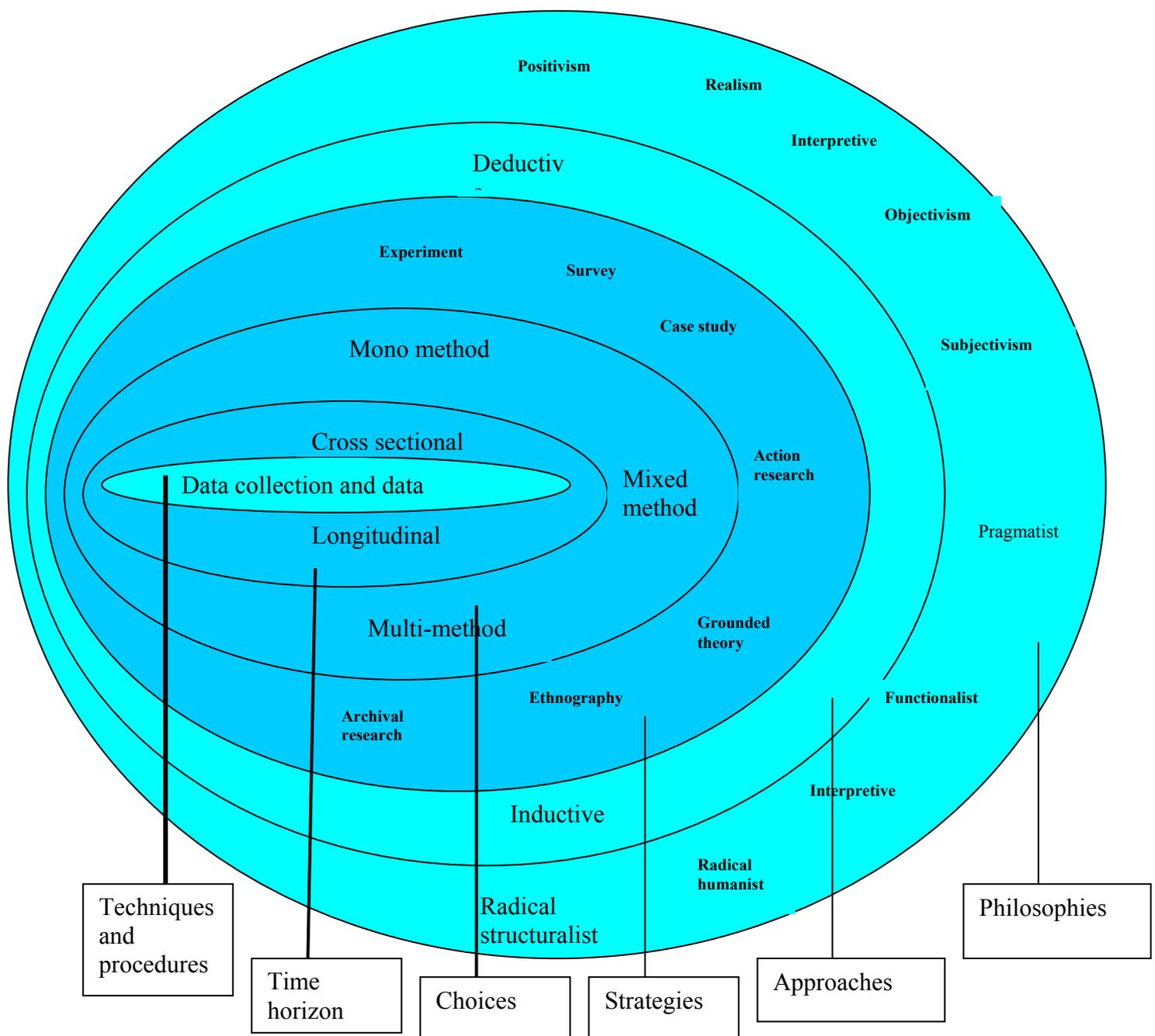


Figure 5.1: The research onion (source: Saunders, Lewis and Thornhill, 2006, p. 132)

### **5.3 Research paradigms, methodologies and methods: an overview**

All research needs to be considered in terms of three distinct but related concepts; the paradigm, the methodology and method/s (Greene, Caracelli and Graham, 1989; Guba, 1998; Sarantakos, 1998; Jennings, 2001). Furthermore, as Jennings (2001:58) articulates:

“In the preparation of the research process, the researcher will demonstrate their understanding of the paradigm and the need for the research purpose, methodology and methods of data collection to be complementary.”

In essence, a paradigm represents ‘a set of propositions that explains how the world is perceived; it contains a world view, a way of breaking down the complexity of the real world’ (Sarantakos, 1998; 31) that shows researchers ‘what is important, what is legitimate and what is reasonable’ (Patton, 1990:37). The simplest way to understand paradigms is to understand them as maps. In other words, although maps are not the actual territory; they explain certain aspects of the territory (Covey, 1989; Kuhn, 1990). In terms of research, therefore, the territory represents what is happening in the world and the map represents as, Covey (1989:23) further postulates, ‘the way we see the world, not in terms of our visual sense of sight, but in terms of perceiving, understanding, interpreting’. The benefit of this explanation is that it suggests that individual paradigms are insightful but could also be limiting; for example, May (1997: 350) posits that life is itself diverse and complicated and perhaps, therefore, not amenable to understanding through the use of single theoretical paradigm’.

Within the field of research it is generally postulated that paradigms lie on a continuum between the positivistic at one end and the interpretive at the other (Hussey and Hussey, 1997; Sarantakos, 1998; Wood, 1999). Sarantakos (1998) proposes that these paradigms need to be understood in terms of four key issues i.e. how reality, human beings, the nature of science and the purpose of social research are perceived (see table 5.1). The table identifies the epistemological and ontological differences between the two paradigms. It also emphasises the long-term implications of adopting either paradigm; for example, given the perspective on the purpose of research, it helps to explain why positivism has been dominant in management research. Positivism’s development as a research paradigm is credited to August

Comte in the first half of 19th century while the interpretive approach is based primarily on the work by Max Weber in the 20th century (May, 1997; Sarantakos, 1998; Jennings, 2001). Consequently, positivism represents the original, or traditional, research paradigm and, consequently, later paradigms are generally described as post positivistic (Proctor, 1998; Sarantakos, 1998).

	Positivism	Interpretive
Reality	Reality is ‘out there’ and to be found; it can be realised by experience and perceived through the senses; it is objective and governed by laws; ‘members of the society define reality in the same way, because they all share the same meanings’	Reality is ‘not out there’ but exists in the minds of people; it is internally experienced; it is socially constructed through interaction and interpreted through the actors; it is not objective but subjective i.e. what people see it to be.
Human beings	Human beings represent rational individuals governed by social laws; their behaviour is learned via observation and governed by external causes that produce the same results; causes produce effects under certain conditions, and predictions can limited by the occurrence of such conditions.	Human beings create and make sense of their own reality by assigning meaning system to events; they are not restricted by general laws; meanings and regularities of behaviour emerge via social convention established from interaction; the systems of meaning with which actors make sense of world need identifying.
Nature of science	Science in nomothetic i.e. based on causal laws that are used to explain social events; it is deductive i.e. it commences with theories/hypotheses and then gathers and analyses data to support or reject these	Science is ideographic i.e. it is presented symbolically in a descriptive form; it is inductive i.e. it begins with data collection and then develops theories as a result of analysis; understanding, meanings and interpretations are more important that senses.
Purpose of Social Research	Research has instrumental value: it is a tool for learning about social events and their interconnections so that general causal laws can be discovered, explained and documented; knowledge of social laws allows science to control events and predict their occurrence.	Research helps to interpret and understand the actors’ reasons for social action, how they construct their lives and the meanings they attach to them; the subjective meanings they attach to them; the subjective meaning of actions is more important that observable social actions.

**Table 5.1 Positivistic and interpretive paradigm perspectives (source: May, 1997; Jennings, 2001; Sarantakos, 1998; Saunders et al, 2003).**

Ontology is reality, epistemology is the relationship between the reality and the researcher and methodology is the techniques used by the researcher to discover the reality (Perry et al., 1999). An epistemology assuming that individuals have direct, unmediated access to the real world subscribes to the theory that it is possible to obtain hard secure, objective knowledge about the single external reality (Carson and Perry, 2001). Conversely epistemology which holds that individuals do not have direct access to the real world but that their knowledge of this perceived world is meaningful in its own terms and can be understood through careful use of appropriate interpretive and relativist procedures (Carson and Perry, 2001).

The positivist ontology holds that the world is external and objective, therefore epistemology is based on the belief that observers are independent and that science is value-free (Carson and Perry, 2001). The positivist or natural science school relates to the facts or causes of social phenomena and attempts to explain causal relationships by means of objective facts. Positivist concentrates on description and explanation, where thought governed by explicitly stated theories and hypothesis (Saunders et al, 2003). Statistics and mathematical techniques for quantitative processing of data are central to the research methods adopted by researchers from the positivists' school of research. Remenyi et al. (1998) commented on positivism;

*“working with an observable social reality and that the end product of each such research can be law like generalizations similar to those produced by the physical and natural scientists”* (p.32)

Realism is another epistemology which relates to specific enquiry. The theory of realism is that there is a reality quite independent from the mind (Saunders et al, 2003). It is similar to positivism in that it assumes a scientific approach to the development of knowledge. There are two types of realism: direct realism and critical realism. Direct realism advocates is what you see is what you get while critical realism argues that we experience are sensations, the images of the things in the real world, not the things directly (Saunders et al, 2003). Direct realism believes that the world is relatively unchanging while critical realism would recognize the importance of a multilevel study. Bhaskar (1989) argues that researchers will only be able to understand what is going on in the social world if they understand the social structures that have given rise to the phenomena we are trying to understand.

Interpretivism supports that it is necessary for the researcher to understand differences between humans in our role as social actors (Saunders, 2003). The broad interpretive takes account of the most important characteristics of research paradigm on the opposite side of the continuum from positivism (Carson and Perry, 2001). Interpretive approach allows the focus of research to be on understanding what is happening in a given context. It includes consideration of multiple realities, different actors' perspective, researchers' involvement, taking account of the contexts of the phenomena under study, and the contextual understanding and interpretation of data. The interpretive approach is highly appropriate in the case of business and management research as it is able to capture the complex nature of business situations. But his raises the questions about the generalizability of a research that aims to capture the rich complexity of social situations Positivism has been considered by many scientific researchers in the past to be the correct scientific paradigm. However, interpretivism avoids the rigidities of positivism in relation to certain types of problems in the social field. Instead of trying to explain causal relationships by means of objective facts and statistical analysis, interpretivism uses a more personal process in order to understand reality (Saunders, 2003). But interpretive researchers argue that generalizations are not crucial as the world of business is ever changing plus the fact all organizations are unique, the value of generalization is lost.

Objectivism portrays the position that social entities exist in reality external to social actors (Saunders, 2003). Subjectivism view is that social phenomena are created from the perceptions and consequent actions of social actors (Saunders, 2003).

Pragmatism argues that the most important determinant of the research philosophy adopted is the research question, one approach may be better than the other for answering particular questions. Moreover, if the research question does not suggest unambiguously that either positivist or interpretivist philosophy is adopted, this confirms the pragmatism view that it is perfectly possible to work with both (Saunders, 2003). Tashakkori and Teddlie (1998) suggest that it is more appropriate for the researcher in a particular study to think of the philosophy as a continuum rather than opposite positions. Following from the research aim "explore the relationship value from for customers in the Russian wholesale carpet market" a

complete relativistic paradigm to explore meanings and values assigned to relationship attributes by customers would have been difficult for several reasons;

- Getting managers in the Russian wholesale carpet market to be open about their business practices would have been difficult as Russians and Russian business men are well known for the cautious attitude towards revealing organizational practices.
- It was important to gain insight into the Russian wholesale carpet market as a whole as a result a methodology that would give indications of general perceptions and tendencies in the market was necessary.
- From the analysis of the different research paradigms a pragmatism paradigm was found to be the most suitable for the nature of this research. This research involves interpretive research characters at the elicitation phase of the conjoint measurement where an unstructured interview was taken to ask managers of why they have rated relationship attributes the way they did and the reasons and importance of the highest rated attributes (see more details in section 7.10). The more positivistic character of the research is in collecting the conjoint profiles which will give an indication of what value do customers put on relationship attributes and attributes level.

#### **5.4 Research Approach**

Very related to interpretive theory is inductive reasoning, which applies to situations where specific observations or measurements are made towards developing broader conclusions, generalizations and theories (Saunders et al. 2003, pp.87-88). The opposite of inductive reasoning is deductive reasoning, where one starts thinking about generalizations, and then proceeds toward the specifics of how to prove or implement the generalizations (Saunders et al. 2003, pp.86-87), mostly applicable in disciplines where agreed facts and established theories are available (Remenyi et al. 1998). From table 5.2, listing the main differences between deductive and inductive research approaches, a deductive research approach is considered the most appropriate for a positivistic research philosophy.

Induction	Deduction
<ul style="list-style-type: none"> <li>• Scientific principles.</li> <li>• Moving from theory to data.</li> <li>• Need to explain causal relationships between variables.</li> <li>• Collection of quantitative data</li> <li>• Application of controls to ensure validity of data.</li> <li>• Operationalisation of concepts to ensure clarity of definition.</li> <li>• Highly structured approach.</li> <li>• Researcher independence of what is being researched.</li> <li>• Necessity to select samples of sufficient size in order to generalize to conclusions.</li> </ul>	<ul style="list-style-type: none"> <li>• Gaining an understanding of the meanings humans attach to events</li> <li>• Close understanding of the research context</li> <li>• Collection of qualitative data</li> <li>• More flexible structure to permit changes of research emphasis as the research progresses</li> <li>• Realization that the researcher is part of the research process</li> <li>• Less concern with the need to generalize.</li> </ul>

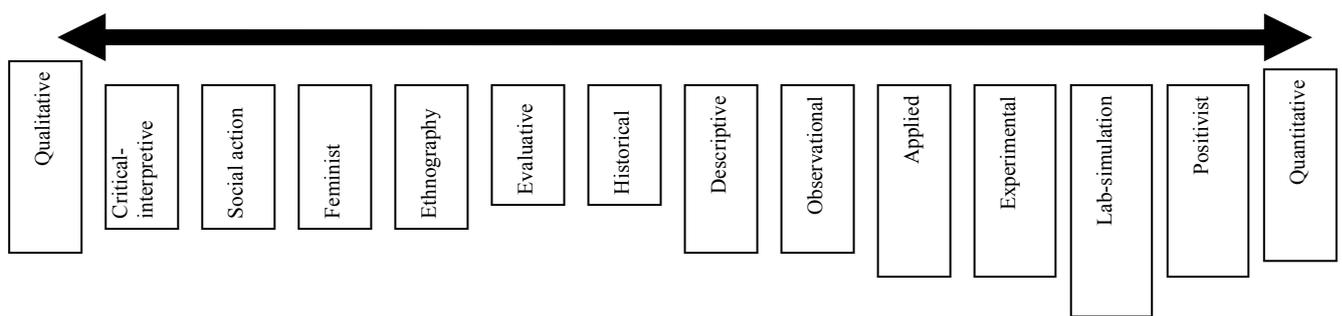
**Table 5.2: Deductive and inductive research (Saunders et al. 2006, p.120)**

Although involving some elements of an inductive approach, where the attributes of relationship value in the Russian wholesale market is not known and some steps for qualitative analysis have to be taken to elicit them, this research can best be classified as deductive. Deductive reasoning is used in this study as theories on business-to-business relationship value are well-established and have been reviewed in previous chapters together with previous research of the Russian wholesale. These theories together with findings from previous research in the Russian market will be used to measure relationship value in the Russian carpet wholesale market. This means that the approach of this research is moving from theory to data. This in turn will ensure the clarity of the definition of business-to-business relationship value especially in post-transition economies.

The paradigm then informs the methodology, which represents the complementary set of guidelines for conducting the research (Sarantakos, 1998; Jennings, 2001). The methodology specifically provides ‘a model, which entails theoretical principles as well as a framework that provided guidelines about how research is done in the context of particular paradigm’ (Sarantakos, 1998: 32). In effect, it informs the researcher as to how s/he should go about finding out knowledge (Guba, 1990), acting

as a kind of filter or processor resulting in the actual methods adopted for the research. In simple terms, methodologies are usually categorised as either quantitative or qualitative; the former abstracts data from study participant into statistical representations whereas the latter relies upon textual pictures. A quantitative approach is grounded on a positivist paradigm whilst the qualitative approach is grounded in the interpretive one (Jennings, 2001). Consequently the choice of methodology has implications for research design; for example, in terms of sampling procedures (Sarantakos, 1998; Coolican, 1999), as will be discussed in more detail later. This may explain why the term ‘methodology’ is frequently used to explain the research model employed by the researcher (Sarantakos, 1998). The methods then represent the actual tools, instruments and techniques employed by the researcher to both gather the empirical evidence and analyse the data (Sarantakos, 1998; Jennings, 2001). In effect, the methods are the tangible manifestation of the overlaying paradigm and guiding methodology; they draw out the desired data from respondents.

Ticehurst and Veal (2000) support the association between quantitative and positivism by stating that the quantitative approach to research is also known as management science or operations research. Therefore linking disciplines with philosophy. They then argue that quantitative and qualitative methods are linked to positivist and interpretivist epistemologies, illustrated in figure 5.2.



**Figure 5.2 Approaches and methodologies (source: Ticehurst and Veal, 2000; p.19)**

This concept of polar opposites is further encouraged by Saunders et al, Lewis and Thornhill (2006) research onion where research approach flows from research philosophy. Hence associating the positivism philosophy with different approaches, in this case deduction and similarly interpretivism with induction (Knox, 2005). The difference between qualitative and quantitative research is given by King (1994) illustrated in table 5.3.

<b>Quantitative</b>	<b>Qualitative</b>
Inquiry from the outside	Inquiry from the inside
Underpinned by a completely different set of epistemological foundations from those in qualitative research	An attempt to take account of difference between people
Are simply different ways to the same end?	Aimed at flexibility and lack of structure, in order to allow theory and concepts to proceed in tandem
Involves the following of various states of the scientific research	The results are said to be, through theoretical generalisation, deep rich and meaningful
The results are said to be hard generalizable data	Inductive where propositions may develop not only from practice, or literature review but also from ideas them selves
	An approach to the study of social world, which seeks to describe and analyse the culture and behaviour of humans and their groups from the point of view of those being studied.

**Table 5.3 Claimed features of qualitative method (source: King, 1994 cited by Amaratunga, Baldry, Sarshar, and Newton, 2002; p. 34)**

Some researchers (McGrath, 1982; Patton, 1990; Yin; 1994) expressed their view that both methods, qualitative and quantitative have strengths and weaknesses. McGrath (1982) postulates that there is no ideal solution or choice between the methods, only things to compromise when choosing one method over another. Patton (1990) compared research to diplomacy by saying that they are both the art of the possible. Amaratunga, Baldry, Sarshar, and Newton (2002) considered the comparison by Patton (1990) as very significant and can be used as a guide in any research. Yin (1994) considered the research strategy as a function of the research situation.

Using the same line of argument as McGrath (1982), Tashakkori and Teddlie (2003) argue that quantitative and qualitative data collection methods do not exist in

isolation. Researchers therefore have a choice of choosing a single data collection technique (mono method) or use more than one collection technique. This choice have been advocated earlier as well by Curran and Blackburn (2001) where a single research study can use both quantitative and qualitative methods.

Tashakkori and Teddlie (2003) identified two types of multiple data collection techniques namely; multi methods and mixed methods. Multi methods refers to those combinations where more than one data collection techniques is used with associated analysis techniques, but his is restricted within either a quantitative or qualitative world view. Mixed methods are the general term for when both quantitative and qualitative data collection techniques and analysis procedures are used in the research design (Tashakkori and Teddlie, 2003). Mixed methods could either be mixed model or mixed methods research. Mixed methods is using both quantitative methods are analyzed with quantitative analysis and qualitative methods are analyzed with qualitative and qualitative in the same research in parallel or sequential but does not combine them, which means that quantitative methods. A mixed model research on the other hand would use qualitative analysis for a quantitative technique and a quantitative for a qualitative technique. Saunders et al. (2003) summarized the importance of using multiple methods in the same research project as follows;

- Different methods can be used for different purposes of the study; for example interviews may be employed at the exploratory stage in order to gather key issue to address in a questionnaire at a later stage.
- Enables triangulation to take place, for example data colleted via interviews could be useful in triangulating data collected by other means such as a questionnaire.

Yin (1994) provided guidelines for choosing a research strategy; they are (illustrated in table 5.4). These guidelines have been agreed upon by other practitioners (Robson 2002; Saunders et al, 2006).

- The type of question posed
- The control over actual behavioural elements
- The degree of focus on historical or contemporary events

Strategy	Form of research question	Requires control over behavioural events	Focuses on contemporary events
experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	How, why	No	Yes/no
History	How, why	No	yes
Case study	How, why	No	yes

**Table 5.4: Research strategies versus characteristics (source: Yin; 1994)**

In looking at this research's subsidiary questions they are as follows;

1. What are the attributes that customers perceive as most valuable in their relationship with suppliers?
2. What are the values assigned to each attribute in the customer-supplier relationship?
3. What are the values assigned for each attribute level in the customer supplier relationship?
4. How to segment customers in the Russian wholesale carpet market using the value concept?
5. What is the structure of the Russian wholesale carpet market?

The type of research questions posed, in addition to the nature of the Russian carpet wholesale market, where there is no need for control over behaviour, and the study is for the current contemporary situation in the market are all characteristics of the study that meets a quantitative strategy. But it was necessary to start the research by exploring the values that are most valued by customers in their supplier relationships. The most suitable strategy for analysing the Russian carpet wholesale market is a quantitative survey strategy. The most suitable survey method was found to be conjoint measurement for several reasons that are concluded from the review (see section 5.5) of customer value assessment methods in business markets. The following section analyses the different methods of customer value assessment in order to choose the most appropriate survey method for the field work.

## 5.5 Customer value assessment methods in business markets

The study by Anderson, Jain and Chintagunta (1993) is the only study to present different methods of customer value assessment in business-to-business markets. Several methods for value assessment were identified. These differ in terms of the methods of variables collection and analysis. However, they all rely on the main concept that the only way to obtain information for a value model is to rely on customer perceptions.

Methods will be grouped together on the basis of similarities between them. Two methods were found to provide the overall estimates of customer value. The first, focus group value assessment employs focus groups as a qualitative, phenomenological approach to gain a better understanding of the perceptions and reactions of participants to actual or potential product offerings (Calder 1977).

Anderson, Jain and Chintagunta (1993), provided an operational definition for focus group value assessment “ within a focus group setting, participants are exposed to potential product offerings or product concepts, and are then asked what the value or worth of them would be to their firms.” (P. 8). Anderson and Narus (1998) provided steps to carrying out a qualitative focus group value assessment. Which will not be discussed in detail is this study because its potential use to estimate value for customers in the wholesale carpet market is inappropriate, as it is based on the interactive discussion between respondents (Carson et al., 2001). This is not feasible when getting different wholesalers and retailers to make discussions in groups for the sake of this study.

The second method that generated an overall estimate of value is direct survey questions. The operational definition provided by Anderson, Jain and Chintagunta (1993) is “ in a field survey, respondents are given a description of a potential product offering or product concept, and are then asked what the value of worth of it would be to their firms.” (P.8). The validity of this method depends on two factors. One is that respondents must be both willing, and two is that they must have the requisite knowledge to answer a direct question on the perceived worth of the product offering.

Two other methods could be grouped together on the basis of being decompositional in nature; is that they enable the researcher to break down a respondent's overall perception of the value of a product offering, into the elemental values contributed by its component parts. The first, conjoint analysis, has received the most research by marketing academics of any value assessment method (Anderson, Jain and Chintagunta, 1993). Conjoint analysis is a technique that attempts to determine the relative importance consumers attach to salient attributes and the utilities they attach to the levels of attributes (Malhotra and Birks, 2003).

Wittink and Cattin (1989) found that for the periods 1971-80 and 1981-85, industrial goods represented only 20% and 18% of the reported applications, respectively. In comparison, consumer goods accounted for 61% and 59%, respectively, of the reported applications for the same periods. A potential explanation for this, drawing on the research from Anderson, Jain and Chintagunta (1993), is the greater perceived cost and complexity of conjoint analysis relative to other methods. This explanation matches an earlier finding by Kinnear and Root (1989) that industrial firms typically have much smaller marketing research budgets than consumer firms of equivalent size. Montgomery (1986) also discusses the relatively greater cost of conjoint analysis in business markets. Wittink et al. (1994) reported on applications of the technique by market research agencies offering quantitative analysis to clients in Europe.

Benchmarks represent a second decompositional method of customer value assessment.

“In a field research respondents are given a description of a product offering, typically representing the present industry standards, that serves as a “benchmark” offering” (Anderson, Jain and Chintagunta, 1993, p.10). This method trades off some of the methodological rigor and breadth of value estimates provided by conjoint analysis in favour of lower cost and ease-of-use.

An opposite approach to decompositional approaches is compositional approach, also referred to as self-explicated approach (Green and Srinivasan, 1990), which is reminiscent of the expectancy-value models of attitude theory (Wilkie and Pessemier

1973). With this approach, an overall value estimate for an offering is built up from separate value estimates given by respondents for each of its elements. Simple types of self-explicated approaches such as desirability ratings have significant limitations (Nitzsch and Weber, 1993). The method used by a number of studies include the following steps (Green, Srinivasan and Green, 1990);

- Respondents evaluate the levels of each attribute on a 0-10 desirability scale
- Respondents are then asked to allocate a 100 points across attributes that reflect their relative importance

The main advantage of this approach is that it is simple and can be used when a large number of attributes are to be valued (Anderson, Jain and Chintagunta, 1993). Self-explicated methods carry a very important disadvantage, the increased biases that may result from direct questioning of the importance of socially sensitive factors (Green and Srinivasan, 1990). Montgomery (1986) reports that when asked directly, MBA students ranked salary as the sixth most important factor whereas the importance weights, derived from conjoint analysis, indicated that salary was number one in importance.

A method for assessing customer value that was given by a number of practitioners is importance ratings (Churchill 1987). To estimate customer value, importance ratings uses the results from ratings for a set of product offering attributes in conjunction with the results for a corresponding set of performance ratings of the supplier of the product offering attributes (Martilla and James 1977; Wilson, Corey and Ghingold, 1990).

A shortcoming of the importance rating method is that they do not provide an estimate of the perceived worth in monetary units of the product offering or its elements (Anderson, Jain and Chintagunta, 1993). Related to this, importance ratings also do not provide an indication of a customer firm's relative value for a change in the level of performance of one attribute versus another (Montgomery, 1986).

Based on the review of the most important methods for value assessment, conjoint analysis as the tool for relationship value assessment proved to have more advantages

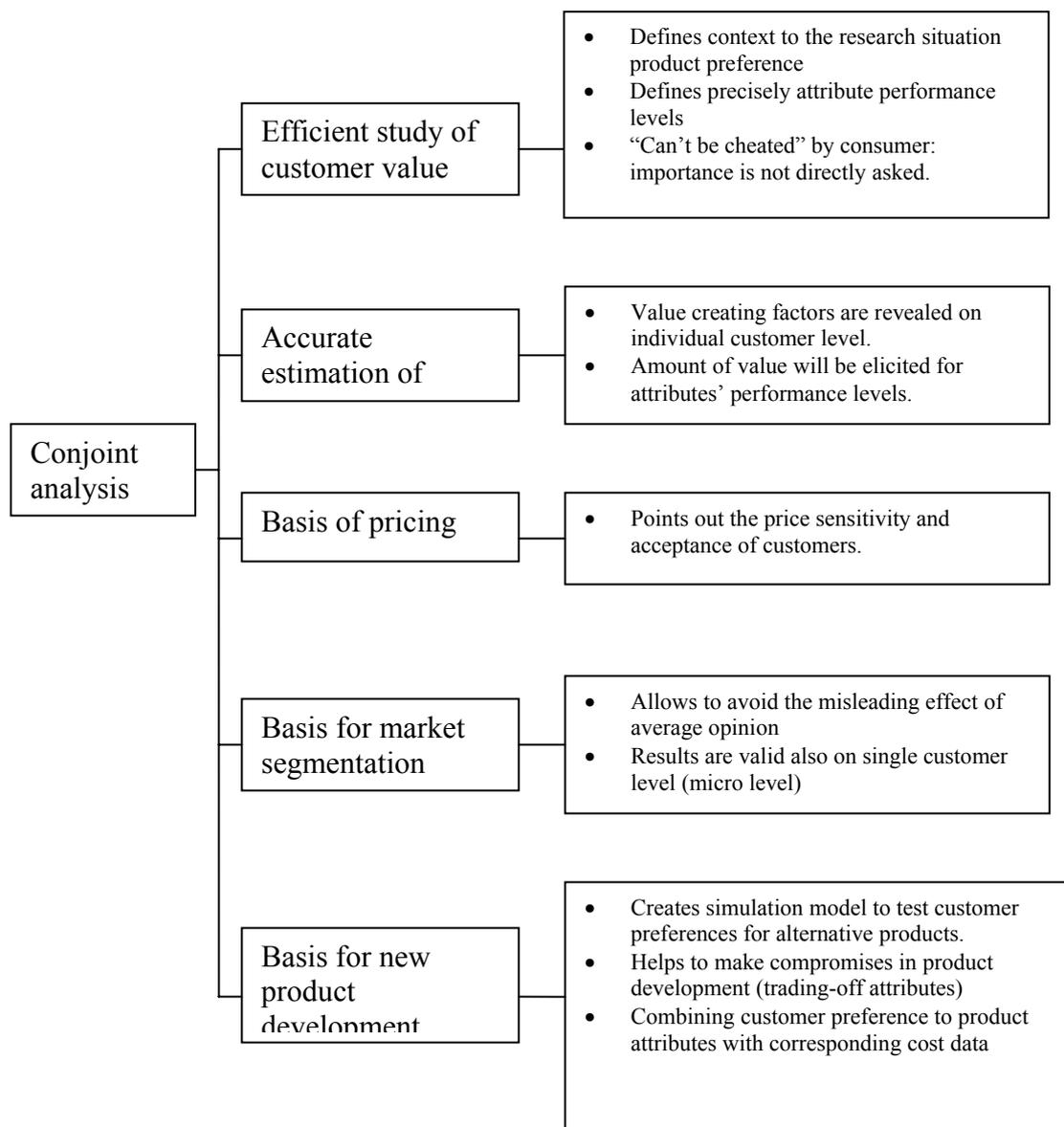
than the other methods. Findings from Anderson, Jain and Chintagunta (1993) confirmed this choice as conjoint analysis had the highest percentage of judged successful applications (85%). From their study they have concluded circumstances under which the use of conjoint analysis is not recommended. First is in the case of complicated or abstract product concepts, which tends to occur more frequently in business markets than consumer markets. Second, they do not recommend its use when the cost of the research is an issue. But this is not considered a disadvantage anymore after developments in computer statistical packages specifically designed for conjoint analysis, for example SPSS conjoint, a lot of time and effort could be saved on a study using this method.

In addition, a study by Sattler and Hensel-Borner (2000) on the difference between self-explicated approaches and conjoint measurement concluded that most reasons (illustrated in table 5.5) favour conjoint measurement especially in terms of predictive validity as long as the number of attributes is small.

Advantages of traditional conjoint measurement over self-explicated approaches
Greater similarity to real choice situations
Greater chance of detecting real importance weights
Less chance of receiving only socially accepted responses
Greater range sensitivity
Better chance of detecting potential non-linearity in the part worth function
Less likelihood of double counting
Advantages of self-explicated approaches over traditional conjoint measurement
Less cognitive strain on the data-supplying capabilities of respondents
Less chance of simplifying-effects
Greater ease in data collection
Greater ease in data analysis and research design
Greater ability to handle a large number of attributes
Greater speed in data collection
Lower costs in data and data analysis

**Table 5.5 Advantages of conjoint measurement and self-explicated approaches (source; Sattler and Hensel-Borner, 2000)**

Many studies confirm, that compared to other wide-spread customer needs research methods (evaluation of single product attributes importance by rating scale or percentage; rank ordering of product attributes; multidimensional measurement) the results obtained with conjoint method are more detailed, reliable and easier to understand (Pullman and Moore, 1999; SPSS, 1997). Based on these findings and findings from Anderson, Jain and Chintagunta (1993), this study will be using conjoint measurement as a data collection tool. Conjoint analysis will be discussed in detail in the following chapter 6.



**Figure 5.3 Advantages of conjoint analysis method. (Source: Kotri, 2006)**

To conclude, conjoint analysis is chosen as the most appropriate method for its several advantages over other methods, which suited the nature of this research. Advantages of traditional conjoint measurement over self-explicated approaches were summarized by Sattler and Hensel-Borner (2000) as Greater similarity to real choice situations, Greater chance of detecting real importance weights, Less chance of receiving only socially accepted responses, Greater range sensitivity, Better chance of detecting potential non-linearity in the part worth function and Less likelihood of double counting. Kotri (2006) also emphasized the advantages that researchers gain from using conjoint measurement in marketing and management research of the advantages suits the nature of this research which is the efficient study of customer value. As conjoint measurement is able to define context to the research situation product preference as well as defines precisely attribute performance levels which can't be cheated by consumers as importance is not directly asked. Another advantage emphasized by Kotri (2006) is that conjoint analysis accurately estimates consumer needs as value creating factors are revealed on individual customer level and the amount of value is elicited for attributes' performance levels.

Conjoint analysis is based on the trade-off of different attributes and attributes' levels which is the essence of relationship value. It is also very important to note that the nature of conjoint measurement suits the pragmatic paradigm which is being followed in this research. As it is a tool which involves two stages one of them is the elicitation phase (qualitative) where semi-structured interviews are conducted to explore the attributes that traders in the Russian carpet market consider as most valuable in their relationships with suppliers. The second is the conjoint cards where attributes elicited in the first stage will be used in designing the conjoint cards (quantitative).

## **5.6 The credibility of research: validity and reliability**

Underpinning any discussion of research methods is the issue of credibility (Saunders et al, 2003; Decrop, 2004). In consequence, the validity and reliability of research needs to be established by the researcher (Coolican, 1999; Orams and Page, 2000; Jennings, 2001; Saunders et al, 2003). Validity and reliability are considered in terms of both the data-collection methods and the results generated. This is logical since there is an inevitable relationship between results obtained and the data-collection

methods employed; in effect, the results are only as good as the processes by which they are obtained (Ryan, 1995; Orams and Page, 2001; Saunders et al, 2003). Validity represents the extent to which the results reflect the phenomenon being studied (Babbie, 1990; Diamantopoulos and Schlegelmilch, 1997; Veal, 1997; Saunders et al, 2003); if measures are valid, then they measure the variable they are intended to measure (Ryan, 1995; Diamantopoulos and Schlegelmilch, 1997; Coolican, 1999). Validity assessments can be quite complex and it is ‘the collective picture painted by evidence relating to the various kinds of validity that determines the overall validity of measure’ (Diamantopoulos and Schlegelmilch, 1997, 35). This multi-dimensionality is emphasised by the fact that validity also represents an indicator of the generalisability of the study’s findings (Saunders et al, 2003). Reliability relates to the extent to which the results would be the same if repeated at another time and/or by another researcher (Babbie, 1990; Coolican, 1999). As with validity, reliability has various dimensions relating simply to the researcher/s and the actor/s i.e. the observer and the subject. Easterby et al (2002) posit that reliability can be assessed by posing the following questions: will the measure yield the same result on different occasions? Will similar observations be made by different researchers on different occasions: is there transparency in how sense was made from the raw data? Consequently the essence of research design is to reduce the threat to validity and reliability as much as possible. The issue of validity and reliability for conjoint methods is discussed in the forthcoming chapter 6.

## **5.7 Conclusions**

This chapter reviewed the research methodology in general focusing more on the methodology for this study. From the research objectives, questions, and problems identified throughout the literature review. In the preceding chapters it is to be concluded that this study is an explanatory research as it deals with correlations between variables and how some variables affect the other, in this case the customer – supplier relationship attributes and its effect on the value to the customer.

The study follows a positivistic paradigm in the way it uses existing theory to develop hypotheses, it analyses facts rather than impressions, and the independence of the

researcher from the subject of the research. Following from the positivistic paradigm is the use of a deductive approach in the study as it is characterised by moving from theory to data, the need to explain causal relationships between variables, collection of quantitative data, application of controls to ensure validity of data and a highly structured approach (Saunders et al, Lewis and Thornhill, 2006).

A quantitative approach is grounded on positivist paradigm whilst the qualitative approach is grounded in the interpretive one (Jennings, 2001, Ticehurst and Veal, 2000; Saunders et al, Lewis and Thornhill, 2006) and since the study follows a positivistic paradigm, a quantitative approach was used for the study. Based on guidelines provided by several practitioners (Yin, 1994; Robson, 2002; Saunders et al, Lewis, and Thornhill, 2006) the most suitable method for this study is survey as it matches the nature of the research questions.

Based on the review of value-measurement techniques such as rating scale or percentage, rank ordering of product attributes, multidimensional measurement, focus groups, survey, and benchmarking, (Pullman and Moore, 1999; SPSS, 1997; Anderson, Jain and Chintagunta, 1993), conjoint measurement proved to yield the best result especially in measuring value in business to business markets (Anderson, Jain and Chintagunta, 1993). The following chapter will focus on conjoint measurement methodology of this study.

# **Chapter Six**

## **Methodology part 2**

### **Conjoint Measurement**

#### **6.1 Introduction**

From an analysis of relationship value literature and its components, it was concluded that the best method of analysis to assess customer value in business markets is conjoint analysis which proved the highest percentage of successful applications.

The method has received considerable attention from both academia and industry. Commercial use of conjoint analysis in the United States was documented by Cattin and Wittink (1982). In their update, Wittink and Cattin (1989) concluded that annual commercial use in the period from 1981 to 1985 appears to have exceeded annual use during the 1970s. Steenkamp and Wittink et al. (1994) reported on applications of the technique by market-research agencies offering quantitative analysis to clients in Europe. Survey results indicated that in both the United States for the period 1981 to 1985, and in Europe during 1986 to 1991, the number of firms applying the technique increased.

The methodology has also been employed in many other areas: examples include transportation (Louviere, 1988a; Bates, 1988), tourism and recreation (Louviere and Timmermans, 1990; Dellaert et al., 1995), environmental valuation (Adamowicz et al., 1994; Boxall et al., 1996) and shopping behaviour (Oppewal et al., 1997; Oppewal and Timmermans, 1999). According to Ness and Gerhardy (1994) conjoint analysis helps identify consumer segments with similar preferences and was subsequently used for market segmentation according to preference in the restaurant market (Koo, Tao, and Yeng, 1999) and revealing market segments for foreign apparel products (Dickson et al., 2004). Conjoint analysis is presented as a better assessor of service-quality dimensions and solving service-marketing problems than traditional models such as servqual (Oppewal and Vriens, 2000). Tse (2001) used it to determine how consumers perceived the relative importance of price versus quality of a service in the selection of service. His study showed that price was a more important factor than

quality of the service. Dean (2004) used conjoint analysis to evaluate potential brand associations for automobile tires. He used brand associations as just another attribute subject to the usual analysis. Finally it is considered a well-accepted research tool for estimating utilities for product positioning such as teeth-whitening products (Arora, 2006).

## **6.2 Conjoint Analysis**

Conjoint analysis attempts to determine the relative importance consumers attach to salient attributes and the utilities they attach to the levels of attributes (Malhotra and Birks, 2005). This information is derived from consumers' evaluations of brands or from brand profiles composed of these attributes and their levels. The respondents are presented with stimuli that consist of combinations of attribute levels. They are asked to evaluate these stimuli in terms of their desirability. Conjoint procedures attempt to assign values to the levels of each attribute to match, as closely as possible, the input evaluations provided by the respondents. Each respondent's preference structure is then decomposed to yield part-worth's (estimated coefficient or utilities) for each level of each attribute. Once this individual level data is obtained, managers can conduct simulations of target market product preference (Curry, 1997; Orme and Huber, 2000).

In the 1960's, Luce and Tukey (1964) provided the methodological framework for conjoint measurement, which originated because many quantities one would like to measure do not lend themselves to conventional measurement based on connections between variables. Luce and Tuckey illustrated this with the following example. Individuals appear to be able to order pure tones according to their loudness. Evidence shows that loudness, so determined, depends upon the attributes' intensity and frequency of the tone. It is not clear how to measure the joint effects of frequency and intensity of the loudness of pure tone directly, according to axioms proposed by Luce and Tukey (1964), measures can be assigned to intensity and frequency in such a way that the response, i.e. the loudness of pure tone, is determined by the sum of an intensity contribution and a frequency contribution. Thus, it is possible to measure both the attributes and responses at a single stroke.

Axioms published by Luce and Tukey (1964) were soon adopted by psychologists who further developed and extended the conjoint measurement techniques. The first detailed description of the approach was published by Green and Rao (1971), who stated that the conjoint measurement technique is concerned with the joint effect of two or more independent variables on the ordering of a dependent variable, such as preference.

Conjoint analysis has been defined by Green and Srinivasan, 1978 as

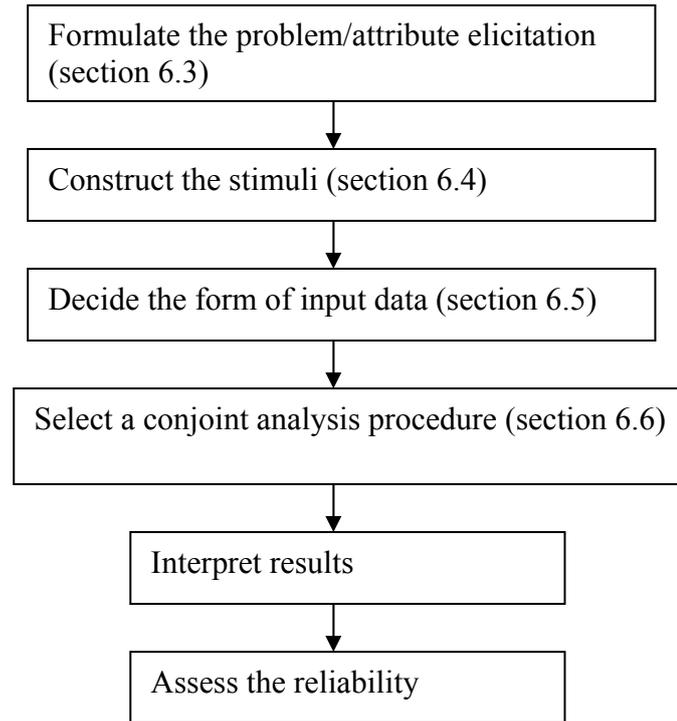
“...any decompositional method that estimates the structure of a consumer’s preferences (e.g. part worth, importance weights, ideal points) given his/her overall evaluations of a set of alternatives that are pre specified in terms of levels of different attributes.” (P.104)

Anderson, Jain and Chintagunta, (1993) provided an operational definition of conjoint analysis in business markets. They defined it within a field survey context where respondents were asked to evaluate a set of potential product offerings in terms of their firm’s purchase preference for each of the offerings. Each offering consisted of an array of attributes or features, and the levels of these attributes were systematically varied within the set of offerings. Respondents provided a purchase-preference rating (or ranking) for the offerings. Statistical analysis was then used to decompose these ratings into the value that respondents placed on each level of each attribute. The range of these values for the levels of each attribute determined the relative value of the attributes themselves. Once the individual level data has been collected (obtained), managers can conduct simulations of target-market product-preferences (Dean, 2004). Oppewal and Variens (2000) provided a service-oriented definition “conjoint analysis is a method for measuring consumers’ trade-offs among product attributes, including service attributes and service dimensions” (p.154).

The advantages of conjoint analysis were summarized by Murphy et al. (2004). One such advantage was the wide acceptance of conjoint analysis as a tool for estimating the relative importance of attributes in the choice process because it takes account of utilities of attributes that are considered jointly, predicts market share of new products, and finally, market segmentation can be done using the resulting estimates.

The structure of the current study is essentially the same as for a typical conjoint measurement study; the only difference is that some steps will be done using SPSS conjoint (2003) as illustrated in figure 6.1

The first stage of formulating the problem involved identifying attributes and attribute levels to be used in constructing the stimuli which will be discussed more fully in section 6.3. At the “construct the stimuli” stage, described in detail in section 6.4, a description of the two commonly-used approaches to conjoint analysis, namely pair-wise approach and full-profile approach will be given in addition to a discussion of the choice of approach to be used in this study.



**Figure 6.1: Conducting Conjoint Analysis (Source: Malhotra and Birks, 2005, p.628)**

Further elaborations on issues associated with the methodology are integrated with descriptions of the specific conjoint measurement application in the current study. For example, in section 6.3 only a brief overview is presented of selected aspects involved with the determination of attributes and attributes' levels or the elicitation of attributes and its associated levels. A more detailed discussion of methods to elicit attributes that warrant further study follows in chapter 7, entitled "Elicitation of Relevant Attributes".

### **6.3 Formulate the Problem/Elicitation of Attributes for the Conjoint Study**

In formulating the conjoint analysis problem the researcher must identify the attributes and attribute levels to be used in constructing the stimuli. This is named the elicitation process (Malhotra and Birks 2005). It is the first, and most important, step in the conjoint analysis study, where the product is defined by determining what attributes

should be included and what attribute levels should be represented (Baker and Burnham, 2001).

The attribute set selected for further study, should include those that are most relevant to potential customers, and those, which satisfy managerial constraints. Thus, input from the target market as well from management should be used (Cattin and Wittink, 1982). Only in cases where it is known with certainty which attributes are most important to consumers may management be justified in exclusively deciding upon the set of relevant attributes.

Earlier researchers, Myers and Alpert (1968), and Alpert (1971) suggested several alternate methods of qualitative research to facilitate identification of attributes considered by consumers when forming their preferences. These methods may be broadly classified as:

1. Direct questioning
2. Indirect questioning
3. Observation and experimentation.

Each of these approaches is discussed in chapter 7 section 7.3.

Attributes can also be identified through discussions with management and industry experts, analysis of secondary data, qualitative research and pilot surveys (Malhotra and Birks, 2005).

In determining the range of variation of attribute level, two conflicting issues have been addressed by Green and Srinivasan (1978). The first considers that the use of stimulus descriptors, similar to those that exist in reality, will increase the believability and therefore the validity of preference judgements. This strategy has the disadvantage that variations in profile evaluations due to differences in attribute levels may not be sufficient to detect attribute effects.

Using ranges for attribute values that are much larger than reality may decrease the validity of the respondent's preference judgements, but attributes are then more likely to exhibit sufficient variations for detection of attribute effects. Asking respondents to evaluate products or relationships defined by unrealistic attribute levels is likely to

trigger scepticism on the part of the respondents towards the evaluation task, which may result in respondents not being willing to provide realistic answers. For these reasons, Green and Srinivasan (1987) suggested that ranges be made larger than reality, but not so large as to be unbelievable. Generally levels must be “plausible, actionable and capable of being traded off” (Van der Pol and Ryan, 1996).

## **6.4 Construct of the Stimuli**

Two broad approaches are available for constructing conjoint analysis stimuli: the pair-wise approach and the full-profile approach.

The two factors-at-a-time approach also referred to as the trade-off or pair-wise approach (Johnson, 1974; Westwood et al., 1974) requires respondents to rank combinations of levels of two factors at a time. The main advantage of this procedure is that it reduces information-overload on the part of the respondents (Green and Srinivasan, 1978).

Given this advantage there have been a number of limitations that are associated with this approach. A major limitation is the loss of realism by decomposing a full set of factors to two-at-a-time combinations. Moreover there is some tendency for respondents to forget where they are in the table or to adopt a patternized type of response (Green and Srinivasan, 1978) for example, attending to variations in one factor before considering the other (Johnson 1976). Also this approach lends itself better to verbal description of factor combinations. It is thus not suitable for iconic or pictorial variables such as illustrations of actual products. Even though the approach involves relatively easy judgments being made by respondents, the number of evaluations required is generally large, even when partially incomplete block designs (Green, 1974) or related procedures are used. The criticism is that in real choice situations, consumers are confronted with all attributes and their levels simultaneously and not in pairs (Ness and Gerhardy, 1994)

The second approach is the full-profile approach, also called multiple-factor evaluations, full or complete profile of brands are constructed for all the attributes. The full-profile procedure was the most commonly used data collection method in commercial applications of conjoint analysis in the United States (Green and Srinivasan 1978).

The main advantage of this approach is the increased level of realism obtained by defining the level of each of the factors and possibly taking into account the potential environmental between factors in real stimuli, which are a limitation for the pair wise approach. An additional advantage is that it allows the researcher to measure overall preference judgements directly using behaviourally oriented constructs such as intentions to buy, or likelihood of trial of the product represented by a particular profile (Green and Srinivasan, 1990). The full-profile approach provides a greater flexibility in terms of scaling as it has the advantage of employing either a rank order or ratings.

One of the problems that the researcher encounters in applying conjoint measurement models is evaluation problems of realistic complexity. It has a way of quickly generating a large number of multi attribute profiles if a full factorial design is used. This also places a heavy burden on the respondents' willingness to join in the evaluation task (Reutterer and Kotzab, 2000), as a large number of combinations makes it impractical for them to consider all the alternatives simultaneously (Ramaswamy and Yeung, 2003).

The increased possibility of respondent fatigue can also result in reliability and validity problems, as the number of attributes and associated attribute levels increase (American Marketing Association, 1992). For this reason fractional factorial or related designs introduced by Green, (1974) may be implemented to further reduce the number of judgements to be made by respondents. In fractional factorial or related designs, measurement of some or all interaction effects is traded off to obtain a design with a smaller number of treatment combinations. The fractional factorial design will more appropriate to use in business to business markets where it is very hard for managers in organizations to take time to fill a full profile questionnaire. Development of fractional factorial designs is described in chapter 7.

## **6.5 Decide on the form of Input Data in the Conjoint Questionnaire**

Conjoint analysis input data can be either non-metric or metric. For non-metric data, respondents are required to provide rank-order evaluations. For the metric form respondents provide ratings, rather than rankings. Rank order scale data is expected to provide greater reliability than rating scale data (Green and Srinivasan 1978). They suggested that it is easier for respondents to rank objects in terms of preference than to express the magnitude of his or her preference. Nevertheless, survey results showed that the rating scale was the dominant measurement approach in commercial applications (Wittink and Cattin, 1989; Wittink et al., 1994). The reason for their popularity may include the belief that rating scales provide interval-scaled data, and as such are suitable for analysis of variance approaches. However, this belief does not fully justify a preference for rating scales since the consequences of failure to meet the assumption of interval-scaled responses underlying the use of analysis variance, are not serious (Hinkle et al., 1979).

The rank order data, the maximum difference in parameter estimates for the best and the worst levels of an attribute, depends of the number of intermediate levels. Consequently, derived importance may not be comparable across attributes with different numbers of levels (Wittink et al., 1982).

Until the causes of individual differences in metric quality of responses have been identified, the choice between the uses of rating or ranking scales may therefore be guided by convenience or the subjective considerations (Brascamp and Marr, 1997). To measure relationship value in business to business in Russia respondents are provided with ten-point scale to evaluate the profiles generated

## 6.6 select a conjoint analysis procedure

SPSS conjoint (2003) is used to generate fractional factorial designs, which present an appropriate fraction of the possible alternatives. The ORTHOPLAN procedure generates orthogonal fractional factorial plans. The PLANCARDS procedure generates a physical profile which can then be rated by the respondent to arrive at a rating (SPSS, 2003). The conjoint procedure uses the least-squares method to produce importance ratings of the attributes, part-worth estimates showing preferences for attribute alternatives, and correlations relating predicted ratings from the conjoint model with observed ratings (Herrinton, 1999).

The part-worth estimate is based on the part-worth model presented by Green and Srinivasan (1978), which can be expressed as follows:

$$Y_j = \sum_{p=1}^P f_p(x_{jp})$$

**Where:**

$Y_j$  = individual's preference for the  $j$ th alternative

$X_{jp}$  = level of the  $p$ th attribute for the  $j$ th alternative, and

$f_p$  = a function denoting part worth's of levels  $x_{jp}$  for the  $p$ th attribute

Conjoint analysis produces two important results (Levy, 1995);

1. Utility for attributes, this is a numerical expression of the value consumers place in an attribute level. It represents the relative "worth" of the attributes. Low utility indicates less value; high utility indicates more value.
2. Importance of attribute can be calculated by examining the difference between the lowest and highest utilities across the levels of attributes.

## **6.7 Reliability and validity of conjoint measurement**

The generalisability theory recognizes that there are several factors which could contribute to unreliability of conjoint results (Brascamp, 1997). This is in contrast to the assumption that the various procedures were measuring a single underlying construct called 'reliability'. According to the generalisability theory, conjoint reliability includes stability over time, attribute set, stimulus set, and over data collection procedures. Peter (1979) discussed this theory in the context of marketing.

In their review on conjoint reliability, Bateson et al. (1987) concluded that it was difficult to make generalisations from literature on the reliability of conjoint analysis studies because of the large number of different procedures and approaches used. They advocated adoption of the generalisability theory to overcome confusion caused by the lack of clarity, over what reliability means.

### **Reliability over time**

Reliability over time, also referred to as temporal stability, depends on the ability of respondents to reproduce their judgments after a certain amount of time (Bateson et al., 1987). Using a test interval of two months, Parker and Srinivasan (1976) examined the test/retest stability for estimated attribute weights in their conjoint measurement study on consumers' preferences for rural health care facilities. Results indicated considerable temporal stability. The appropriateness of generalizing findings published by Parker and Srinivasan (1976) is debatable, since their study involved only eight respondents. However, other studies involving a larger number of respondents also indicated that conjoint measurement is highly reliable over time (Acito, 1977; McCullough and Best, 1979; Segal, 1982; Teas, 1985).

The increase in temporal stability over six consecutive days reported by Acito (1977) may have been caused by a learning effect (McCullough and Best, 1979). Indications of some unreliable responses in the study conducted by McCullough and Best (1979) were attributed to extreme unreliability of a few subjects. Of the

seventeen differences between attribute level utilities, estimated two days apart, only one was significant.

Reliability over time may depend on the data collection procedure used. Segal (1982) compared the estimated utilities from data collected seven and ten days apart, using the two basic conjoint data collection approaches, and demonstrated that both methods provided highly reliable results, with the full-profile method being more reliable over time than the two-factor evaluation method.

Findings by Teas (1985), based on results from 148 subjects and a test/re-test interval of one week, furnished further evidence of high temporal stability in conjoint methodology

Although results of earlier studies (Segal, 1982; Teas, 1985; Ryan and Hughes, 1997) reviewed indicated that conjoint measurement is highly reliable over time, conclusions about the temporal stability of the approach should not be relied upon too heavily. A major issue when attempting to measure this component of reliability is the length of time necessary between administration of the main questionnaire and the re-test (Brascemp, 1997). If the selected time interval is too short, respondents may use their memory to appear consistent, which means that replicates are not independent. If the time period is too long, there is a risk of changes in underlying part-worth's (Brascemp, 1997).

The most desirable lag time is difficult, if not impossible, to determine. If two identical conjoint measurement studies, carried out at different times, result in differences between estimates of one or more parameters, one cannot conclude that the technique is unreliable since the differences may be attributable to a change in underlying part worth's (Brascemp and Marr, 1997). Moreover, it would be unrealistic to assume that subjects' evaluations of product or service attributes remain stable over an extended period of time. The existence of one particular ideal test/retest interval for conjoint reliability studies in general is highly unlikely.

Factors such as the actual products under study, type of customer, and the nature of product attributes may all have an impact. Thus, studies examining temporal stability of conjoint measurement over time must rely on establishment of a subjective balance between memory effects and influences of changed preferences for the goods or services concerned. As such, their outcomes can merely lead to conjectures, rather than well-founded conclusions about reliability over time.

More recent studies (Ryan and Hughes, 1997; Singh, Cuttler, Shin, Silvers and Neuhauser, 1998; Radcliffe and Buxton, 1999; Sbryan, Gold, Sheldon and Buxton, 2000). Bryan, Gold, Sheldon and Buxton (2000) found high level of reliability in their conjoint measurement study which is considered one of largest done in health care. This is an encouraging result given the increasing interest in conjoint methods in health economics. However, it is appropriate that the finding is viewed with some caution, given that sample selection bias appears to be present in the data reported in their study (Sbryan, Gold, Sheldon and Buxton, 2000).

### **Reliability over attribute set**

The extent, to which estimated parameters for a given attribute depend on other attributes or levels in the stimuli, is defined as reliability over attribute sets or structural reliability. This form of structural reliability may be estimated by using three different methods. First, by comparing results of two conjoint measurement studies with the same attributes and levels, but differing in one of the attributes. McCullough and Best (1979) evaluated the structural reliability of conjoint measurement by comparing subjects' ratings for profiles describing three attributes, with a second set of ratings for profiles in which one of the attributes had been replaced by a new attribute. For one of the two products under study, no significant differences were apparent between both estimated utilities for each of the unchanged attributes. Differences between the two estimations of utilities for attribute levels of the second product were either not or only slightly significant.

Findings of McCullough and Best (1979) may be attributable to the importance of attributes included in the profiles. Reibstein et al. (1988) provided evidence for a high reliability over attribute sets that include the key attributes. They concluded that

as long as the most important attributes are part of the profiles, which of the remaining attributes are included, will have minimal bearing on reliability of conjoint measurement studies. Based on their findings, Reibstein et al. (1988) suggested that in designing a conjoint study, one does not have to be overly concerned with having all attributes included in the design.

A second way of examining reliability over attribute set or structural reliability involves varying the number of parameters to be estimated by adding attributes, sometimes referred to as embedding. Scott and Wright (1976) demonstrated that conjoint measurement results were highly reliable over the number of five-level attributes, although reliability decreased when using six-attribute profiles rather than stimuli including two or three attributes.

To examine interactions between the number-of-attributes effect and inferred importance of product attributes, Malhotra (1982) required respondents to rank order profiles of houses with varying numbers of attributes. He demonstrated that for four of the five factors under study, the number of factors had no significant effect on their importance weights. However, the relative weight of one of the factors, namely 'presence of a separate dining room', which was regarded by respondents as the most important one, decreased significantly when the original five factors were embedded with five other factors. Scott and Wright (1976) and Huber et al. (1993) found in their studies a modest but significant drop in predictive validity found as the number of attributes to be considered was increased, and both attributed the results to information overload as a result of the increasing number of attributes. Information overload happens as a result of excess input compared to the processing capacity of a system (Milford and Perry, 1977). The overload occurs if conjoint profiles include more than eight or ten attributes (Oppewal and Vriens, 2000). Lines and Denstadi (2004) have concluded from their review and study of the work on information overload in conjoint measurement that the extant research is scattered and inclusive. Their study concluded the following

- The more complex the object is to be evaluated the more likely it is that respondents will experience information overload
- Motivation and knowledge reduces the likelihood of respondents experiencing information overload (users are less likely to experience information overload than non-users).
- The availability of more diagnostic information, which necessitates more information, is related to lower quality of data due to fatigue and confusion.

A third way used by two researchers who studied reliability over attribute set is by increasing the number of levels of one or more attributes. Currim et al. (1981), using a variation of the trade off approach involving rank order data, observed that attributes defined on three levels tended to be more important on average than attributes with two levels. Similarly, Wittink et al. (1982) documented a number-of-levels effect for rank order data obtained through the full-profile and the trade-off method.

But results published by Currim et al. (1981) and Wittink et al. (1982) were contradicted by Reibstein et al. (1988) who examined the effects of the number of attribute levels by varying this number for one common attribute across five products from three to five. Irrespective of the data collection method, results did not support the theory that having fewer levels, and thus a smaller number of parameters to estimate, makes the process any more reliable.

The impact of the number-of-levels on reliability of conjoint measurement was approximately the same for rank order data and ratings (Wittink et al., 1989). According to Steenkamp and Wittink (1994), the effect of the number of attribute levels on relative attribute importance's derived from ratings, was due to a lack of metric quality of responses given by some subjects.

Findings by Steenkamp and Wittink (1994) did not exclude the possibility that in many cases, such as in the study conducted by Reibstein et al. (1988), conjoint measurement results are reliable over different numbers of attribute levels. However, it is not yet clear what the characteristics of these cases are. Steenkamp and Wittink (1994) suggested that future research should focus on the reasons why some people do not provide metric responses, and on identifying differences in characteristics between 'metric' and 'other' subjects. Such information would place conjoint analysts in a better position to judge beforehand whether or not an effect of the number of attribute levels is likely to occur.

Lines and Denstadli (2004) confirms that the more complex the objects to be represented, the more likely it is that respondents will experience information-overload, leading to unstable parameter estimates, large error components in the derived preference models and, ultimately, models that are unable to predict reactions to product modifications with an acceptable level of precision. They argue that more research is needed before precise statements can be made about broader conditions of the applicability of conjoint experiments in terms of number of attributes, attribute levels and stimulus set sizes.

### **Reliability over Stimulus Set**

Measurement of reliability over stimulus set in its purest form involves a complete repetition of the data-collection phase. Collection of responses to a holdout sample, consisting of a subset of the total number of profiles is often preferred since it is less demanding on the part of the respondent (Brascamp and Marr, 1997). Holdout cards are additional to the main cards in that they are not used in the calculation of the utility functions (Auty, 1995). They are used as a measure of internal consistency by measuring the extent to which the derived utility functions can predict ratings of the holdout cards. Usually three holdouts are needed because of the effect of information-overload. Auty (1995) raised the issue of respondents' fatigue which might cause random choice in the final ratings.

Using two different sets of 25 stimuli, each with five attributes, Parker and Srinivasan (1976) showed that conjoint analysis has substantial reliability over different stimuli sets. However, the measure they used was not purely one of reliability over stimulus set, since the check was performed two months later. Although Cattin and Weinberger (1980) also found reliability over stimulus set with reliability over time, the high level of reliability they reported is likely to be more closely related to reliability over stimulus set since they administered the second survey only one day after the first.

With the design of the stimulus set to be presented to respondents in conjoint analyses, two conflicting issues need to be considered (Brascamp, 1997). Ideally, the researcher would like to include as many attributes, and hence as many stimuli, as possible. This is particularly the case when little is known beforehand about the relative importance of product attributes or, in this case, the relationship value attributes. However, information-overload on the part of the respondent quickly becomes a problem if too many stimuli are required for the conjoint study.

Green (1974) suggested the use of fractional factorial designs to reduce the danger of respondent fatigue. Stimulus sets are generally designed according to some type of factorial structure. In some cases it may be possible to use only part of a full factorial design, i.e. a fraction of the total number of profiles, to measure all effects and interactions of interest. Malhotra (1982) reported that the probability of information-overload increased significantly when respondents had to evaluate 25 profiles, regardless of whether five factors or ten factors were included. When using five factors, an increase in the number of stimulus profiles from 15 to 20 did not significantly affect the standard error of the parameters of the part worth function. When using ten factors an increase in the number of profiles from 15 to 20 significantly reduced reliability.

While the use of fractional instead of full factorial designs may decrease unreliability attributable to information overload, reliability is not necessarily increased since other causes for unreliable responses may be introduced

simultaneously. Darmon and Rouzies (1991 and 1994) studied reliability of conjoint analysis, using indices which captured different aspects of quality of a utility function recovery. They provided evidence in support of the hypothesis that utility functions are recovered better under a full, rather than a fractional, design irrespective of the noise level in the data. These findings led Darmon and Rouzies (1994) to conclude that researchers should guard against the use of too few degrees of freedom in fractional designs.

Even though results were encouraging, there are still several gaps apparent in the research stream concerned with this type of reliability. While holdout samples are most commonly used to measure reliability over stimulus set, measures of reliability derived from full replication and other methods warrant further investigation. With respect to the use of a holdout sample, Hagerty (1993) advocated a research focus on the impact of the actual stimuli in the sample.

As use of a fractional design may influence recovery of utility functions, Darmon and Rouzies (1991 and 1994) stress the importance of further investigations on the effects on reliability, of different degrees of fractionation, and of the nature of stimuli making up the fraction.

Results published by Wittink et al. (1982), which concluded that the data collection method has no significant effect on the resulting importance weights were contradicted by Reibstein et al. (1988). Whilst Reibstein et al. (1988) found the full-profile approach to be less reliable than the trade-off procedure, Safizadeh (1989) provided evidence for a higher level of reliability of results obtained with the full-profile method as opposed to trade-off results.

Thus, even though the type of data collection procedure may have a significant impact on the reliability score, the conjoint method appears to be reliable under a variety of data collection procedures and across a number of product categories.

Several researchers reported on the external validity of conjoint measurement (Louviere, 1974; Robinson, 1980; Montgomery and Wittink, 1980; Louviere and Meyer, 1981). Using actual behaviour as criterion variable, Louviere (1974), Robinson (1980) and Louviere and Meyer (1981) reported high levels of external validity of conjoint analysis at the aggregate level. In their study on effects of different aggregation schemes on prediction of actual job choices by MBA students, Montgomery and Wittink (1980) showed that predictions based on conjoint models were consistently better than those based on a random choice model. Predictive validity decreased with increasing levels of aggregation.

In conclusion, past reliability studies have explored the issues of temporal stability (Acito, 1977; McCullough and Best, 1979; Leigh et al. 1981, 1984; Segal, 1982), stability across sets of stimuli (Parker and Srinivasan 1976; Cattin and Weinberger, 1980; Reibstein et al., 1988), stability across sets of attributes (McCullough and Best, 1979; Malhotra, 1982; Reibstein et al., 1988) and stability across techniques for collecting data (Aaker and Day, 1990). Results indicate that the conjoint technique generally shows high test/re-test stability, is robust with respect to variations in stimulus sets; and that data collected via the full profile technique perform better than data collected via two factor trade-off matrices (Lines and Denstadli, 2004).

## 6.8 Conclusions

The key to successful businesses lies in knowing and understanding consumer behaviour. Theories of consumer behaviour have evolved towards the currently dominant paradigm of the 'cognitive consumer'. Purchasing behaviour is generally regarded as a process that may be affected by personal and environmental variables. The most widely accepted representations of this view are the comprehensive models. These multiple variable models each incorporate a stage where alternatives are evaluated by the consumer. Various theories exist about the mechanics of this evaluation process, but all recognise the likelihood that consumers apply certain evaluative criteria defined in terms of desired alternative characteristics.

Conjoint measurement is a method used to quantify evaluative criteria of consumers through estimation from their overall judgements. To avoid the inclusion of attributes irrelevant to consumers, preliminary data collection is needed to elicit attributes relevant to consumers and satisfy managerial constraint.

An additive part-worth model is the most common representation of how overall product evaluations can be separated into attribute utilities. The part-worth model can account for compensatory or non-compensatory choice strategies. Conjoint data are usually collected through personal interviews during which respondents are required to rate full profiles of alternatives. Generally, these ratings serve as input for an analysis of various types of approach to estimate the value of the part worth for attributes specified on the profiles. Resulting estimates are measures of the importance consumers attach to each attribute level. Results of studies examining reliability and validity of conjoint measurement were inconclusive. Nevertheless, considerable evidence exists for a high temporal stability and structural reliability of estimated attribute weights in conjoint measurement studies. Conjoint data collection procedures appear to have only a minor impact on reliability of results.

Although uncertainties are still apparent with respect to several aspects of conjoint measurement, the technique has sufficiently matured for researchers in areas other

than marketing, such as horticulture, to have full confidence in the appropriateness of its application in studies examining consumer evaluations of products or services.

# **Chapter Seven**

## **Methodology part 3**

### **Elicitation of relevant attributes**

#### **7.1 Introduction**

In conjoint measurement for each product or service, or as in the case of this research concerning the business relationship, at least two levels of evaluation by consumers are relevant. Firstly, consumers have an overall attitude towards the item in terms of its desirability. Secondly they may have attitudes towards each of the item's attributes, or factors. The process of identifying the relationship attribute and its associated levels of the conjoint study is called the elicitation.

It is generally accepted that a correlation exists between a consumer's overall attitude and his or her attitudes towards certain attributes of the product. Riter (1966) introduced the term "determinant" for attributes which are either amongst the most frequently-stated reasons for purchase, or have the highest average importance-rating in a set of rated attributes. While this correlation cannot establish a causal link between attributes and relationship-value, one may expect high-preference for determinant attributes to lead to a high value for the business-to-business relationship.

To date, there is no consensus as to the best approach to determinant attribute identification, but it is generally accepted that preliminary research usually helps in deciding which attributes to include in conjoint measurement studies (Green and Srinivasan 1987, Louviere 1988a, Van Gaasbeek and Bouwman 1991).

#### **7.2 Objective of the elicitation process**

The main objective of the elicitation interviews is to elicit attributes projected by relationship's image that affect its value. Six attributes are needed to generate a convenient number of profiles to be used in the conjoint study, as Green and

Srinivasan (1990) recommended the use of the six attributes in a standard conjoint study.

### **7.3 Method of eliciting relevant attributes**

Several alternative methods exist to facilitate the identification of determinant attributes. They may be broadly classified as direct questioning, indirect questioning, and observation and experimentation (Myers and Alpert, 1968; Alpert, 1971). Attributes can also be identified through discussions with management and industry experts, analysis of secondary data, qualitative research and pilot surveys (Malhotra and Birks, 2005).

In direct approaches the respondent is asked directly what he/she thought was most valuable in a relationship or which attributes influenced their choice to continue a certain business relationship. Attributes are then classed as determinant or non-determinant. Kelly's repertory grid technique (Kelly, 1955) is a more elaborate variant on such a direct questioning approach, and is often suggested as a useful method of eliciting determinant attributes (Green and Srinivasan, 1978; Marr, 1983; Louviere, 1988a; Rice, 1993). Kelly's approach involves asking individuals to compare three profiles of products or services, indicating which one is different, or which two are similar, and why. Thus, a personal construct is elicited about the products or services concerned. Subsequently, all products and services with the same attribute that differentiates the profile selected from the remaining two in the first set are eliminated from the full set. Then the individual is required to evaluate another set of three profiles chosen at random from the remaining profiles. In this way a grid can be developed to examine ways in which constructs relate or overlap, or of similarities and differences in perceptions between the relationships under study.

Uncertainties exist about the validity and utility of the repertory test proposed by Kelly (1955) as a measure of personal constructs (Aiken, 1993). Research findings indicating that, in reality, the formulation of constructs often follows behavior rather than vice versa. This casts further doubt over the appropriateness of Kelly's technique for eliciting determinant product attributes.

Direct-questioning techniques assume that respondents are capable of decomposing their overall judgments into attribute evaluations. Another assumption implied when using this method is the willingness on the part of the respondent to give honest answers.

The dual direct-questioning approach, which has gained considerable popularity, consists of asking respondents to describe the characteristics of the ideal relationship with a company in the category under study. Subsequently, respondents are asked to provide ratings of particular relationships in terms of these characteristics, results are then used to give an indication of the position of the company in relation to the optimal relationship or company image. This approach shares the same problems as the traditional direct-questioning approach. Respondents may have difficulties in conceptualizing the ideal relationship or company (Brascamp, 1996). In addition, they may be unwilling to admit some attributes that influence them in reality.

Early work by Alpert (1971) concluded that dual questioning appears to be superior to simple questioning methods in identifying determinant attributes. Since his findings were merely suggestive, he recommended that the decision of whether or not to use simple or dual questioning be dependent upon cost differences in data collection and the value of slightly improved accuracy given by dual questioning.

Indirect-questioning is defined as any interviewing approach which does not directly ask respondents to indicate why they bought a product or service, or which features or attributes are most important in determining choice (Brascamp, 1996). An example is the “third person” projective questioning, where the respondent is asked to state the importance of various attributes in determining the choice of most people for a particular product or, as in the case of this research, a relationship.

The most appropriate method for eliciting attributes to include in further study depends on several factors, such as the type of product, the situation of the market, and the conditions of the relationship.

In order to reinforce the validity of the attribute selection process still further it is advisable to combine the findings of the in-depth interviews with an exhaustive search of the relevant literature (Green and Srinivasan, 1978; MacLachlan, 1988).

Recent conjoint studies have applied the use of interviews together with findings from literature such as the study by Walley and Parsons (1999), on quality assurance schemes. Also the study by Soutar and Tuner (2002), on students' preferences for university where they used ten attributes out of which nine were identified from the literature and one was from interviews. Aaker (1997) recommended using information gained from past customer interactions. Mail questionnaires, focus groups and in-depth interviews are favored by Chan and Wu (2002).

The method used to select the sample for the elicitation phase is purposive sampling, which involves the intentional selection of particular cases to study (Weisberg, 2005). A type of purposive sampling that is used here is the study of typical cases. Typical cases are usually selected either by being maximally similar or maximally dissimilar. Maximally similar cases were chosen from the wholesale Russian market of being large wholesale carpet traders who were willing to give the time for two hour semi structured interview.

In deciding how many respondents should be included in the elicitation phase Griffin and Hauser (1993) stated that for finding out 90–95% of all customer needs concerning a product, an experienced interviewer needs to make about 20–30 in-depth interviews with customers. However, the majority of studies have been limited to 5–10 interviews (Pullman et al., 2002).

Gustafsson *et al.*, (1999) identified two criteria are for choosing attributes and their performance levels;

Firstly, the attribute levels should describe as closely as possible the real-life situation facing customers; attributes should be closely related to those products that are available to customers. Secondly, it is worthwhile including factors which are considered to be the company's key competencies in gaining a competitive edge.

One advantage of semi structured interviews for this research is that they are good tool to explore respondents' opinions, clarify interesting and relevant issues, elicit complete information and explore sensitive topics within each interview; some freedom to probe was essential BARRIBAL (1994). The structured part of the interview is in the form of the ranking exercise that once respondents have done the highest ranked attributes are then used as themes for the unstructured part of the interview. Other advantage of semi structured interviews is that it is used means for data collection from varied professional, educational and personal histories of the sample group that precluded the use of a standardized interview schedule as the background and education of each manager of the carpet company interviewed was not known and it was highly unlikely that they will be similar.

While it is impossible for researchers to always control or plan the circumstances under which a research project takes place, interviewer friendliness, approach and manner towards respondents can help enormously with securing validity and reliability of the data BARRIBAL (1994). One response to the issue of reliability is that the findings derived from using non-standardized research methods are necessarily intended to be repeatable since they reflect the reality at the time they were collected, in a situation which may be subject to change (Marshall and Rossman, 1999). Patton (1990) summarized this view by stating that *"The quality of the information obtained during an interview is largely dependent on the interviewer"* (p.279). Saunders et al. (2003) suggested using guide for the sake of providing structure and for clearing any interviewee's uncertainties (see figure 7.2).

#### **7.4 Semi-structured interviews for eliciting relationship value attributes**

Where there are complex and open-ended questions, an interview is the most advantageous approach to attempt to obtain data (Easterby-Smith et al., 2002; Healey, 1991; Jankowicz, 2005). To elicit relationship-value attributes to be used in the conjoint questionnaire this research uses semi-structured interviews. A semi-structured interview, is "a wide-ranging category of interview in which the interviewer commences with a set of interview themes but is prepared to vary the

order which questions are asked and ask new questions in the context of the research situation” (Saunders, Lewis, and Thornhill, 2006). There is a degree of standardization in designing a semi-structured interview by using more characteristics of a structured interview in the form of a ranking-question. Respondents are asked to rank the most important attributes for them in a supplier-relationship for each group of benefits namely product, personal, and strategic and in the sacrifices group.

Ranking-questions ask the respondent to place things in rank order (Saunders, 2006), Kervin (1999) advises keeping the lists to seven or less items to rank, as respondents find ranking more than eight items too much effort. Each group of attributes is followed by open-ended questions for the respondents asking them to justify their reasons for choosing these attributes. Open-ended questions are commonly used in depth and semi-structured interviews, they are also used in questionnaire when the researcher wants to find out more about what is uppermost in the respondents’ minds (Saunders, Lewis and Thornhill, 2006). In this study the ranking-question is accompanied by an open-ended question which asks respondents to list their reason why they rated the highest attributes in each group as the most important. Open questions or open-ended questions (Dillman, 2000), allow respondents to give answers in their own way (Fink, 2003a). The semi-structured character comes from the fact that respondents are encouraged to talk about their opinions on the most important attributes they have used and sharing their experiences.

In designing the ranking questionnaire for the study the two problems to avoid, addressed by Kervin (1999), are; the large number of attributes to rank and respondents are not able to rank accurately if they do not see the ranking questions. This does not apply in this case as firstly, in each group of benefits and sacrifices for the study there is a maximum of seven attributes to rank and secondly, the ranking questions will be done in the interview which will allow face-to-face interaction and allows the respondents to see the attribute s/he is ranking.

Werani (2001) found that during his interviews respondents tended or managed to make the connection between the attributes and relationship-value. As a result attributes used in the scale are not directly related to main construct “value” and the form of the

question did not mention value of relationship. (See Figure 7.1) For the full questionnaire used in the interview see appendix A.

Considering your relationship with one of **your suppliers**, could you please check the following items if they are of **any importance** to you in dealing with the specific supplier.

At the end of each section please put the items you have checked **in order starting**

**Figure 7.1: The instructions used in the ranking questionnaire for the interview.**

Bourque and Clark (1994) provided three methods for designing questions for researchers to choose from. They are:

1. Adopt questions used in other questionnaires
2. Adapt questions used in other questionnaires
3. Develop own questions.

Attributes used in the elicitation questionnaire were adapted from the questionnaire used by Ulaga and Eggert (2001).

In assessing the validity of the ranking questionnaire, Blumberg et al. (2005) refers to three validity tests, they are; Content validity, criterion validity and construct validity. Content validity is the extent to which the measurement questions in the questionnaire provides coverage of the investigative questions (Saunders et al, 2006). The adequate coverage may be judged through the thorough review of literature and appropriate discussion with others. In this study the attributes used in the ranking questionnaire are formed after a thorough review of the literature on business to business relationships and relationship value in chapters three and four. Criterion related validity or predictive validity is the ability of the questions to make predictions (Saunders et al, 2006), usually done using correlation analysis such as Spearman's or Kendall's. Construct validity, refers to the degree to which inferences can be made from the operationalizations in the study to the theoretical constructs on which those operationalizations were based.

In assessing the reliability, which refers to consistency, Mitchell (1996) outlines three common approaches, they are; test re-test, alternative form, and internal consistency. In the test re-test approach the questionnaire has to be administered twice under the same conditions with the same respondents, which proved to be very hard as the same respondents need to administer the questionnaire twice (Saunders et al, 2006). Respondents in this study are managers in Russian wholesale companies, whom it was not easy to get an interview with them, let alone getting them to do the same questionnaire twice. Alternative form approach uses alternative forms of the questions and compares results, this test also proves to have some problems because of the difficulty in ensuring that these questions are equivalent and it also contributes to respondent's fatigue (Saunders et al, 2006). For the purpose of this study only an internal consistency test will be used, which involves correlating the responses to each question in the questionnaire with those to other questions in the questionnaire (Saunders et al, 2006). A variety of methods are used for calculating internal consistency such as Cronbach's alpha.

Whether the interview is standardized, semi standardized or unstructured, careful preparation needs to be done to demonstrate the credibility and obtain the confidence of the interviewee, which is referred to by Saunders, Lewis and Thornhill (2006), as the 5Ps, prior planning prevents poor performance. They also provided the following guidelines for preparation,

- Level of knowledge of the interviewee organization
- Level of information supplied by the interviewee such as the themes used in the interview. For the study the ranking questionnaire was sent by fax or email, after arranging for the interview to take place. This gave time for the respondents to think of the relative attributes.
- Decide on the appropriateness of the location. An appropriate location for the interview to take place must be planned by making sure that there is no disturbance or noise that will affect the concentration or participation of the interviewee. All of the interviews done for the study took place in their offices where it was most convenient to the interviewee, making sure that upon making an appointment, an hour was allocated for the interview to make sure that there was enough time to undertake the interview without disturbance.

- Appropriateness of the researcher's appearance at the interview, also affects the perception of the interviewee. Robson (2002) advises researchers to adopt a similar style of dress to those to be interviewed. A standard formal style was adopted by the researcher throughout all the interviews for this study.
- The nature of opening comments to be made when the interview commences is also related to the issue of interviewer credibility and confidence of the interviewee. Ghauri and Gronhaug (2005) suggest on opening the interview by asking the interviewee about their role in the organization. This approach is followed for the semi structured interview in this study. Also interviewees were assured that no confidential information is needed from this interview, which put them at ease and made them more relaxed. This interview tip is suggested by Healey and Rawlinson (1994).
- The nature and impact of the interviewer's behavior during the course of the interview, may be reduce or increase bias during the interview. Comments, non-verbal behavior such as gestures should be avoided. The interviewer must enjoy the interview or at least seem like they do (Robson, 2002).
- Demonstration of attentive listening skills, which involves spending the time to listen and build understanding while deliberately, holding back interviewer's thoughts is very important during interviews. Respondents must take their time responding and interviewers must avoid projecting their own view (Easterby-Smith et al. 2002, Ghauri and Gronhaug, 2005; Robson, 2002). Interviewers should be still, attentive plus listen to allow for comments and clarifications during the interview (Torrington, 1991).
- By summarizing what is understood from the interviewee, the scope of test understanding will show. That will help in double checking any misunderstanding or miss-information.

## **7.5 Questioning**

Although the use of the open questions in the semi structured interview for this study is limited to getting respondents to share their experiences on why they think the highest rated attributes were important to them, a note on the appropriate questioning

techniques will increase the validity of the interviews. Easterby-Smith et al. (2002) point out that the use of open questions should help to avoid bias.

An open question is designed to encourage respondents to provide an extensive and developmental answer, and may be used to reveal attitudes or obtain facts (Saunders et al., Lewis and Thornhill, 2006). An open question should start with or include one of the following words: what, how, why, who, where, which and when.

Following from this, in the semi structured interview conducted for the study, if a respondent has rated price discounts and adaptability in the product benefits group as the highest two attributes, two open questions were used to encourage him/her to share their experience on these attributes, if they have any. An example of the open ended questions posed are as follows;

**So why do you think price discounts are important in choosing your supplier?  
Or what experiences can you share with us on the effect of price discounts on your dealings with suppliers?**

Probing questions are used during the interviews to explore respondents that are of significance to the research topic, for example respondents who rated price discount higher than prices were supplemented with a probing question by saying

**It is interesting that you favor price discounts to price, why is that?**

If a respondents does not have any experiences to share on a specific attribute an open question was immediately asked on the next most important attribute.

**OK so why do did you choose adaptability as the second most important attribute?**

### **Interview guide**

Saunders, Lewis, and Thornhill (2006) suggest using an interview guide for the sake of providing structure and for clearing any interviewee's uncertainties. A guide was prepared and used in all the interviews done (see figure 7.2).

### **The following points were covered at the start of each interview**

1. The respondent was thanked for considering the request for access and for agreeing to the meeting
2. The purpose of the research and its progress to date were outlined briefly. As part of this, the participant was given an information sheet to keep.
3. The previously agreed right to confidentiality and anonymity was reiterated by stating that nothing said by the respondents would be attributed to her or him without first seeking and obtaining permission.
4. The participant's right not to answer any questions was emphasized and that the interview would be stopped if they wished.
5. The respondents were told about the nature of the research outputs to which the research was intended to lead and what would happen to the data collected during and after the project.
6. Before the actual interview took place the interviewees were asked for permission to start, the attributes provided in the ranking exercise were explained and confirmed the amount of time available.

**Figure 7.2 The guide used in the interview.**

## **7.6 Translation**

The primary aim of translation is produce a survey in a different languages making sure that they have the same meaning in every language they are translated to (Harkness, 1998). Harkness (1998) argues that relying on a conventional method of translation might lead to miss interpretation of survey items that may seem unclear to translators. Translators should be provided with instructions that specifies their task and a detailed explanation of the intended meaning of different items on the survey (Harkness, 1998)

A research carried out by Douglas and Craig (2007) is one of the most recent and comprehensive analysis of different type so survey translation techniques. Translation techniques such as back translations, committee approach and expert team approach have been used in research. The most common method used in marketing research is back translations, which has been defined by Douglas and Craig (2007) as “*a technique where a bilingual native of the target country translates a questionnaire into the target language, which is then translated back by a bilingual native speaker of the source language.*” (p.30). problems in translations and misinterpretations are expected to be spotted using this approach.

Douglas and Craig (2007) address limitations found in using back translations;

- As bilingual translators are usually able to deal and make sense of what might be an ambiguous or a not well written survey, it is very possible that the survey could be granulated once and then back without being able to capture the error. Literal or direct translations are the main reason for this problem.
- Bilingual translators do not use the same language as mono language respondents which make them able to use commonly shared techniques and ways for translations. That would be a cause for the questionnaire to be translated and then back translated in the same manner, which respondents are not familiar with.
- Sometimes back translation assumes an etic approach to linguistic translation, which is finding the exact equivalent in the language the survey is translated to. If used an etic approach could lead to a complete phrase to clarify a construct while sometimes it is completely inappropriate to do so.

In the committee approach, much of the work is done together, with collaborators working in a group (Usunier, 1998). The procedure begins with a form of translation known as parallel translation, where two or more translators make independent, parallel translations of the questionnaire into the target language (Brislin, 1980; Schoua-Glusberg, 1992). Different versions are discussed in a meeting involving the translators in which they discuss similarities and different between the versions to come up with the final version. In expert team approaches, team members work individually rather than as a group. This approach may be used when the team is geographically scattered and operates as a virtual team.

Douglas and Craig (2007) suggest steps which if researchers follow they will insure reliable and valid results. These steps are;

1. Employ a Collaborative Approach (committee or team-based)
2. Establish Equivalence (Category, functional, and construct equivalence)
3. Conduct an Initial Translation

4. Pre-test the Questionnaire
5. Adopt an Iterative; committee and team approaches are intrinsically iterative because there will inevitably be differences of opinion and interpretation that need to be resolved.

For Russian only speaking respondents the ranking attributes were translated into Russian by a marketing professional (expert) to make sure that he got the exact meanings of the words. The attributes was then retranslated back to English by someone else to make sure the Russian version (see appendix A) meant the same as the original attributes. A translator was also available in the interview to make sure that no ambiguous information was missed or misunderstood by the interviewer. A pilot questionnaire was used (see section 7.12) to ensure that respondents understood what was meant y each translated survey item.

## **7.7 Analyzing results from the semi structured interviews**

There is no statnderdized approach to the analysis for qualitative data (Saunders et al. 2003). There are many qualitative research traditions or approaches with the result that there are also different strategies to deal with the data collected (Tesch, 1990; Dey, 1993; Miles and Huberman, 1994; Coffey and Atkinso, 1996). Tesch (1990) identifies analysis strategy categories for qualitative data they are;

- Understanding the characteristics of language
- Discovering regularities
- Comprehending the meaning of text or action
- Reflection

These strategies range from more analytical procedures that require greater structure and set procedures to follow and more deductive ones such as the first two outlined strategies. Whereas the last two rely on researcher's interpretations and they are more inductive tools for analyzing qualitative data.

To devise a theoretical or descriptive framework the researcher needs to identify the main variables, components, themes and issues in the research and the predicted or presumed relationships between them (Yin, 2003). That helps in the most important procedure for analysing qualitative data whether inductively or deductively that is categorization. Categorization involves classifying qualitative data into meaningful categories which is derived from the theoretical framework (Saunders et al., 2003). The theoretical framework by Ulaga and Eggert (2003) for categorizing the qualitative data was introduced by the researcher in the rank order exercise, where the attributes were introduced to respondents in categories and they had to be ranked within each of these categories. Yin (2003) suggests that theoretical propositions can be used as means to devise a framework to help direct and organise the data collection and analysis procedure. An argument against this view is expressed by Bryman (1988);

*“The prior specification of the a theory tends to be disfavoured because of the possibility of introducing a premature closure on the issues to be investigated, as well as the possibility of the theoretical constructs departing excessively from the views of participants in a social setting.” P. (81)*

The categories introduced in the semi structure interviews leads to researcher’s imposed structure. According to Bryman (1988) If introduced in a non categorized manner may have yielded different results but it was important to have the different components of relationship value concluded from the literature representative in the themes to be analyzed in the semi structured interviews. The method used for analyzing the data collected from respondents in the semi structured interviews is a deductive approach by unitizing data. Unitizing data is a procedure suggested by saunders et al. (2003) for analysing data by attaching relevant bits of data to the relevant categorized identified by the researchers.

## **7.8 The attributes’ list for this study**

As concluded from the literature reviewed on relationship value in chapter 4, the model by Ulaga and Eggert (2002), is seen as one of the most conclusive and recent ones to measure relationship value based on the assumption that relationship value is

benefits versus sacrifices. The model is used to provide guidelines for eliciting relationship value attributes to be used in the conjoint study.

Owners and managers from 10 carpet and floor covering Russian wholesale companies, using maximally similar typical cases as identified earlier, were interviewed (see appendix B for a detailed profile of the respondents) using the initial list of attributes generated from the previously mentioned model of the component of relationship value (Ulaga and Eggert, 2002) illustrated in figure 4.6, the list is shown in table 7.1. The list is used as a guideline for respondents in their conversation. Respondents are asked to rank attributes showing which is the most important within each group of benefits or sacrifices.

<p><b>Attributes:</b></p> <p><b>Product:</b></p> <p>Price Price discounts Design Quality Providing demanded products Origin Brand name</p> <p><b>Personal:</b></p> <p>Length of relationship Communication Mutual trust Joint problem solution</p> <p><b>Strategic:</b></p> <p>Leads to competitive advantage Profitability Payment conditions</p>
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**Table 7.1 Attributes to be used in the interviewing process (Adapted from Eggert and Ulaga, 2002)**

The objective of the elicitation process is to choose only 5 to 7 variables to be used for the field research, as conjoint measurement results were highly reliable with this range of attributes but reliability decreases with an increasing number of attributes

(Scott and Wright, 1976). As more variables would mean more cards for the respondents to score, this will result in poor concentration if so many cards were used. As a result a number of six attributes is needed to design the conjoint questionnaire for this study (Green and Srinivasan, 1990). The two highest ranking attributes from the product and personal benefits were used plus the highest ranking attribute from each of the strategic benefits and sacrifices. Respondents were asked for their justification (if they had any) of the given ranking of attribute to make sure they fully understand the specific attribute and its importance to them. Respondents were asked to assign levels to their highest ranking attributes; this generated a list of attribute levels used in generating the final conjoint profiles (illustrated in table 7.1).

## 7.9 Results of elicitation interviews

<b>Attributes</b>	<b>Grade</b>
<b>Price</b>	3
<b>Price Discounts</b>	2
<b>Design</b>	5
<b>Quality</b>	6
<b>Providing Demanded Products</b>	1
<b>Origin</b>	4
<b>Brand Name</b>	7
	<b>Grade</b>
<b>Length of Relationship</b>	2
<b>Communication</b>	1
<b>Mutual Trust</b>	3
<b>Joint Problem Solution</b>	4
	<b>Grade</b>
<b>Leads to Competitive Advantage</b>	3
<b>Profitability</b>	2
<b>Payment Conditions</b>	1
	<b>Grade</b>
<b>Delays in Operations</b>	1
<b>Losing out on Other Opportunities</b>	2

**R = Respondent**

**Table 7.2 Tabulation of results from the ranking exercise**

Results from the elicitation process (the highest two ranking attributes from product benefits group and the highest ranking attribute from the personal (see tabulation of the results table 7.2), strategic and sacrifices groups) together with their levels, given by managers from 10 wholesale companies in the Russian market, are shown in table 7.3.

<b>Attribute</b>	<b>Levels</b>
Price discounts	<b>0% / 3% / 5% / 7% / 10%</b>
Demanded products (level of supplier adaptability to customer's requirements)	<b>High / Medium / Fair</b>
Communication	<b>Personal / Impersonal</b>
Length of relationship	<b>Short 2 years / Medium 5 years / Long 10 years</b>
Payment conditions (credit facilities)	<b>Full payment / Payment on credits / Payment upon selling</b>
Delays in operations	<b>No delays / Acceptable delays / Often/usual delays</b>

**Table 7.3 Attributes and attributes levels used in the conjoint questionnaire**

### **7.10 Analyzing reasons for each of the selected attributes from each group:**

Within the product benefits group price discounts generated higher rankings by more respondents while price only came third, as an important element of the business to business relationship in the carpet Russian market. The reason given by respondent 1 is that “discounts in business markets matter more than the initial price as industrial

customers are usually buying in large amounts which gives them the right to a different price based on how much s/he is buying. In other words what matters is the discount each customer is getting from their supplier.” He added “also by ordering different varieties of the same product (different designs and qualities), some of them might not even exist on the supplier’s production or price list and would have to be produced specially for the specific customer, the customer gets special prices for his product manifested in price discounts.” This gives price discounts a leading importance in business to business relationships in the carpet Russian wholesale market. The benefits of price discounts is summarized by one respondents as a high discount offered by a supplier enables the customer to offer the product at a better and more valuable price to his customers. With a good discount you can get a very good quality product at a low price”.

Respondent 6 commented that during the 90s in Russia and for a while after the transition neither price nor price discounts were important. What was more important was the availability of the product under any price and any conditions. There were no local producers for most of the products sold in the market, including carpets, which resulted in product scarcity causing products to be sold at any price. In some cases wholesalers were paying extra money on top of the product’s price to suppliers so that they can guarantee the availability of the product, otherwise a different wholesaler might buy the whole stock.

A good example from the floor covering market but with a different product is given by respondent 3 from the ceramic tiles market, which falls under the same umbrella of floor covering products as carpets. She postulates that during the 90s Russian people and the Russian market only knew one small size of tiles with two or three different ranges of colours. At that time wholesalers selling foreign products, which introduced new concepts to the Russian market generated competitive advantage for foreign wholesalers. They offered customers new products which were different in designs, colours, and sizes which gave them the competitive advantage to sell at any price.

She added that now the situation in the Russian market is different and local producers of most of the products and services have stepped in to secure a place in the market. Russia became an attractive place for foreign investment and foreign products

to sell. Local producers for ceramic tiles have started developing their products, which gives them a big advantage of lower prices as they do not have to add any transportation costs or tariffs to their prices. With new local producers in the market offering their products at low prices, foreign products from countries such as Spain and Italy need to compete on something other than price.

Respondent 9 commented that price discounts are a very important factor in any business relationship. He added that two suppliers could have the same price for the same product but their discount offers makes a difference to the final price of the product. Levels 0% or none, 3%, 5%, 7%, and 10% were agreed upon, with all respondents who rated price discount either first or second most important in a business relationship. Although the difference between the levels is not as big in the context of consumer markets, in business market the smallest difference, would count for more money, this is due to the volume of purchases, which makes any slight change in the level of price discounts significant.

A demanded product (Adaptability) is how close a supplier can provide the product similar to the specifications required by a customer (e.g. color, material, design, size). Demanded products scored highest in importance on average from the rating scale (see table 7.2). When asked why they think demanded product is important, respondent 4 commented that “suppliers have to be able to provide their customers with what they want especially concerning the design and quality of the product. It is not necessary that product ranges offered by suppliers are those that exactly meet their customers’ needs.” He added “But this ability to provide the product demanded varies from one supplier to another depending on many factors such as production line, resources, availability of resources or technology. It also determines the future of any business relationship and it means the ability to provide customers with what they want.” Commenting on rating demanded products of higher importance than quality and design respondent 8 said “if a supplier is able to provide its customers with what they want, this means providing them with the designs demanded and a variety of qualities.”

In the carpet market a supplier has to be able to meet its customers (distributor/wholesaler/retailers) needs, for example respondent 5 who is a manager of

one Distribution Company of carpets in Moscow mentions one of her retailers who trade in higher quality carpets such as wool and silk. The distributor has to make sure that it has the available stock of the type of carpets for the retailer. Another customer might require the same design offer but in a different material such as to change from polypropylene to cotton as Russian consumers have a tendency to more natural products. This necessitates a change in the production plan from the manufacturer if the supplier has the ability to communicate the benefits of meeting the requirements of this customer to the manufacturer. If a manufacturer decided to change production plan to produce a customer made product for its supplier, in other words adapt to suppliers requirements, this product will be serving only a few other retailers and wholesalers who deal in the same type of carpets. In this case the manufacturer will be committing a production line that serves only a few distributors, which is not an easy commitment to find on the part of the manufacture.

The levels of adaptability that were agreed upon by managers are high, medium, and fair. High (meeting most of what the business customer needs), medium (meeting some of what the business customer needs) and fair (meeting few of what the business customer needs or making only few changes to the original product to meet the business customer's needs). Respondent 2 who rated demanded product as second made a note that in most cases it is very hard to meet 100% of what the customers want and there are actually customers who operate based on what the supplier provides either for the benefits of getting it at a cheaper price, or they depend on the supplier to provide them with the right product for their customers. Both high adaptability and fair adaptability has its advantages and disadvantages and it is a case of matching the abilities of the supplier with the demands of the final customer (customers' customer).

Personal benefits are the second group of benefits of the relationship identified by Ulaga and Eggert, (2002). The length of the relationship scored an average rating of two among all respondents and was seen by most respondents as a very important personal factor that always counts in the Russian market and Russian society. With the agreement of most of the managers interviewed on the levels of the relationship attribute, 2 years were considered as a short term relationship, 5 years were

considered as a medium term relationship, and 10 years were considered as a long term relationship.

Communication scored the highest average rating in the personal benefits group (see table 7.2). Respondent 2 postulates that during different stages of the business relationship, personal contacts seem more essential than any other type of communication. Email or telephone calls did not seem so important in building the relationship between companies as personal relationship has long been an integral part of the Russian culture. Respondent 4 commented that personal communication and understanding is very important in Russian business; to the extent that if the desired level of personal communication did not exist between companies, the business between them will not be successful.

Respondent 7 also emphasized the importance of communication especially personal communication by saying that “communication meant friendship with supplier’s personnel for many respondents. Russian hospitality is legendary, and so is the drinking and carousing that goes with it. Any personal communication in business means some kind of social involvement and any social involvement will call for one toast after another. All of this is central to the Russian concept of relationship building.”

Respondent 6 discussed and shared some experiences of how the communication between organizations has changed after the transition. He postulates that the way of communicating with foreigners in the Russian market after the transition had changed. It all came with the collapse of the Soviet Union, as Russians they lost their fear of initiating new relationships with foreigners, which is something that had seemed risky in the past. They became free to invite their business partners into their houses. This new freedom has been extended to the domain of business contact.

The importance of the communication attribute for Russian business has been confirmed through out the literature as the Russians have been known for liking to develop communication on the personal level (Yergin and Gustafson, 1994; Chamberlain, 1995; Holden, 1995; Puffer and McCarthy, 1995; Wilson and Donaldson, 1996). Salmi (1996a) has noted that it is even sometimes impossible to

do business with a Russian if friendship has not been created, the reason that he gave for that was that Russian firms have short histories and they have not had the time to earn a good reputation, therefore, trust is based on the people within the firm rather than on the firm itself. The levels that were agreed upon for the attribute communication are personal and impersonal.

The strategic dimension is the third benefit identified by Ulaga and Eggert, (2002). Payment conditions scored highest on average in the rating scale. Respondent 3 commented that it has an effect on the company's profitability and suppliers who are easy on payment conditions are always seen as a "better suppliers". It was agreed by all respondents who rated it the highest on the levels of the payment condition attribute, which is full payment, payment upon selling (comes after the customer has sold his product, usually to wholesalers, which guarantees that he has money to pay to his supplier), and payment on credit (the amount of installments and the time span is agreed on by both partners).

The Sacrifices group is the last component of relationship value. Delays in operations, was rated the highest on average in the rating scale by all respondents. Various but similar comments were received from respondents on the importance of delays in operations. Respondent 1 commented that "it is a huge disadvantage of a company working in a business to business market to delay its orders, operations, or delivery times as most of these companies are working on a seasonality base which means having the right product in the right season". Respondents 2 reasoned it important due to the fact that "Products have to be available in the market on the right time otherwise they will not be available for customers when they need it". Respondent 4 shared a similar experience that his product is very much related with timing as the biggest consumption of carpets from the market is during the winter season this means that he has to make his products available for the retailers midsummer so they have the time to display it to the customers. Christmas time is another high demand season as well for which a new collection has to be available to retailers by the beginning of winter". Levels that were agreed upon by all respondents who rated delays in operations high are no delays, acceptable delays, and often/ usual delays.

Losing out on other opportunities did not seem to be of much importance by all

respondents. As one manager commented, opportunities are there to take not to lose and if he has chosen to work with one company this means that he sees it as the best opportunity for his business at the current time. For managers who said that this attribute was important they gave it a second rank after delays in operations.

### **7.11 Designing the conjoint questionnaire**

Interviews conducted during the elicitation phase of the current study led to a number of attributes being included in the conjoint study. The relationships examined in this study are wholesaler-wholesaler and wholesaler-retailer as a result it is a condition for respondents chosen for the conjoint study to have the supplier as a wholesaler while respondents themselves could be either a wholesaler or a retailer.

For the field study the conjoint questionnaire is designed in three parts (see appendix C)

1. The first is screening to get the main contact information about the respondents. This is done on the phone to make the initial contact with the respondent, filtering out ineligible respondents (those whose suppliers are not wholesalers). The available list of firms was used plus referrals to other potential respondents (snowball). Appointments were taken for the conjoint main questionnaire and conjoint cards to be conducted.
2. The second is the main questionnaire after the respondent has passed the screening.
3. The third is the value measurement for which the interviewer has to use the conjoint cards to fill out the table in the main questionnaire.

Investigative question/s	Variables required	Check measurement question included in questionnaire
What is the structure of the Russian wholesale carpet market?	<ul style="list-style-type: none"> <li>• Respondents' customers</li> <li>• Respondents' suppliers.</li> <li>• Cities of distribution</li> <li>• Players in the market, retailers and wholesalers.</li> <li>• Referral to more respondents.</li> </ul>	<ul style="list-style-type: none"> <li>• Question five and six</li> <li>• Question three and four</li> <li>• Question nine</li> <li>• Question one, two, seven and eight.</li> <li>• Questions 18</li> </ul>
	<ul style="list-style-type: none"> <li>• Firmographics</li> </ul>	<ul style="list-style-type: none"> <li>• Questions 10-16 <ul style="list-style-type: none"> <li>○ Number of branches</li> <li>○ Location of branches</li> <li>○ Types of carpets</li> <li>○ Number of employees</li> </ul> </li> <li>• Annual turnover.</li> </ul>
	<ul style="list-style-type: none"> <li>• Getting respondents to be familiar with relationship value attributes which prepares them for the conjoint cards.</li> </ul>	<ul style="list-style-type: none"> <li>• Question 10</li> </ul>
	<ul style="list-style-type: none"> <li>• Attributes' and attributes levels' importance</li> </ul>	<ul style="list-style-type: none"> <li>• Question 17</li> </ul>

**Table 7.4: Data requirement table for designing the main questionnaire**

The second and the third part of the questionnaire are done in a face to face interview. The second part is designed to collect relevant and more detailed information about the company. Saunders et al, Lewis, and Thornhill (2006) suggest using a data requirement table to make sure that the data collected from the questionnaire answers research questions illustrated in table 7.4. The second part of the questionnaire is mainly aimed at answering the research question, what is the structure of the Russian wholesale carpet market?

The third part of the questionnaire, conjoint cards, is designed to answer the following subsidiary research questions through conjoint questionnaire.

2. What are the values assigned to each attribute in the customer-supplier relationships?
3. What are the values assigned for each attribute level in the customer supplier relationship?
4. How to segment customers in the Russian wholesale carpet market using the value concept?

The full-profile presentation method of conjoint analysis (with a level for each attribute in each profile) is used in the current study. This approach is utilized as it is considered especially appropriate for evaluating hypothetical products or attributes (Baker and Burnham, 2001). Conjoint analysis determines the utility of each attribute level and the ideal combination of attributes, i.e. that which offers the highest utility to the consumer. It establishes the relative importance of the attributes in terms of their contribution to total utility (Green and Srinivasan, 1978; Ness and Gerhardy, 1994). The utility estimates indicate how each factor level relates to preference. Positive values indicate that the attribute level is positively related to preference while negative utility values indicate that the factor level is not preferred. The importance values measure the importance of each factor as it relates to an individual's or subgroup's rankings or ratings. They measure how important each attribute is to the preference ordering (SPSS, 2001).

Using a full profile method where each stimulus is described separately consisting of all attributes and their levels (Hair et al., 1998), the conjoint task with four attributes and three levels, one attribute with one level and one attribute with five levels, would include 648 possible combinations ( $4 \times 3 \times 2 \times 3 \times 3 \times 3$ ). According to the ratio of cards to parameters (sum of all levels- number of attributes) which is at least 1.5 the minimum number of cards there needs to be for the study is 24. By choosing the additive composition rule, these combinations were reduced to 25 stimuli using a fractional factorial design. To explain the additive composition rule, there are two types of models, the additive and the interactive model. In the additive model used only the main effects are looked at (Hair *et al.*, 1998). Thus, interactions are assumed to be negligible. The additive model is the most basic, where a respondent simply adds up the values for each attribute (part-worth) to get the total value for a combination of attributes (products or services) (Hair *et al.*, 1998). Thus, the total utility is represented by the sum of the alternative's component utilities. This model suffices for most applications as it accounts for the majority of the variation in preference in almost all cases. The interactive model is different from the additive model as it allows for certain combinations of levels to be more or less than just their sum (Hair *et al.*, 1998). If an interactive model was chosen more profile cards would have been necessary to measure the level of interaction between attributes and the case of this research it was not possible as with the number of attributes and attribute levels included a minimum of 24 cards are needed. Including more cards included above that will generate reduce the reliability of the procedure due to respondents' fatigue. Hair (1992) argues that for most situations where a predictive model is desired, and where the attributes involve less emotional an additive model is usually sufficient. As a result an additive model was chosen for this research.

Choosing an additive role means that potential independent interaction effects between attributes cannot be accounted for and it was assumed that there were no interaction effects between the attributes. The 25 cards were rated by Russian managers of wholesale and retail carpet companies by means of a ten-point scale that measured their interest in the supplier, where "1" indicated that they will not be interested at all, and "10" signified that they would be very interested. The cards were shuffled after each interview and handed to respondents one at a time so each person started at random and there was no order bias, for an example of one of the cards

presented in the study see figure 7.3. All the cards are presented with the main questionnaire are in Appendix C, also a table is provided in the main questionnaire for the respondents to write down the score they assigned for each conjoint card.

It is important to choose which format is used to present the relationship concepts. It is possible to employ product descriptions in text paragraphs which can give a complete and realistic picture of the product, but these may make the comparison of information in the descriptions difficult (Walley *et al.*, 1999). Also the small number of paragraphs that can be read and sorted through by respondents makes the parameter estimates unreliable (Kotri, 2006). It is more common to use a systemized format which presents product attributes as keywords in columns (as an example see figure 7.3). Keywords are easily comparable and do not include as much rhetoric (Gustafsson *et al.*, 1999). Pictorial presentations or actual product prototypes can also be used for presenting visual attributes, but are nevertheless seldom employed (Jaeger *et al.*, 2001), also they will not be applicable in this study as there are not pictures that can be used for representing relationships.

<b><u>OFFER 1</u></b>	
<b>Price discounts</b>	0 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	No delays

**Figure 7.3 One of 25 concept cards presented to customer (hypothetical concept/offer no. 1).**

## **7.12 Pilot questionnaire**

Auty (1995) postulates that piloting is an indispensable stage of the research but in industrial markets most of the time the sample is not enough for the research let alone the piloting. As a result she suggests using industry experts in a focus group or informal interviews, this stage goes back to the critical stage of the conjoint study of elicitation of attributes and attributes' levels.

The main questionnaire and the conjoint cards have been piloted to the same sample of managers who were used in the elicitation stage. Some changes to the layout of the conjoint cards have been made for more convenient reading of the cards. Also some changes to the wording of the questions in the main questionnaire have been made. The question that asked respondents if they could refer the researcher to any other organizations that they think might want to participate in this research was put in the main questionnaire that was done face-to-face rather than in the screener which was made on the phone, to get a better chance for getting a contact.

## **7.13 Sampling**

In research there are two identified sampling techniques namely probability and non probability sampling. Probability sampling involves “selecting a relatively large number of units from a population, or from specific subgroups (strata) of a population, in a random manner where the probability of inclusion of every member of the population is determinable” (Tashakkori and Teddlie, 2003a; p.713). The aim of probability sampling is representativeness, which is the degree to which the sample represents the population it is derived from (Saunders et al, Lewis, and Thornhill, 2006). While in non-probability sampling the probability of each case being selected from the total population is impossible to predict (Saunders et al, Lewis, and Thornhill, 2006). Teddlie and Yu (2007) provide a detailed comparison between non probability and probability sampling illustrated in table 7.5.

To conduct a probability sample also called scientific or quantitative sample, it is important that a sampling frame exists, which is a complete list of all the cases in the

population from which the sample is drawn. For this study two lists were obtained from two different database sources. The first list was obtained from the German chamber of Industry and Commerce which included 120 carpet wholesalers and retailers. The second list was obtained from an internet database service (freedonia.com), which included 65 carpet wholesalers and a surprising small, only 7, number of recorded retailers of. This list was taken from the main list which included a total number of 495 home furnishing and floor covering wholesalers. Combining both lists from the German Chamber of Commerce and freedonia.com, and looking for similar records of companies, another list was generated and is used for the study. The new generated list included 62 carpet wholesalers and 57 carpet retailers with a total number of 119 Russian carpet companies involved in business to business trade.

Working on the basis that the list available is a complete list of all carpet retailers and wholesalers in Russia will be a mistake and a false assumption as the Russian market lacks complete and informative industry information in most markets. As a result the available list of companies was used but also a question in the questionnaire was included if respondents can refer us to another carpet wholesaler or retailer. This is referred to as snowball sampling, which is a type of non probability sampling that is used when it is difficult to identify members of the desired population and it works by getting the available cases to identify potential other cases that could be of use to the study (Saunders et al, 2006). Errors in sampling are discussed in details in section 7.14.

<b>Dimension of contrast</b>	<b>Non probability</b>	<b>Probability</b>
<b>Other names</b>	Purposeful sampling Qualitative sampling	Scientific sampling Random sampling Quantitative sampling
<b>Overall purpose of sampling</b>	Designed to generate a sample that will address research questions	Designed to generate a sample that will address research questions
<b>Issue of generalizability</b>	Sometimes seeks a form of generalizability (transferability)	Seeks a form of generalizability (external validity)
<b>Rational for selecting cases/units</b>	To address specific purposes related to research questions	Representativeness The researcher selects cases that are collectively representative of the population.
<b>Sample size</b>	Typically small (usually 30 cases or less)	Large enough to establish representativeness (usually at least 50 or more)
<b>Depth/breadth of information per case/unit</b>	Focus of depth of information generated by the cases	Focuses on breadth of information generated by sampling units
<b>When the sample is selected</b>	Before the study, during the study, or both.	Before the study begins.
<b>How is the selection made</b>	Utilizes expert judgments	Often based on application of mathematical formulas
<b>Sampling frame</b>	Informal sampling frame somewhat larger than sample	Formal sampling frame typically much larger than sample
<b>Form of data generated</b>	Focus on narrative data numeric data can also be generated	Focus on numeric data Narrative data could also be generated.

**Table 7.5: Comparisons between purposive and probability sampling techniques (source: Teddlie and Yu, 2007)**

### **7.14 Survey errors**

Errors are deviations from “truth” and one of the most important concerns marketing research is reducing error in cost-efficient ways (Orme, 1998). Groves (1989) as part of his “Total Survey Error” identified 4 types of survey errors, **sampling error**, coverage error, non response error and measurement error. Weisberg (2005) added two more types of errors they are post survey error and response error. Sampling error are “errors that occurs in a survey when one surveys a sample of the population rather than the entire population” (p.18) it occurs when samples of respondents deviate from the underlying population. With random samples, sampling errors are reduced as the sample size is increased (Orme, 1998). If a sample is not random, the sampling error

may be reduced by increasing sample size only to a point. As the sample starts to reflect systematic difference from the whole population and the researchers cannot get any closer to the truth Weisberg (2005). The sample error is reduced when a random sampling is used but Orme (1998) points out that the samples used in marketing research are rarely truly random.

**Coverage error**, when the list from which the sample is taken (sample frame) does not correspond to the population of interest, which is usually the difference between the statistics calculated on the frame population and on the target population (Weisberg, 2005). Weisberg (2005) identified two common approaches to reducing coverage error are (1) obtaining as complete a sampling frame as possible and (2) post-stratifying to weight the survey sample to match the population of inference on some key characteristics. Coverage error is an error that would have occurred in this research if the sample frame obtained was assumed to be complete. The non probability sampling, using the list of companies provided plus the snowball approach, was used to avoid misleading conclusions or generalizations based on a complete sample frame.

Because there are no sampling frames for non probability samples, response rates for those samples are not meaningful. It may be interesting to report response rates when they can be computed, but they cannot be interpreted in the same way that response rates for probability samples are interpreted.

**Response error** when the designated respondent does not participate in the survey (Weisberg, 2005). **Item non-response** error occurs when the respondent participates but skips some questions. Some respondents resist being interviewed, and by selecting themselves out of the study are a source of Non-Response Bias (Groves, 1989). To assess non-respondent bias the firm size distribution was used in the total sample and the respondent group using Chi-square ( $p > .05$ ) which did not differ significantly in the sample. This suggests a minimal level of non-respondent bias.

**Measurement errors** when the measure obtained is not an accurate measure of what was to be measured. Weisberg (2005) provided reasons of why Measurement errors can happen: One, due to respondents not giving an accurate answer to the question (a matter of how well the researcher worded the research question) and two, due to interviewer this happens when effects associated with the interview lead to inaccurate

measures. Finally the sixth type of survey error is **post survey error**, the error that occurs in processing and analyzing survey data (Weisberg, 2005). While it would be best of all of the types of errors to be eliminated, it is impossible (Weisberg, 2005). Researchers need to be aware of them and try to reduce them as much as possible.

### **Survey errors in conjoint measurement**

Generally any design that requires an individual to complete more than about twelve complex profiles or scenarios without some form of reward such as a gift or a reward is perhaps pushing respondents too far (Harrell, 1993). That sometime is a cause of non-response bias due to over-complex survey instruments. It is possible that a certain type of person may be more likely to refuse to complete such surveys; these could be those with who do not have the time or not interested both of these are important segments in any exercise. In this result non response bias for the conjoint questionnaire was 11 out of 59 which results in collecting 48 conjoint questionnaires. The 11 who refused to do the conjoint questionnaires only did the first part of the questionnaire but thought that the conjoint questionnaire is very long for them to do. Generally to reduce non-response bias a gift was taken to the manager to motivate them to complete the whole questionnaire.

Measurement errors in conjoint analysis are reduced by including more conjoint profiles (Orme, 1998). However that might be a cause of respondents fatigue at the same time as there is a limit, as discussed earlier in chapter 6, generally above 20 cards that respondents are no longer able to get reliable responses. Orme (1998) suggests asking enough profiles to obtain three times the number of profiles as parameters to be estimated, or a number equal to:

$$3(N - n + 1)$$

**Where,**

**N = total number of levels**

**n = total number of attributes**

So in this case a number of 3  $(15-6+1) = 30$ . To achieve a balance between overworking the respondent (and getting noisy data) and not asking enough questions

to reasonably stabilize the estimates. So a number of 25 cards were included in the conjoint study for this research which is thought to have the good balance of reducing measurement errors (by having more cards) and reducing respondent's information overload which reduces reliability (by having less cards).

### **7.15 Research questions and data collection methods**

To answer research questions which achieve research objectives different data collection methods have been used and designed. Table 7.6 summarizes how each data collection method used in the research will answer specific stated research questions

<b>Research question</b>	<b>Research objectives</b>	<b>Subsidiary questions</b>	<b>Data collection methods</b>
How can suppliers in the Russian carpet wholesale market increase the value of their customers?	1. To identify attributes in the supplier relationship that customers perceive as most valuable in the Russian wholesale carpet market.	1. What are the attributes that customers perceive as most valuable in their relationship with suppliers?	Semi structured interview: elicitation phase of the conjoint study
	2. To construct a customer relationship value concept for suppliers in the Russian wholesale carpet market to use in their supplier-customer relationship.	2. What are the values assigned to each attribute in the customer-supplier relationships?  3. What are the values assigned for each attribute level in the customer supplier relationship?  4. How to segment customers in the Russian wholesale carpet market using the value concept?	Conjoint cards: the results will be values of attributes of a relationships value and values of each attribute's levels
	3. To identify the structure of the Russian wholesale carpet industry.	5. What is the structure of the Russian wholesale carpet market?	Questionnaire.

**Table 7.6 Research objectives, subsidiary questions and the corresponding collection method.**

## **7.16 Reliability and validity measures**

Collection of responses to a holdout sample, consisting of a subset of the total number of profiles is often preferred since it is less demanding on the part of the respondent (Brascamp and Marr, 1997). Holdout cards are additional to the main cards in that they are not used in the calculation of the utility functions (Auty, 1995). They are used as a measure of internal consistency by measuring the extent to which the derived utility functions can predict ratings of the holdout cards. Usually three holdouts are needed because of the effect of information-overload. Auty (1995) raised the issue of respondents' fatigue which might cause random choice in the final ratings. See section 8.2 for the results of the correlation between the main cards and the holdout cards.

To insure that the results collected from the conjoint procedure are valid meaning they are measuring what they indent to measure a warm up question was included in part 2 of the questionnaire to prepare respondents to the meaning of each attribute and relate it to themselves. The question asked respondents why you think the following attributes are of value to you in your buyer supplier relationship. The interviewer was also responsible to explaining what these attributes are and making sure that at that stage (before the conjoint procedure) respondents fully understood what each attribute means.

## **7.17 Conclusion**

This chapter discussed the main issues involved in what is considered the most important stage of the conjoint study, which is collecting and eliciting conjoint attributes to be used in the conjoint study. A semi structured interview is conducted to collect the relevant attributes and their associated levels. Using the resulting attributes the conjoint questionnaire which is divided into three parts in designed. The third part of the questionnaire is the conjoint cards which are generated using fractional factorials to limit the number of cards to 25.

The sample to be used for the conjoint study is drawn from two different databases namely, German Chamber of Commerce and freedonia.com. One of the limitations of this study is realized as the lists generated for sampling are not confirmed to be complete; this is due to the lack of a complete data base on the Russian market in general. As a result a non probability sampling technique snowballing is used, in addition to the generated list to try to be as complete as possible. Never the less, the sample size and method is an anticipated limitation to this research, as it was not possible to gain access to a full record of existing wholesale carpet businesses in Russia which hindered random sampling. Also an accurate number of how many wholesale carpet businesses are there in the market is not available which limits the ability of calculating how much the sample in this study if of the original population.

The following chapter will present the main results from the questionnaire, which will aim at answering the research questions.

# **Chapter Eight**

## **Results and Analysis**

### **8.1 Introduction**

From the review of the literature a need for an accurate estimation of business-to-business relationships was realized. In addition, the Russian market lacks marketing information due to the minimal research done specifically in the business-to-business market.

From the field research, this chapter summarizes results from the questionnaire and the conjoint study. The analysis is aimed at answering the following four questions which leads to achieving the research objectives.

6. What are the factors that Russian customers consider to be most valuable in their supplier relationships?
7. How to evaluate and measure customer relationships in the Russian business market?
8. Is there a significant difference between segments within the wholesale Russian carpet market based on what they value in a relationship?
9. What is the structure of the wholesale Russian market for carpets?

### **8.2 Variables tested in the conjoint model**

The first part of the questionnaire is a screening phase to get the main contact information about the respondents. This was done on the phone to make the initial contact with the respondent, filtering out ineligible respondents (those whose suppliers are not wholesalers). The list used to get the potential respondents was the one collected at the secondary research. The referral question helped in getting only 4 company contacts that were not on the available list of companies. On the phone interview once the respondent fit the criteria wanted for the research which is carpet wholesalers or retailers whose

suppliers are wholesalers an appointment was scheduled for the face-to-face interview. A total of 59 carpet wholesale trading companies were interviewed of which only 48 agreed all the questionnaire part 2 and part 3 (conjoint cards). A gift was taken to respondents to encourage them to do the whole questionnaire and reduce non response bias.

The number of usable surveys collected was 48. Ordinary least square regression was used to estimate respondent's preference coefficient for attribute levels.

The reliability measures of Pearson's R and Kendall's tau. The Kendall's tau for the holdout cards was 0.3008, which is considered sufficient in a conjoint task (Hair et al., 1998). See

Table 8.1 which lists relationship value attributes and there corresponding levels, which were elicited in chapter 7.

		Level 1	Level 2	Level 3	Level 4	Level 5
Factor 1	Price Discounts	0%	3%	5%	7%	10%
Factor 2	Length of relationship	Long term relationship	Medium term relationship	Short term relationship		
Factor 3	Communication	Personal	Impersonal			
Factor 4	Credit Facilities	Full Payment in cash	Payment on credit	Full payment upon selling		
Factor 5	Demanded Products	Highly demanded	Medium demanded	Fairly Demanded		
Factor 6	Delays in operations	No delays in operations	Acceptable delays	Often / usual delays		

**Table 8.1 Variables (factors & levels) tested in the study.**

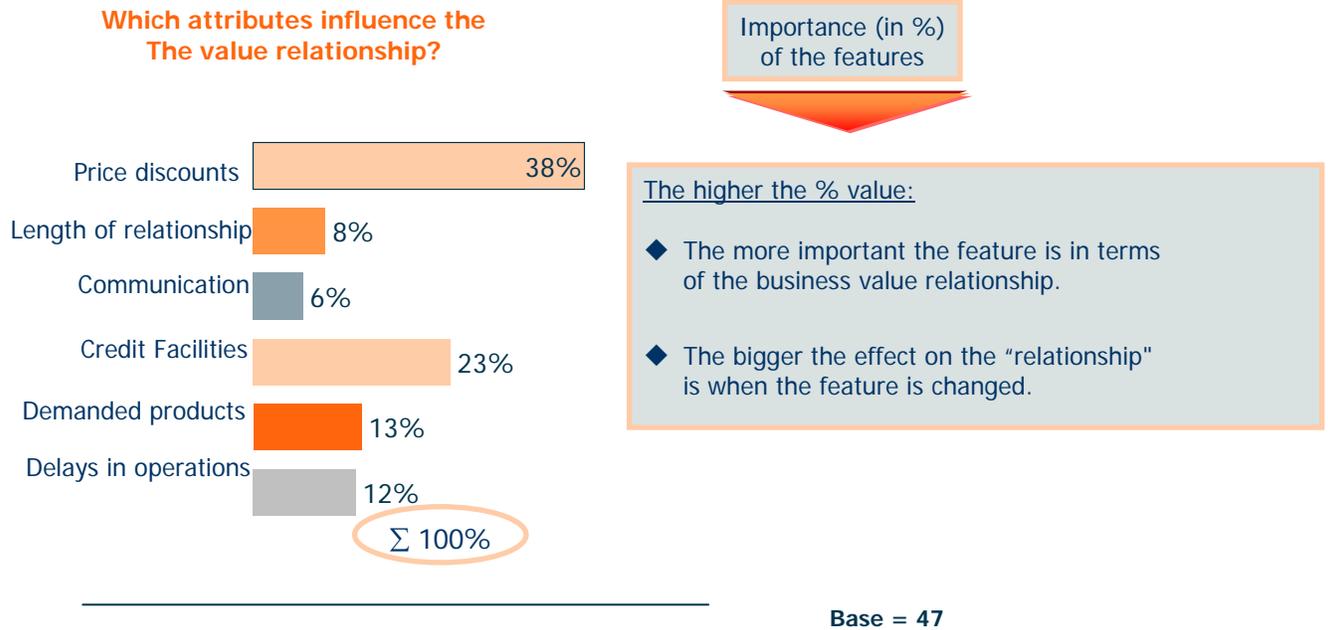
Conjoint utilities or part-worths are scaled to an arbitrary additive constant within each attribute and are interval data (Stevens, 1946). Interval data permit the simple operations of addition and subtraction (Lapin, 1993). The rating scales such as the one used with this research to rate conjoint profile are common to market research provide interval data.

The arbitrary origin of the scaling within each attribute results from dummy coding in the design matrix. When using a specific kind of dummy coding called effects coding, utilities are scaled to sum to zero within each attribute.

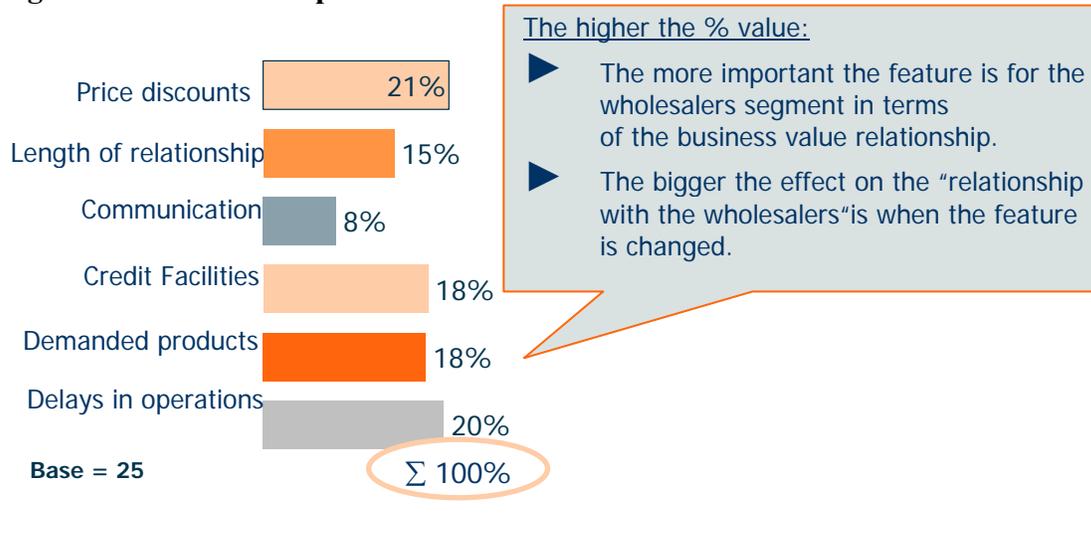
<b>Length of relationship</b>	<b>Utility</b>
Long term	(+) 0.276
Medium term	(+) 0.008
Short term	(-) 0.284

Short term received a negative utility value, but this does not mean that short term relationship was unattractive. In fact, short term relationship may have been acceptable to all respondents. But, all else being equal, medium term and long term relationships are better. The utilities are scaled to sum to zero within each attribute, so short term must receive a negative utility value. Other kinds of dummy coding arbitrarily set the part-worth of one level within each attribute to zero and estimate the remaining levels as contrasts with respect to zero.

### 8.3 Attributes' importance

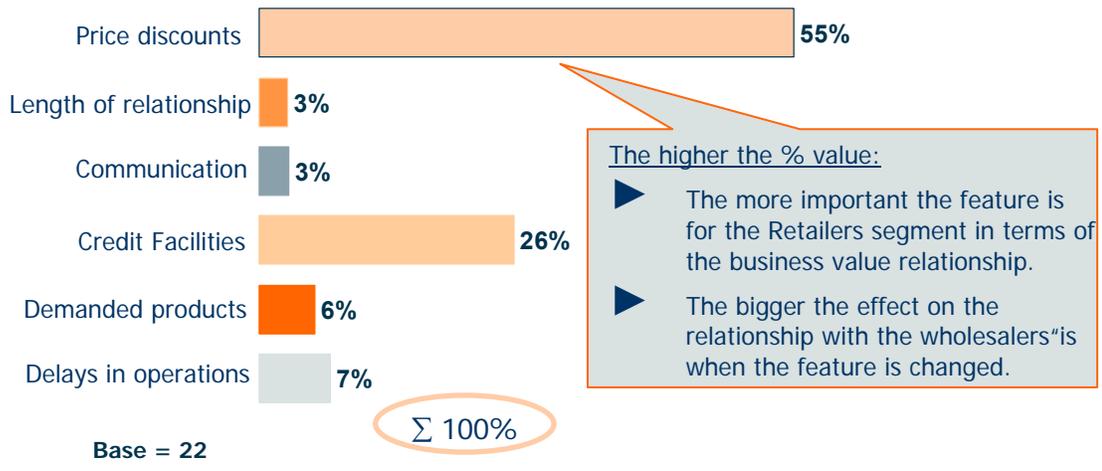


**Figure 8.1 Attribute importance: All Traders**



**Figure 8.2 Attribute importance: Wholesalers**

**Which attributes influence the value relationship from Retailers point of view?**



**Figure 8.3 Attribute importance: Retailers**

Price discount is agreed by all carpet-traders to be the most important factor to the business-to-business relationship-value in the Russian carpet market. However the weight of its importance varied greatly when segmenting the market into wholesalers and retailers. The retailers placed a significantly higher value on price-discount compared to wholesalers (55% vs. 21%).

Clear discrepancies were identified between wholesalers and retailers with regards to the relative importance they placed on the different attributes of the relationship value in Russian business-to-business carpet market (see tables 7.2, 7.3 and 7.4).

<b>Importance</b>	<b>Attribute</b>
1 <sup>st</sup>	Price discount
2 <sup>nd</sup>	Credit facilities
3 <sup>rd</sup>	Demanded products
4 <sup>th</sup>	Delays in operations
5 <sup>th</sup>	Length of relationships
6 <sup>th</sup>	Communication

**Table 8.2 All traders' importance rating of relationship value attributes.**

<b>Importance</b>	<b>Attribute</b>
1 <sup>st</sup>	Price discount
2 <sup>nd</sup>	Delays in operations
3 <sup>rd</sup>	Credit facilities
3 <sup>rd</sup>	Demanded products
4 <sup>th</sup>	Length of relationships
5 <sup>th</sup>	Communication

**Table 8.3 Wholesalers' importance rating of relationship value attributes.**

<b>Importance</b>	<b>Attribute</b>
1 <sup>st</sup>	Price discount
2 <sup>nd</sup>	Credit facilities
3 <sup>rd</sup>	Delays in operations
4 <sup>th</sup>	Demanded products
5 <sup>th</sup>	Length of relationships
5 <sup>th</sup>	Communication

**Table 8.4 Retailers' importance rating of relationship value attributes.**

Wholesalers gave more-or-less equal values to the given six attributes/factors except for the communication factor which was the least important factor at only 8%. Unlike wholesalers, the “price discount” factor was by far the most important factor to the business-to-business relationship among retailers relative to the other factors, followed by the “credit facilities” attribute, both account for more than 80% of the total values see (appendix D) for reasons for perceiving factors as important.

## 8.4 level preferences

### Price Discounts Preferences:

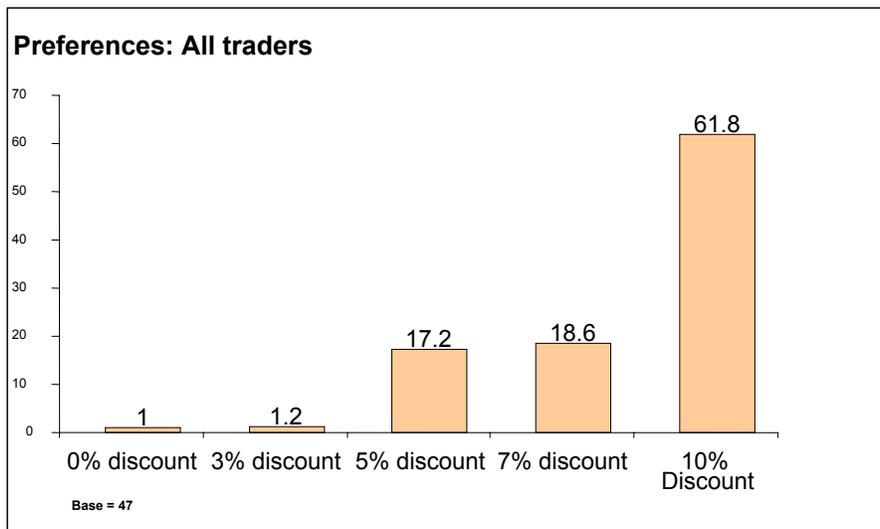
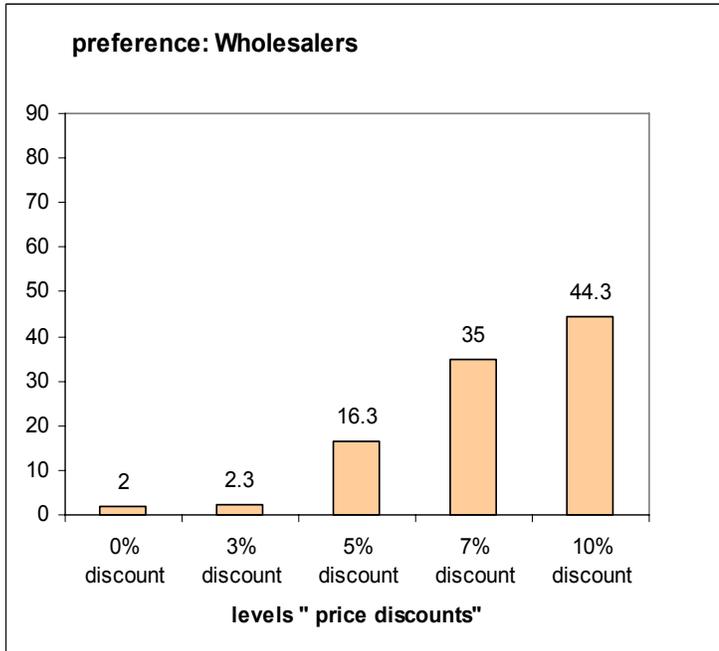


Figure 8.4 Price Discounts Preferences: All Traders

- ▶ The higher the preference, the greater the influence the feature has on the value relationship among all carpet traders.
- ▶ Clear differences (over 20%) are important for interpretation between the preferences.
- ▶ Preference values can be compared within one feature as well as between all features.
- ▶ The actual values of each feature in such a study are not to be interpreted,



Base = 22



Base = 25

**Figure 8.5 Price Discounts Preferences: Wholesalers & Retailers each alone**

The price discount attribute is confirmed by all Russian carpet-traders to be the most important attribute within the business-to-business relationship. **The general trend is that the higher the price discounts the higher the preference among both wholesalers and retailers.** However retailers are skewed more towards higher discounts compared to wholesalers as they placed an 81.8% preference on the 10% discount level compared to a 44.3% preference placed by wholesalers on the same level.

Wholesalers show variations on level preference which is not related to the levels 0% and 3% showing the least and very close preference rates (2% and 2.3%) respectively. Retailers showed a different uneven distribution of preference on attribute levels where the levels 0%, 3% and 5% were assigned a zero preference. All their preference was assigned to the levels 7% and 10% with a big difference between them, as the 10% discount was given 81.8% preference leaving 18.2% preference for the 7%.

## Length of relationship Preferences:

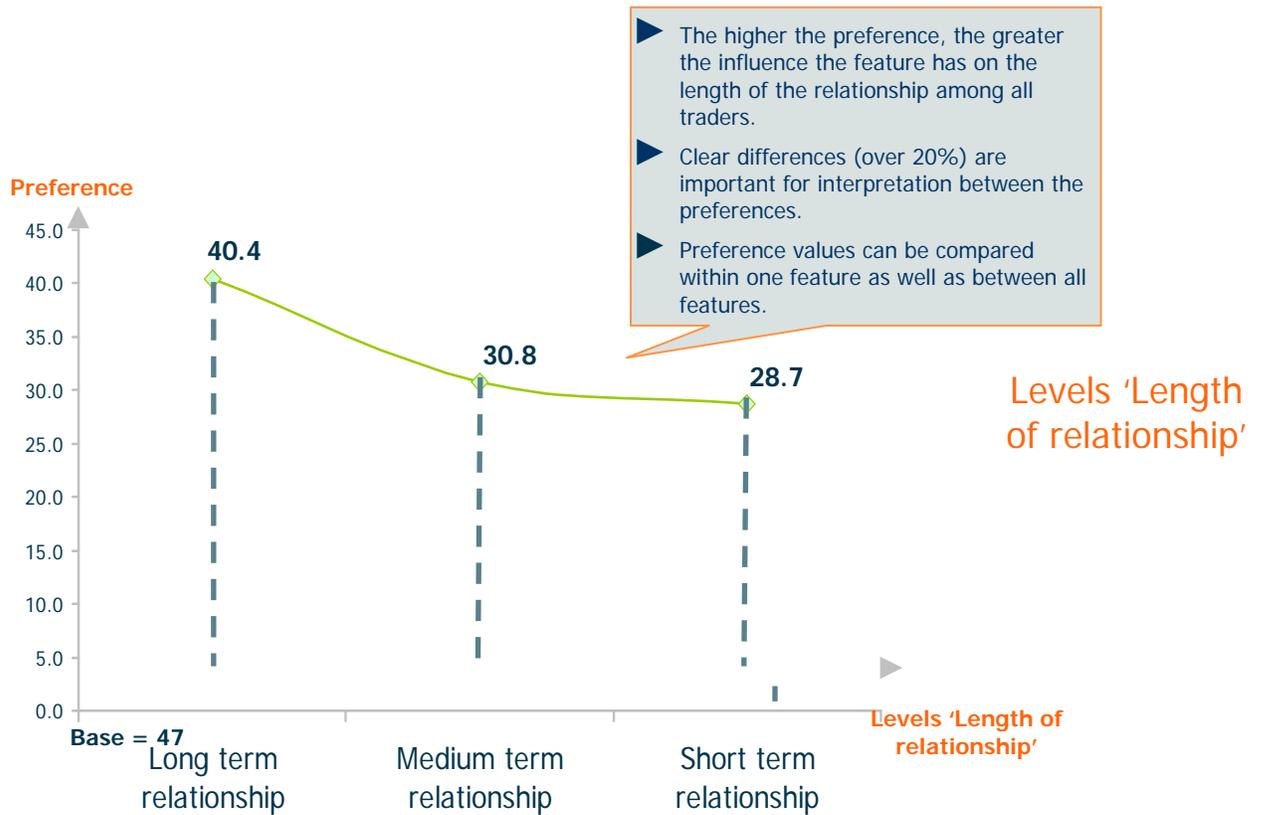
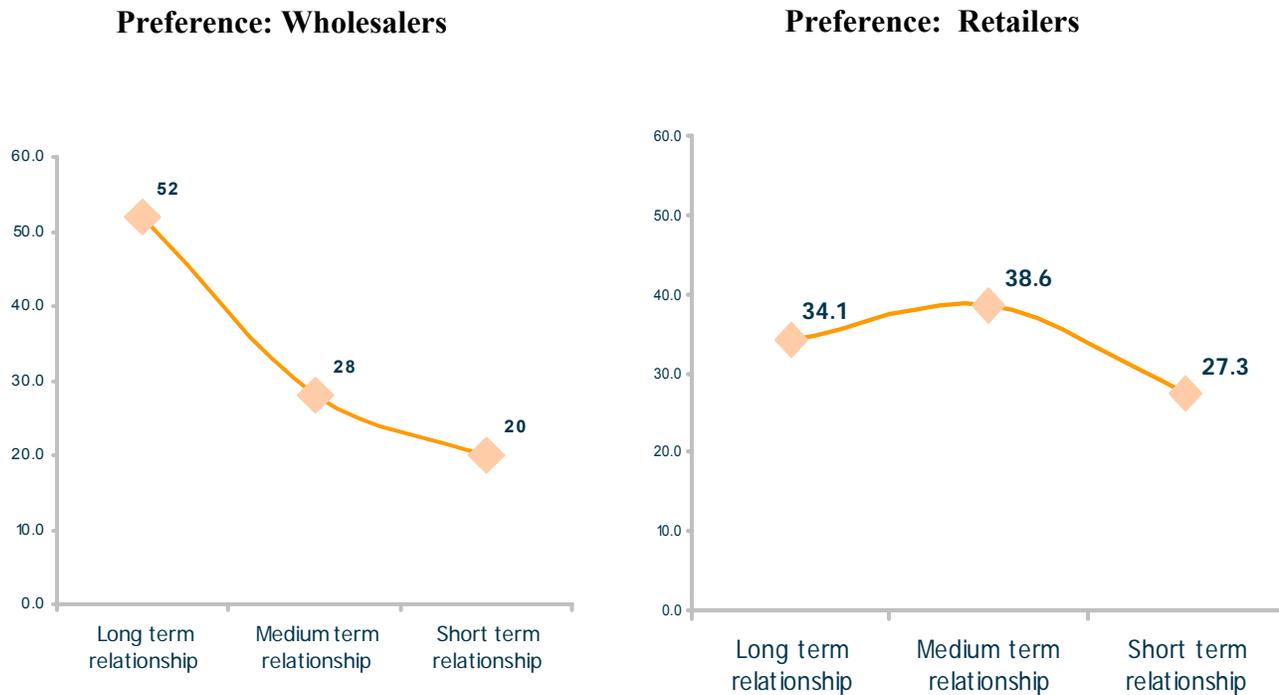


Figure 8.6 Length of Relationship Preferences: All Traders



**Figure 8.7 Length of Relationship Preferences: Wholesalers & Retailers each alone**

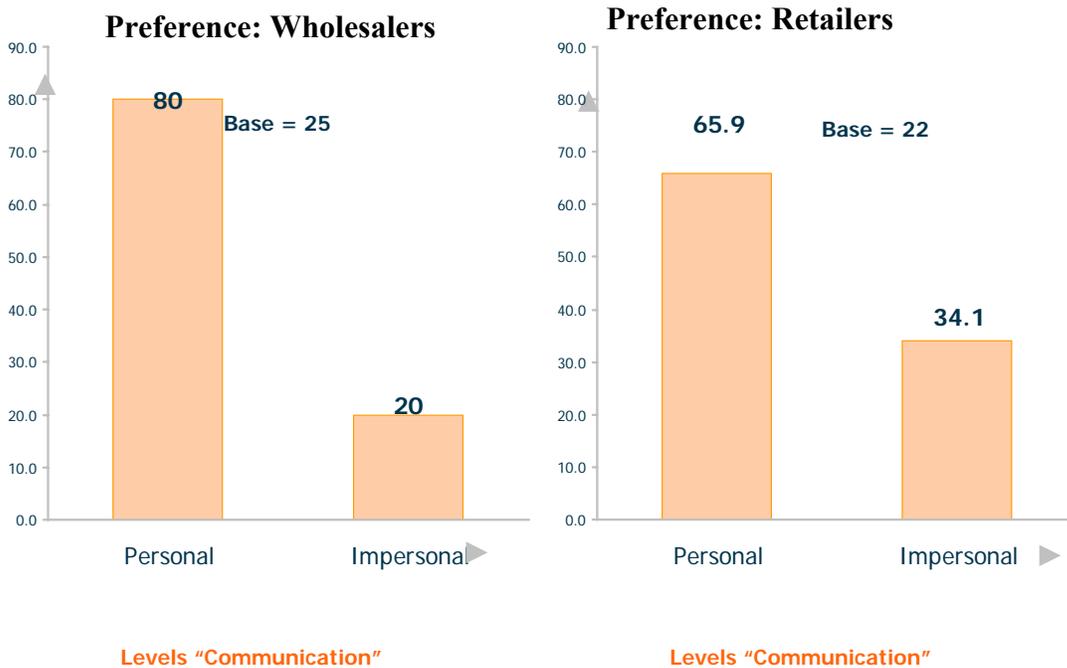
Length-of-relationship attribute has been confirmed by all traders that **the longer the length of the relationship the higher the preference among traders**. Nevertheless, this differs when looking at the values placed by retailers and wholesalers separately. When looking at retailers separately, they placed the highest preference of 38.6% on medium-term relationships and their lowest preference on 27.3% on short-term relationships. The difference between attribute's levels preference is not as significantly large as it is 11.3% difference between the levels short-term and medium-term relationship and 4.5% difference between the levels medium-term and long-term relationship.

Wholesalers showed a different preference for relationship levels as they placed their highest preference of 52% on long-term relationship and their lowest of 20% on short-term relationship. The difference between levels show more variations than in retailers as there is an 8% difference between the short-term and medium-term relationship level and 24% difference between the medium-term and long-term relationship level.

**Communication Preferences:**



**Figure 8.8 Communication Preferences: All Traders**

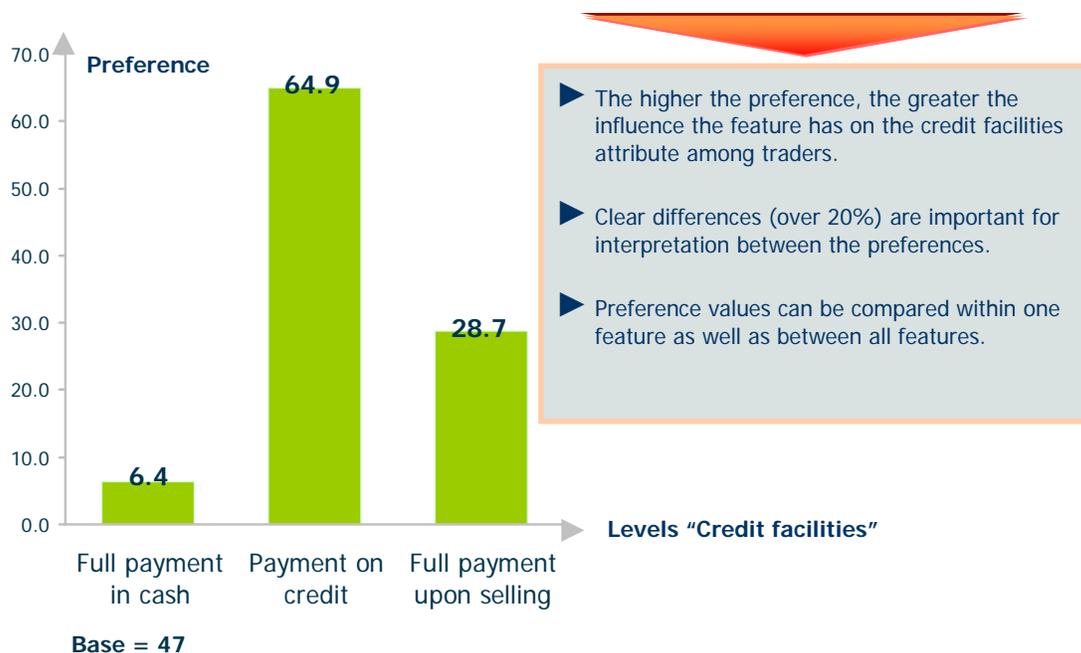


**Figure 8.9 Communication Preferences: Wholesalers & Retailers each alone**

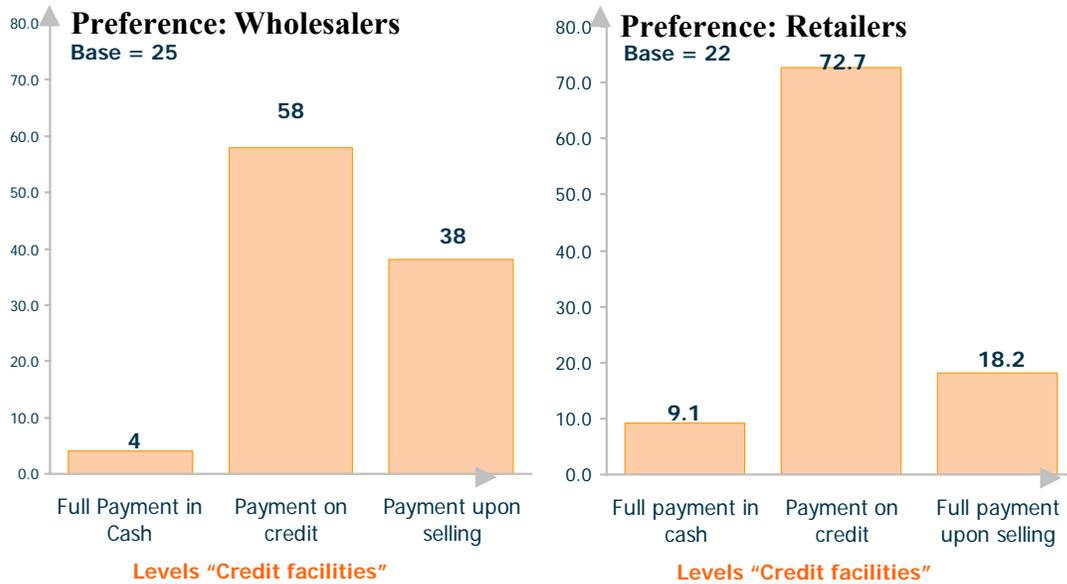
Communication, which was rated the least important of attributes, is measured with two attribute levels namely personal and impersonal. **Personal communication seems to be very important whenever it exists.** This applies to both retailers and wholesalers. Any business involvement for Russians means some kind of social involvement and any social involvement will call for one toast after another.

For all traders there is a noticeable difference between the preference towards personal communication with 73.4% and impersonal communication with 26.6%, a difference of 46.8%. Wholesalers showed the same tendency to favour personal communication with an 80% preference compared to 20% for impersonal communication with a difference of 60%. Retailers showed the least difference between levels with a difference rate of 31.8%.

**Credit facilities Preferences:**



**Figure 8.10 Credit facilities Preferences: All Traders**



**Figure 8.11 Credit Facilities Preferences: Wholesalers & Retailers each alone**

For all traders, payment-on-credit yield the highest preference rate at 64.9%, with a significant difference full payment yield of 28.7%, full payment in cash is the least-preferred as it yielded 6.4% preference rate.

By segmenting the sample into wholesalers and retailers, segments showed the same tendency as the overall sample of all traders but wholesalers showed more variations with a noticeable difference between the full payment in cash level at 4% and the other two levels payment on credit at 58% and payment upon selling at 38% preference rate.

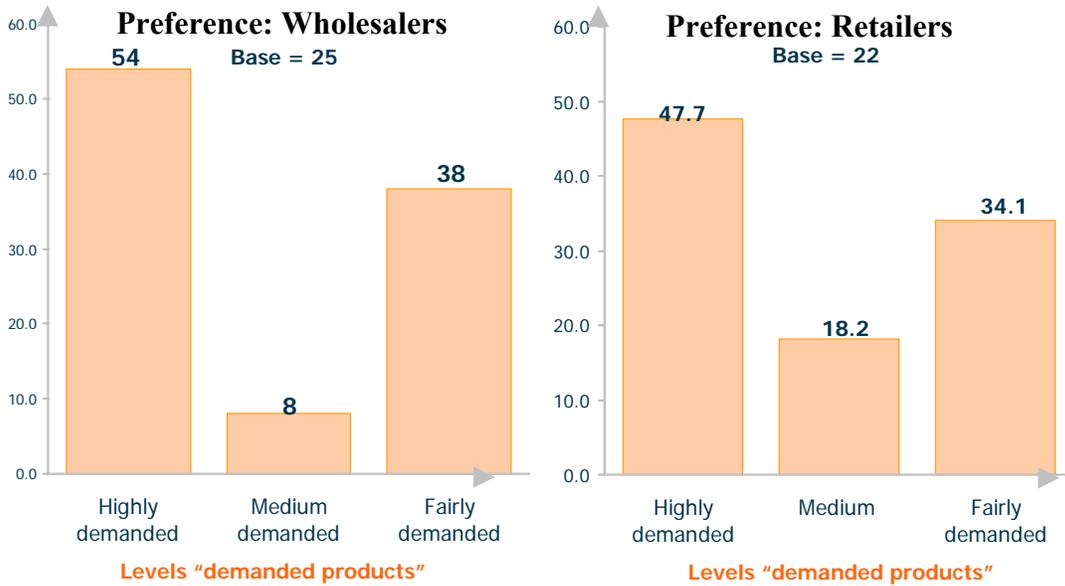
## Demanded Products Preferences:



**Figure 8.12 Demanded Products preferences: All Traders**

Respondents assigned higher values for highly-demanded products with a preference of 51.1% (products/orders very close to what the customer has specified or required) the second preferred level is fairly-demanded with a 36.5% preference rate (the product/order represents mostly what the supplier sees as required or demanded in the market), medium-demanded came last with a preference of 12.7%.

The preference for this attribute shows an irregular distribution in the form of a U shape, where the least preference is placed on the medium demanded products.



**Figure 8.13 Demanded Products Preferences: Wholesalers & Retailers each alone**

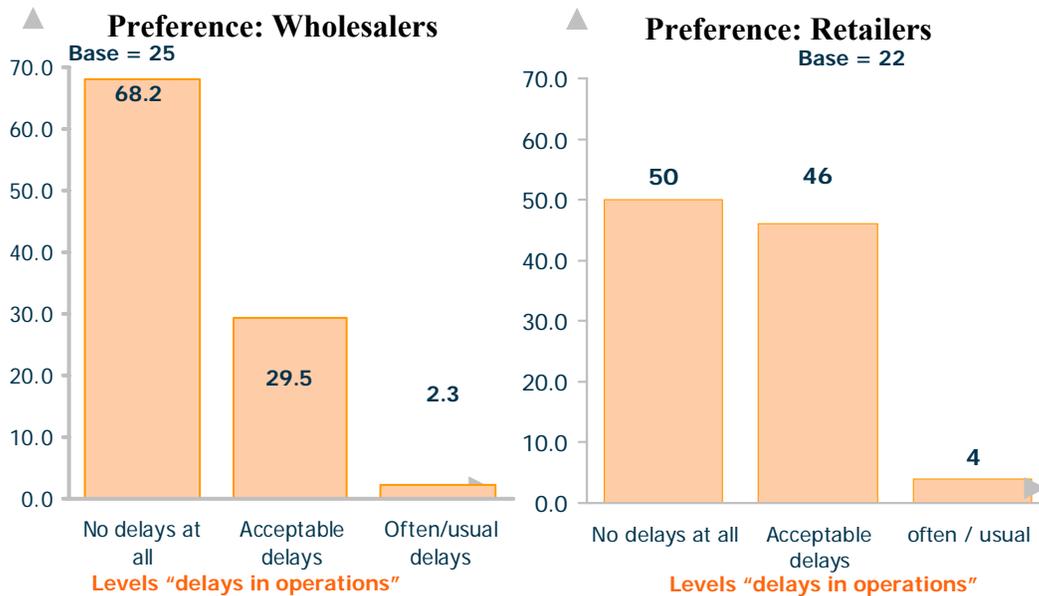
The same order of preference is expressed in the wholesalers and retailers segments but wholesalers showed the least preference for medium-demanded products with an 8% preference rate.

**Delays in operations preferences:**



**Figure 8.14 Delays in Operations Preferences: All Trader**

A delay in operations was measured using three levels: namely, no delays at all, acceptable delays in operations and often/usual delays. All traders preferred the no-delays-at-all level with a 56.4% preference rate, acceptable delays came second with a 27.6% preference rate and often/usual delays came least preferred with a preference rate of 16%.



**Figure 8.15 Delays in Operations Preferences: Wholesalers & Retailers each alone**

When segmenting the market into wholesalers and retailers the same order of preference is observed but with a different weight assignment to levels. Wholesaler assigned their highest weighting to “no delays at all” with a 68.2% preference rate compared to a 50% preference rate assigned by retailers. Also retailers seem to be more tolerant of “acceptable delays” as they assigned it a 46% preference rate compared to 29.5% preference rate assigned by wholesalers. Both segments assigned a very low preference rate to “often/usual delays” with 2.3% for wholesalers and 4% for retailers.

## 8.5 Total Utilities

The following are utilities for attribute levels for all traders, wholesalers, and retailers and also for segments based on product type namely Type A, Type B and Type C. The table represents the amount of utility provided to the customer for each of the levels by converting them numerically and this is termed the utility value.

Association measures (Pearson's *R* and Kendall's Tau) are calculated for each group. It assesses the validity of the conjoint analysis model and how well the conjoint model fits. They have a theoretical maximum of 1, indicating perfect agreement between the estimated utilities of the cards and the subject's (or group's) ratings. The closer the reading to one indicates the better the agreement between the averaged product ratings and the predicted utilities from the conjoint analysis model.

Pearson's correlation coefficient is a robust parametric statistic that can measure the strength of association between two variables even when mathematical assumptions appear violated (Smith and Albaum, 2004). Kendall's tau however is a non-parametric measure of association that makes no assumption regarding frequency distribution (Field, 2003).

## 8.6 Summary of Utilities:

### All Traders

Association measures for the group all traders are as follows. See table 8.5 for the associated utilities.

Pearson's R	= .555
Kendall's Tau	= .507
<b>Cronbach's</b>	<b>= .878</b>

		Linear Utility				
		Utility values of different levels with each factor				
	Relative Importance	0%	3%	5%	7%	10%
Price discounts	38.40%	(-) 1.174	(-) 0.710	(-) 0.093	(+) 0.597	(+) 1.380
Length of relationship	8.42%	Long Term	Medium	Short Term		
		(+) 0.276	(+) 0.008	(-) 0.284		
Communication	5.89%	Personal	Impersonal			
		(+) 0.196	(-) 0.196			
Credit Facilities	22.85%	Full in cash	On credit	Upon selling		
		(-) 0.848	(+) 0.671	(+) 0.177		
Demanded Products	12.54%	Highly	Medium	Fairly		
		(+) 0.331	(-) 0.503	(+) 0.172		
Delays in operations	11.90%	No delays	Acceptable	Often/usual		
		(+) 0.383	(+) 0.026	(-) 0.409		

**Group results from Conjoint**

- ▶ Pearson's R = .555
- ▶ Significance = .2366
- ▶ Kendall's tau = .507
- ▶ Significance = .2295
- ▶ Cronbach's = 0.878

**Table 8.5 Total Utilities for Attributes and Attributes' Levels for all Traders**

**Wholesalers:**

Association measures for the group wholesalers are as follows see table 8.6 for the associated utilities.

Pearson's R = .430  
 Kendall's Tau = .418  
 Cronbach's = .727

	Relative Importance	Utility values of different levels with each factor				
Price discounts	20.67%	0%	3%	5%	7%	10%
		(-) 0.637	(-) 0.421	(+) 0.139	(+) 0.179	(+) 0.739
Length of relationship	14.54%	Long Term	Medium	Short Term		
		(+) 0.523	(-) 0.077	(-) 0.445		
Communication	8.19%	Personal	Impersonal			
		(+) 0.273	(-) 0.273			
Credit Facilities	18.33%	Full in cash	On credit	Upon selling		
		(-) 0.677	(+) 0.543	(+) 0.135		
Demanded Products	18.15%	Highly	Medium	Fairly		
		(+) 0.497	(-) 0.711	(+) 0.213		
Delays in operations	20.13%	No delays	Acceptable	Often/usual		
		(+) 0.519	(+) 0.303	(-) 0.821		

**Group results from Conjoint**

- ▶ Pearson's R = .430
- ▶ Significance = .3737
- ▶ Kendall's tau = .418
- ▶ Significance = .3523
- ▶ Cronbach's = 0.727

**Table 8.6 Total Utilities for Attributes and Attributes' levels of Wholesalers**

## Retailers

Association measures for the group retailers are as follows see table 8.7 for the associated utilities.

Pearson's R = .582

Kendall's Tau = .536

Cronbach's = .935

	Relative Importance	Utility values of different levels with each factor				
Price discounts	54.81%	0%	3%	5%	7%	10%
		(-) 1.784	(-) 1.038	(-) 0.356	(+) 1.071	(+) 2.107
Length of relationship	2.88%	Long Term	Medium	Short Term		
		(-) 0.005	(+) 0.105	(-) 0.100		
Communication	3.05%	Personal	Impersonal			
		(+) 0.108	(-) 0.108			
Credit Facilities	26.19%	Full in cash	On credit	Upon selling		
		(-) 1.042	(+) 0.817	(+) 0.226		
Demanded Products	5.76%	Highly	Medium	Fairly		
		(+) 0.142	(-) 0.267	(+) 0.124		
Delays in operations	7.30%	No delays	Acceptable	Often/usual		
		(+) 0.229	(+) 0.209	(+) 0.061		

**Group results from Conjoint**

- ▶ Pearson's R = .582
- ▶ Significance = .2465
- ▶ Kendall's tau = .536
- ▶ Significance = .2262
- ▶ Cronbach's = 0.935

**Table 8.7 Total utilities for attributes and attributes' levels of retailers.**

### 8.7 The Utility Concept

The resulting utility values for attributes' levels could be utilized to construct what we called the utility concept of an offer or a relationship that one company has with another. Management in the supplier company could use these utilities by inputting them in the value equation, which would be the total utility or the utility concept of a certain offer.

The following example 1 shows how a utility is suggested to be used in constructing a concept for each customer by replacing each attribute in the value equation with its related utility value from the associated table.

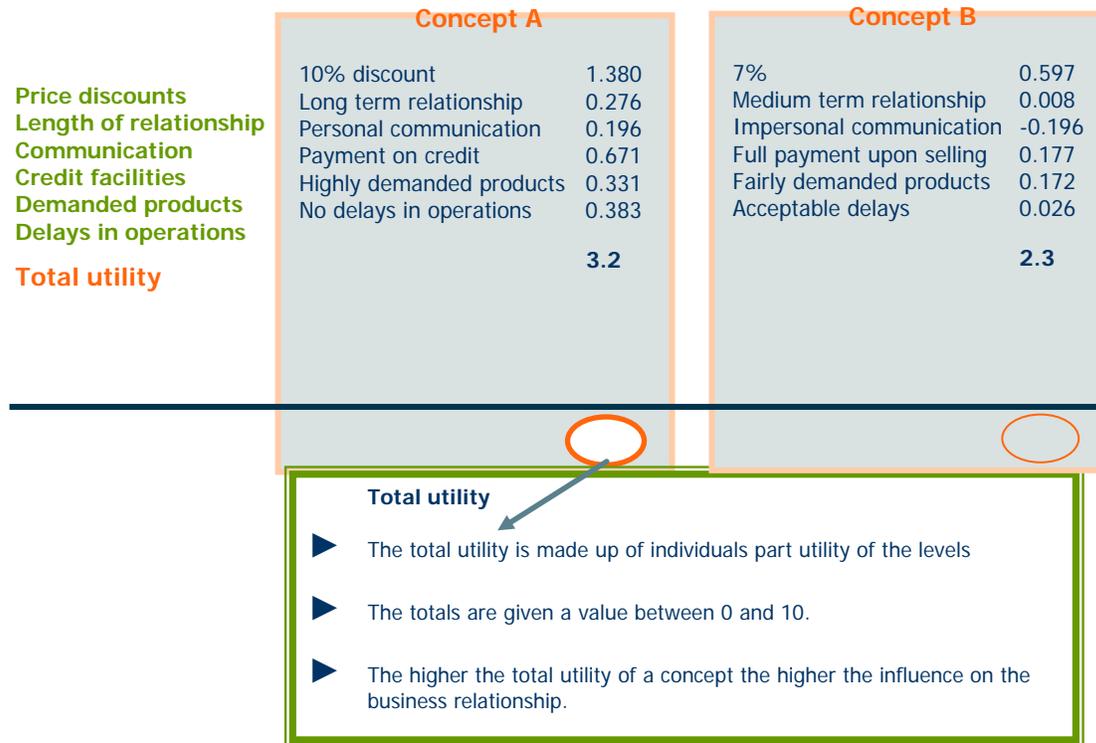
**Example 1:**

Utility (Price discount 10%) + utility (long term relationship) + utility (personal communication) + utility (Payment on credit) + utility (highly demanded products) + utility (No delays in operations)

**OR:**  $(1.380) + (0.276) + (0.196) + (0.671) + (0.331) + (0.383) = 3.2$  (concept A) see example 1, figure 8.16.

The value concept is reduced if the combination of the attributes in a customer relationship changes such as in the case of concept B, figure 8.16.

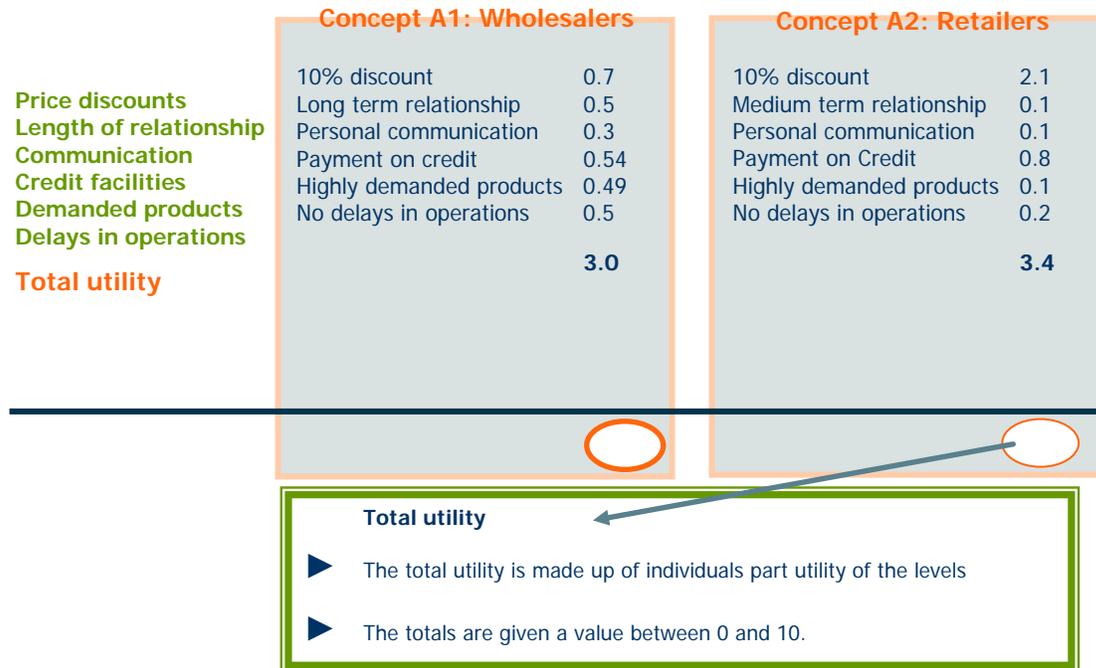
**Total utility: All Traders**



**Figure 8.16 Value Concept Example 1**

**Total utility: Wholesalers vs. Retailers**

As the study managed to segment the utility values for wholesalers against retailers, this allows for a more accurate calculation for a concept value if the appropriate utilities for the concerned customer is used depending on his business whether retail or wholesale. Example 2 shows how if segmentation is used based on a retailer/wholesaler basis, by using utility values from the associated tables, it could generate a more accurate estimation of total utility value see figure 8.17.



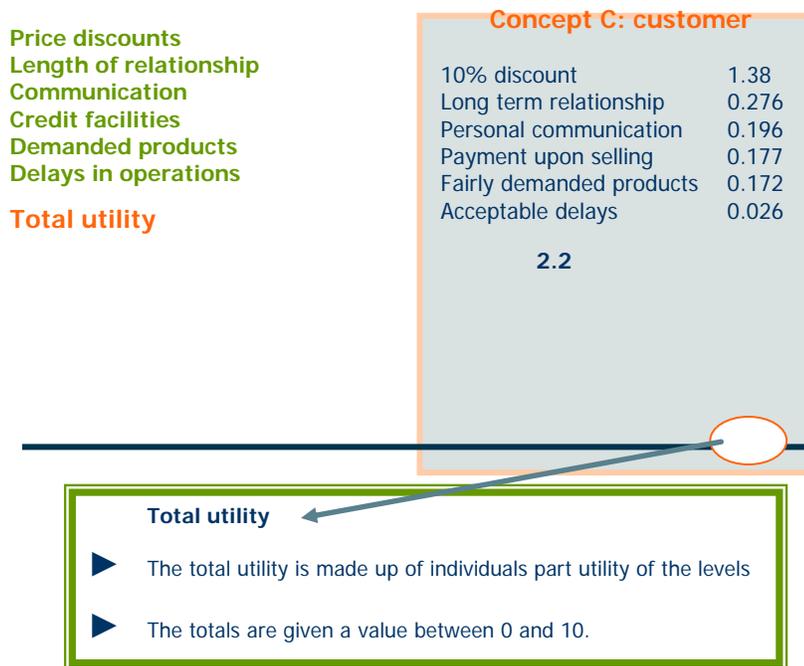
**Figure 8.17 Value Concept Example 2**

**Total utility: Summary**



**Figure 8.18 Summaries of value concepts in example 1 and 2.**

Because of resource limitations businesses have to trade-off attributes to achieve the optimum positive utility concept. One of the advantages of the utility concept is that it allows for trade-off between the attributes. An example of how a supplier can use its concept utility to provide the optimum value by trading-off attributes' levels is provided in example 3 (see figure 8.18). From the utilities table 8.5 (all traders) price discounts of 10% generated the highest utility value not only for the price discount attribute but also for all the attributes. Not all suppliers are able to provide a price discount at this level but if provided, it gives the supplier a chance to make the value concept equation work to their advantage. Providing one attribute at its highest possible value (in this case a 10% price discount), gives the supplier the possibility to be relaxed on the rest of the value concept attributes, and still provide a total positive relationship value (see concept C).

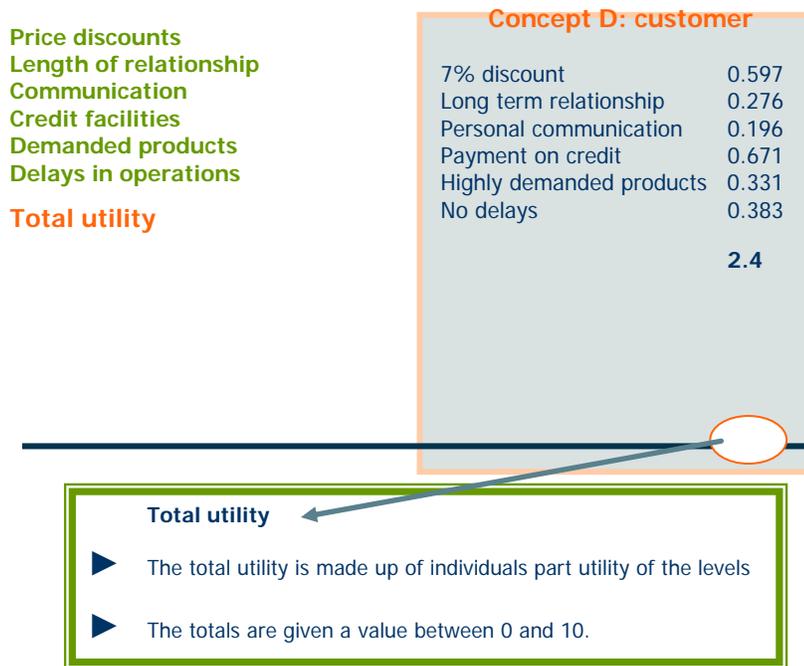


**Figure 8.19 Value Concept Example 3**

In concept C where the supplier is able to provide a 10% discount, it was possible to apply a payment upon selling condition which generates the revenue faster for the supplier than a payment on credit; in this case the supplier used the value concept to generate more value for himself. In addition the supplier can be more relaxed about the delivery time insuring that even if the products were delivered at an acceptable delay it

will not reduce the concept value for the customer. Another benefit that a supplier gains is providing fair demanded products means that most of the product delivered is what the supplier sees as a better selling product type/types rather than providing all the products a customer sees as a better selling. This concept works better where the customer company uses the supplier as a source of information about their products and which products would sell better in their markets, or where the customer company is not strict about what type of carpet to sell as long as it will be within the colour, design, and quality range that is known to work well in the market.

In another case, if a supplier company is not able to provide the 10 % discount but needs to ensure that its offering will not be far less than a value of 2.2, this is where the trade-off between attributes' levels has to take place. See the following example 4, illustrated in figure 8.20.



**Figure 8.20 Value concept example 4**

In example 4 the maximum price discount the supplier is able to provide is 7%, in order for the concept value not to fall far off 2.2 utility value in concept C, concept D is formed

by trading-off attributes' levels in concept C with others levels that would provide higher values to balance the loss from moving down to a 7% level. Consequently, a fairly-demanded product had to be substituted for a highly-demanded one, an acceptable delay level to a no delay level and an upon-selling credit facility to an on credit facility. This gives a total 2.4 utility value which does not fall far off the concept C (2.2) considering that in both concept C and D the same supplier with the same customer was considered so the length of the relationship attribute could not be changed as it is a given fact. Changing from personal to impersonal communication will most probably cause a huge disappointment for the customer company as it is not what they are used to and what the supplier company is trying to provide is the minimum level that was provided in concept C.

Examples 3 and 4 provide an illustration of how the concept utility can be used to trade-off level attributes to form the optimum offering for a customer, obviously the higher the better but it is all a matter of matching resources and capabilities to concept levels consequently achieving the optimum combination.

A concept utility value of a minus figure means that the customer company is sacrificing more than it benefits and the supplier should work at bringing the level of utility level to a positive value. The same applies for a zero utility value which means that the customer value it sees itself as sacrificing equally as much as it is benefiting.

## **8.8 Summary of the utility values by traders' type**

### **Price discounts**

The 10% price discount level has the highest relative importance amongst all other attributes and it includes the highest attribute level between all attributes with a (1.38) utility value. This makes it the most important tool to use to raise the total utility value of the customer company.

Although the difference between levels in the attribute price discounts does not seem to be large they show a significant variation between them, this variation can be seen between a 10% and a 7% level (all traders). This result changes when segmenting the sample to wholesalers and retailers utility values. For wholesalers the variation significance is the same between 10% and 7% and between 5% and 3% while for retailers the significant variation is between 7% and 5% and between 5% and 3%.

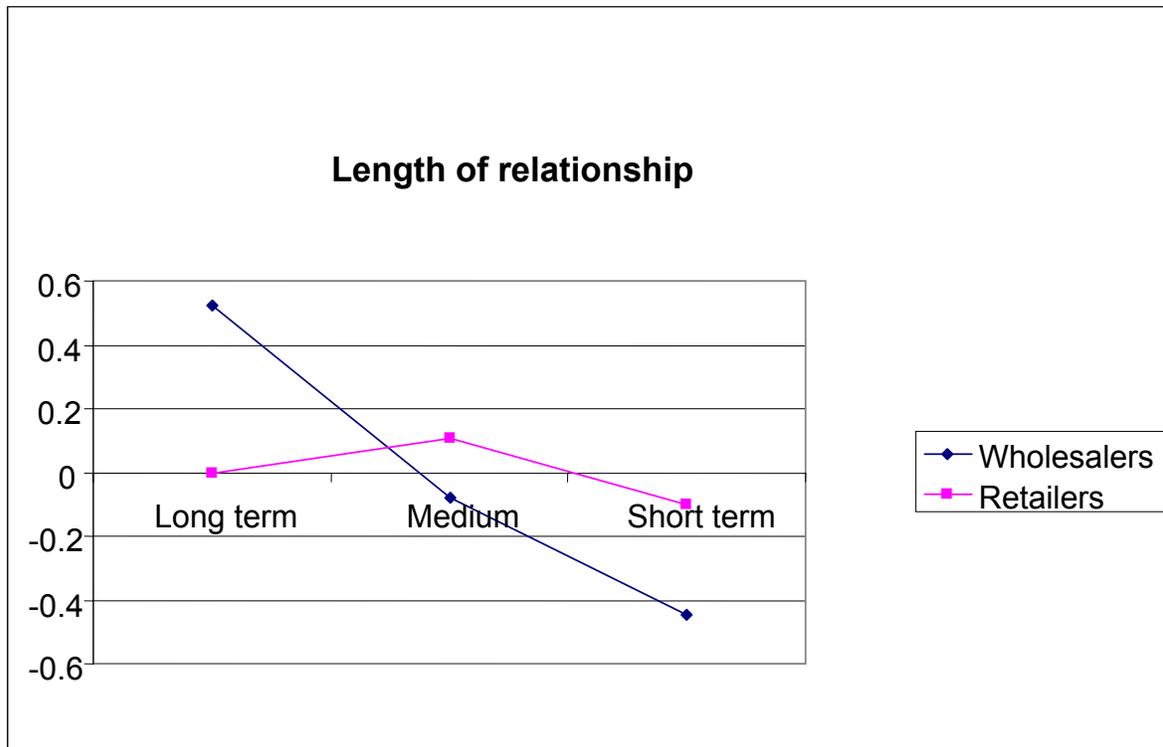
Consequently there are notable differences between wholesalers and retailers utility-values for some price discount levels. The 5% and 7% level is valued more by retailers than by wholesalers; the same is true for the 10% level, which is valued higher by retailers than wholesalers. The 0% and 3% showed a contradicting result to the above levels where wholesalers valued them more at than retailers, which means that the 0% reduced utility value for retailers than it does for wholesalers. (See figure 8.21)



**Figure 8.21 Price Discount Utilities for Wholesalers and Retailers (compared)**

### Relationship Length

Relationship length is another attribute that showed significant variations between retailers and wholesalers. Wholesalers valued a long-term relationship assigning it a positive value of 0.523, while for retailers it carried a negative -0.005. The variation shows on the medium-relationship level where retailers placed a positive value of 0.105 on while wholesalers assigned a negative value of -0.077. For short-term relationships they both assigned a negative value of -0.445 for wholesalers and -0.100 for retailers. (See figure 8.22)

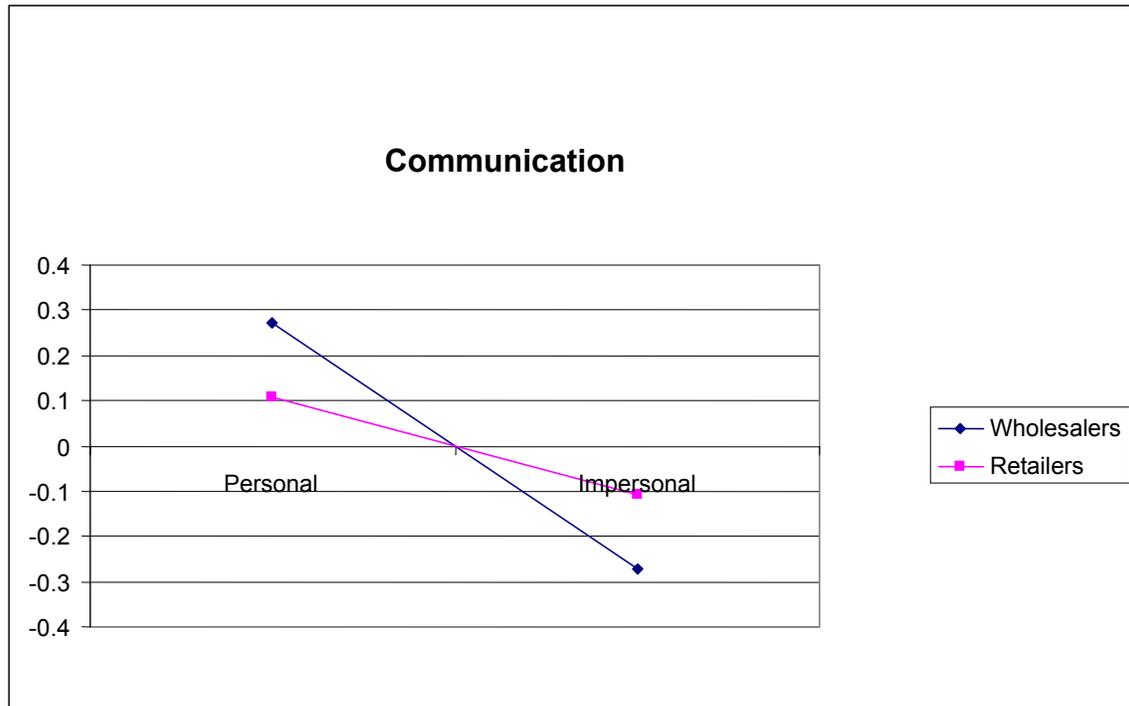


**Figure 8.22 Length of Relationship Utilities for Wholesalers and Retailers (compared)**

### Communication

Both wholesalers and retailers showed the same tendency to assign a negative value to impersonal communication and a positive value to personal communication but wholesalers valued personal communication, with a 0.273 utility value, more than retailers with a 0.108. The impersonal communication was valued less by wholesalers,

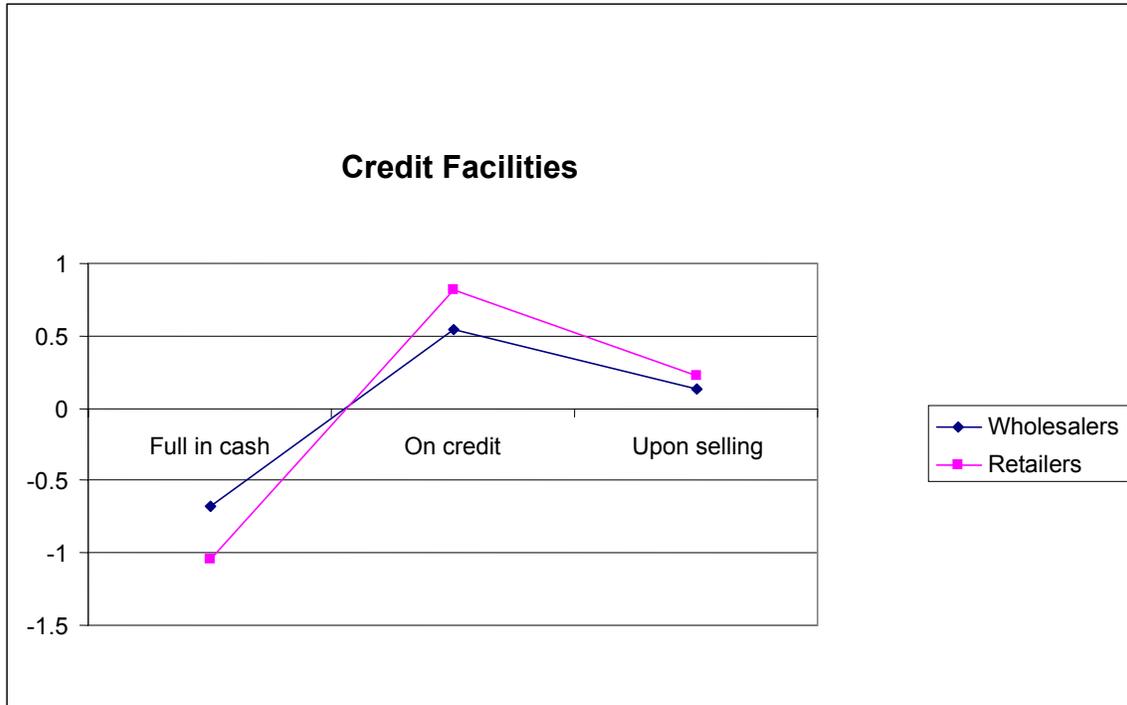
with a - 0.273 utility value, compared with retailers who valued it at -0.108. (See figure 8.23)



**Figure 8.23 Communication Utilities for Wholesalers and Retailers (compared)**

### **Credit facilities**

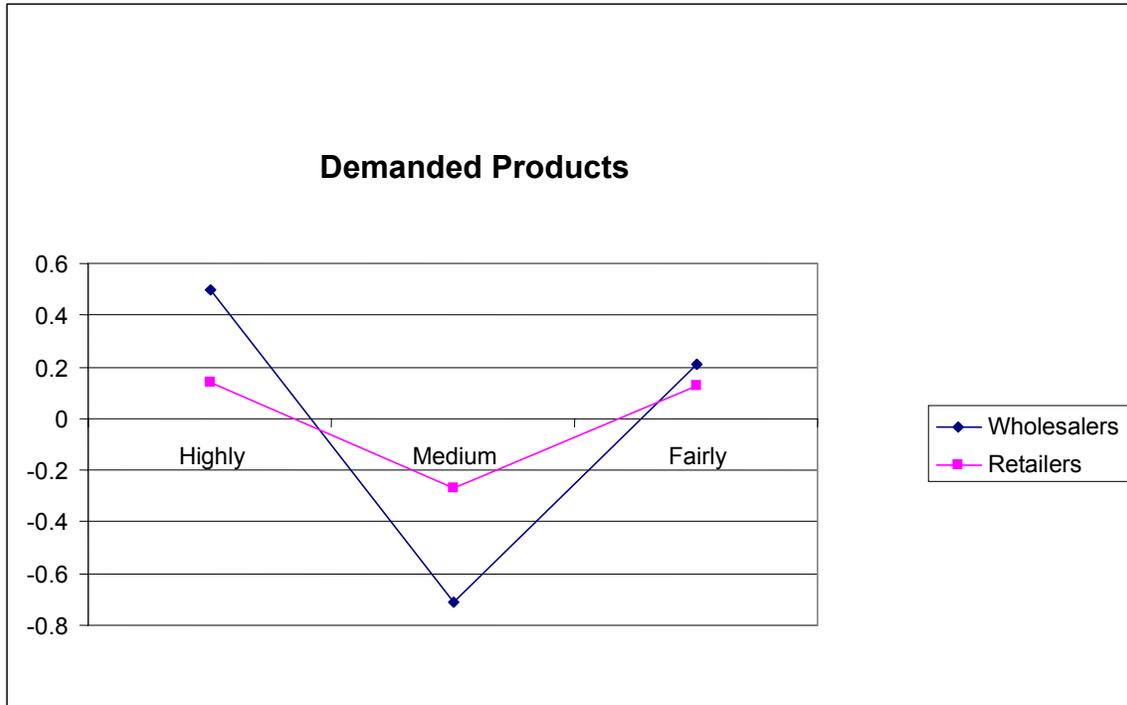
The highest valued level by both wholesalers and retailers was payment on credit but retailers valued the level higher, with 0.817 utility values, than wholesalers with 0.543. The least-preferred level for both segments was in-full-in-cash. Retailers valued it less, with utility value -1.042, than wholesalers with a -0.677. Payment-upon-selling had medium importance given a 0.226 utility value by retailers and 0.135 utility values by wholesalers. (See figure 8.24)



**Figure 8.24 Credit facilities utilities for wholesalers and retailers (compared)**

### **Demanded products**

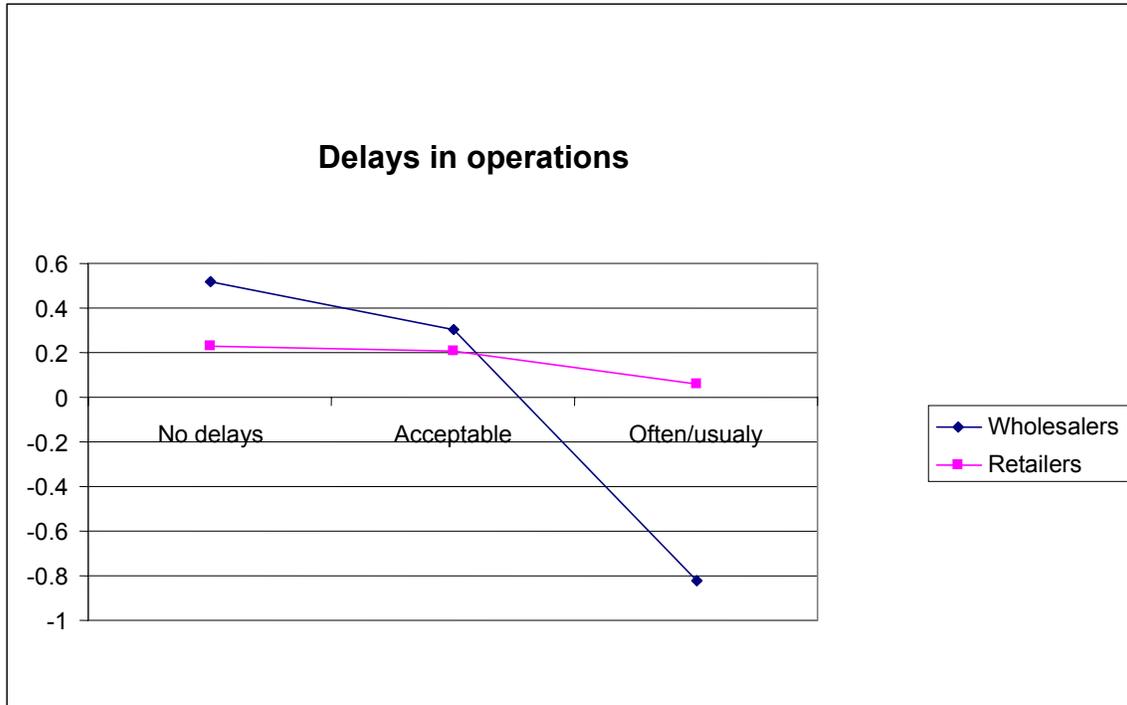
The importance of the attribute levels according to its utility value showed the same order for all segments as highly demanded products was rated first, fairly demanded products was rated second and the least valued and rated level is medium demanded product. For wholesalers the highest valued level is highly demanded product at 0.497 utility values and the least is the medium demanded product at -0.711 utility values. For retailers they assigned very close values for the highly demanded and the fairly demanded products but the highly demanded product was still rated the highest at 0.142 utility values and the lowest rated level is medium demanded product at -0.267 utility values. (See figure 8.25)



**Figure 8.25 Demanded products utilities for wholesalers and retailers (compared)**

### **Delays in operations**

The order of attribute delays in operations showed no delays as the highest preferred level, acceptable came second and often/usual was the least preferred level. There was a big difference between wholesalers who rated often/usual delays, at -0.821 utility value, while retailers rated it much higher with 0.061 utility value. Also the wholesale segment showed a significant variance between the acceptable and often/usual delays levels with +0.303 and -0.821 utility values respectively which shows also in the retailers segment but not with the same significant difference. (See figure 2.26)



**Figure 8.26 Delays in operations utilities for wholesalers and retailers (compared)**

### 8.9 Utility values by product type

Utility values were generated for segments of the wholesale market based on the type of product that business deals with. Three segments were identified from the primary research Expensive & medium (Type A), medium only (Type B) and medium & cheap (Type C) carpet-traders. The relative importance and the utility values for attribute levels are used to describe and characterize each segment. (See tables 8.8, 8.9 and 8.10)

	Relative Importance	Utility values of different levels with each factor				
Price discounts	28.67%	0%	3%	5%	7%	10%
		(-) 0.800	(-) 0.518	(+) 0.024	(+) 0.294	(+) 1.000
Length of relationship	11.52%	Long Term	Medium	Short Term		
		(+) 0.425	(-) 0.127	(-) 0.298		
Communication	4.06%	Personal	Impersonal			
		(+) 0.127	(-) 0.127			
Credit Facilities	18.36%	Full in cash	On credit	Upon selling		
		(-) 0.594	(+) 0.559	(+) 0.035		
Demanded Products	16.49%	Highly	Medium	Fairly		
		(+) 0.496	(-) 0.539	(-) 0.043		
Delays in operations	20.89%	No delays	Acceptable	Often/usual		
		(+) 0.582	(+) 0.147	(-) 0.729		

**Group results from Conjoint**

- ▶ Pearson's R = 0.425
- ▶ Significance = 0.3839
- ▶ Kendall's tau = 0.3909
- ▶ Significance = 0.3422
- ▶ Cronbach's = 0.841

**Table 8.8 Total utilities by product type for Type A carpet traders.**

	Relative Importance	Utility values of different levels with each factor				
Price discounts	38.63%	0%	3%	5%	7%	10%
		(-) 1.187	(-) 0.609	(-) 0.287	(+) 0.658	(+) 1.424
Length of relationship	10.44%	Long Term	Medium	Short Term		
		(+) 0.269	(+) 0.169	(-) 0.437		
Communication	5.81%	Personal	Impersonal			
		(+) 0.196	(-) 0.196			
Credit Facilities	27.95%	Full in cash	On credit	Upon selling		
		(-) 1.100	(+) 0.789	(+) 0.311		
Demanded Products	11.01%	Highly	Medium	Fairly		
		(+) 0.215	(-) 0.480	(+) 0.265		
Delays in operations	6.16%	No delays	Acceptable	Often/usual		
		(+) 0.226	(-) 0.035	(-) 0.191		

**Group results from Conjoint**

- ▶ Pearson's R = 0.479
- ▶ Significance = 0.29477
- ▶ Kendall's tau = 0.4325
- ▶ Significance = 0.30015
- ▶ Cronbach's = 0.901

**Table 8.9 Total utilities by product type for Type B carpet traders.**

	Relative Importance	Utility values of different levels with each factor				
Price discounts	40.80%	0%	3%	5%	7%	10%
		(-) 1.353	(-) 0.837	(-) 0.003	(+) 0.780	(+) 1.413
Length of relationship	2.09%	Long Term	Medium	Short Term		
		(+) 0.072	(-) 0.003	(-) 0.069		
Communication	7.09%	Personal	Impersonal			
		(+) 0.240	(-) 0.240			
Credit Facilities	25.19%	Full in cash	On credit	Upon selling		
		(-) 1.031	(+) 0.678	(+) 0.353		
Demanded Products	15.98%	Highly	Medium	Fairly		
		(+) 0.414	(-) 0.669	(+) 0.256		
Delays in operations	8.85%	No delays	Acceptable	Often/usual		
		(+) 0.239	(+) 0.122	(-) 0.361		

**Group results from Conjoint**

- ▶ Pearson's R = 0.4027
- ▶ Significance = 0.3888
- ▶ Kendall's tau = 0.4141
- ▶ Significance = 0.3689
- ▶ Cronbach's = 0.811

**Table 8.10 Total utilities by product type for Type C carpet traders.**

### 8.9.1 Utilities by product type

#### Summary of attribute utilities by product type (importance)

The relative importance of attributes showed a different tendency, from that generated when segmenting by traders type, when segmenting the sample by product type into Type A, B and C carpet traders. Type A carpet traders rated price importance the least between segments with 28.67% importance rate (see table 8.8), Type B gave it a 38.63% importance rate (see table 8.9) and finally the highest rate for the price attribute was given by the Type C carpet traders giving it a 40.8% importance rating (see table 8.10). While price discounts remained the highest importance attribute for all segments, delays in operations showed variations across segments as Type A carpet traders came second, while Type B traders it came fifth and Type C it came fourth.

The length of relationship remained of low importance to all segments showing variations of its importance across the segments as Type A and Type B carpet traders rated it fifth

while Type C rated it sixth giving it their lowest rating between attributes of a 2.09% importance.

Communication was also rated of low importance for all traders segments, as for Type A and Type B carpet traders rated it sixth while Type C rated it fifth importance.

## **8.9.2 Summary of level utilities**

### **Price discount**

Type B and Type C traders assigned the 0% discount level the highest negative value, -1.187 and -1.353 respectively, which reflects the fact that 'no discounts' for them has a more significant effect on their supplier relationship value than it has for Type A traders whose value was -0.800 (see figure 8.27).

Both Type B and Type C carpet traders assigned a positive value for the levels 7% and 10%, reflecting the fact that only from a 7% or more price discount does a price discount start to add value to their supplier relationship. While for Type A carpet traders a 5% price discount starts to add value to their supplier relationship (see table 8.8, 8.9, and 8.10).

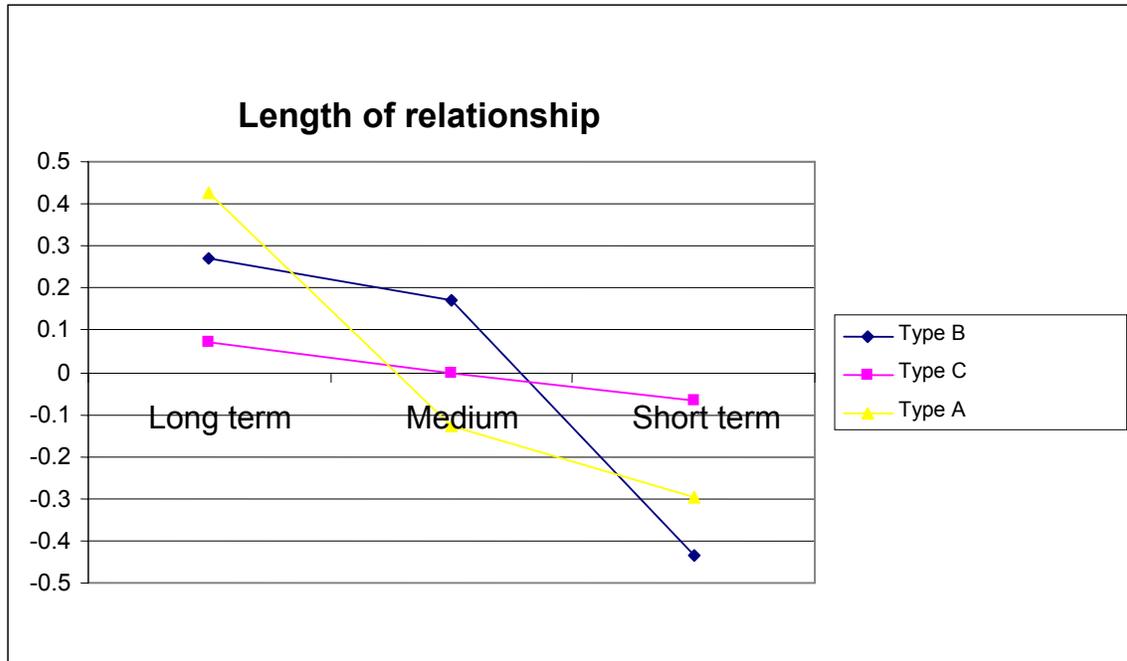


**Figure 8.27 Price discounts utilities for Type A, B and C (compared)**

### **Length of relationship**

Type A carpet traders placed a positive value on both long-term 0.269 and medium-term 0.169 relationships. Type A and Type C carpet traders placed their positive value only on the long-term while their medium-term and short-term relationships carried a negative value assigning utility rates of 0.425 and 0.072 respectively (see figure 8.28).

The highest negative value for short-term relationship was assigned by Type B carpet traders with a utility value of -0.437 while the lowest was assigned by Type C carpet retailers with a utility value of -0.069. (See table 8.8, 8.9, and 8.10)

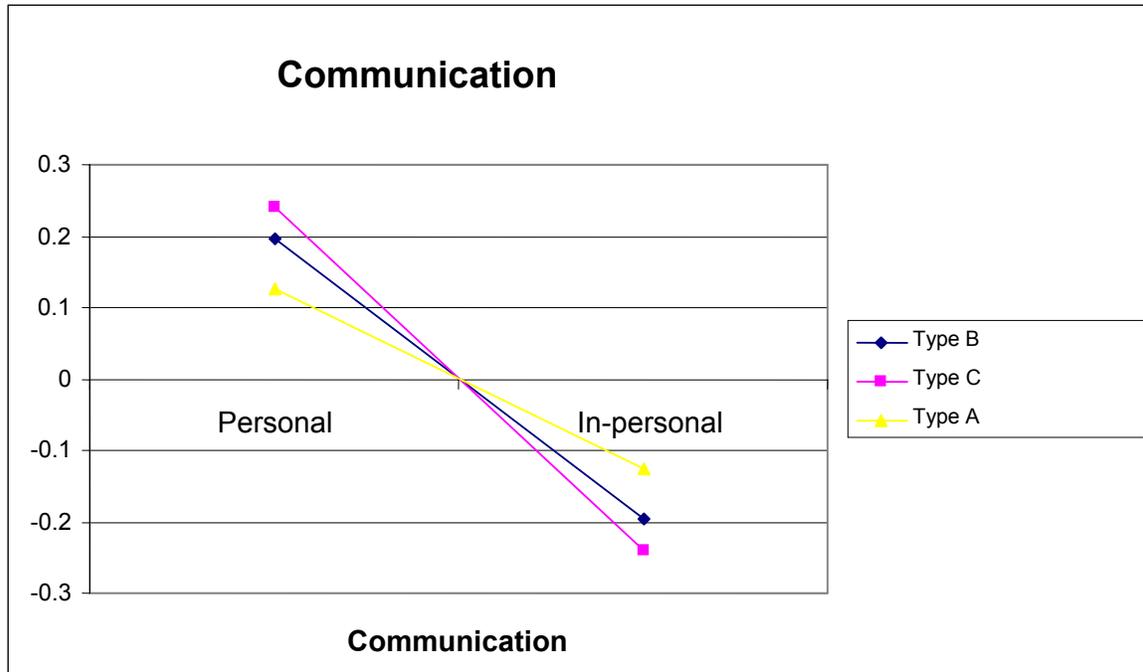


**Figure 8.28 Length of relationship utilities for Type A, B and C (compared)**

### Communication

The communication attribute showed the same tendency over product type segments. As Type A, B, and C segments all gave personal communication a high positive utility rating while giving a high negative utility rating for non-personal communication. (See figure 8.29)

Type C traders gave the highest positive utility value for personal communication and the highest negative value for negative communication amongst other product type segments. While Type A traders gave the least positive utility value for personal communication and the least negative value for negative communication amongst other product type segments.



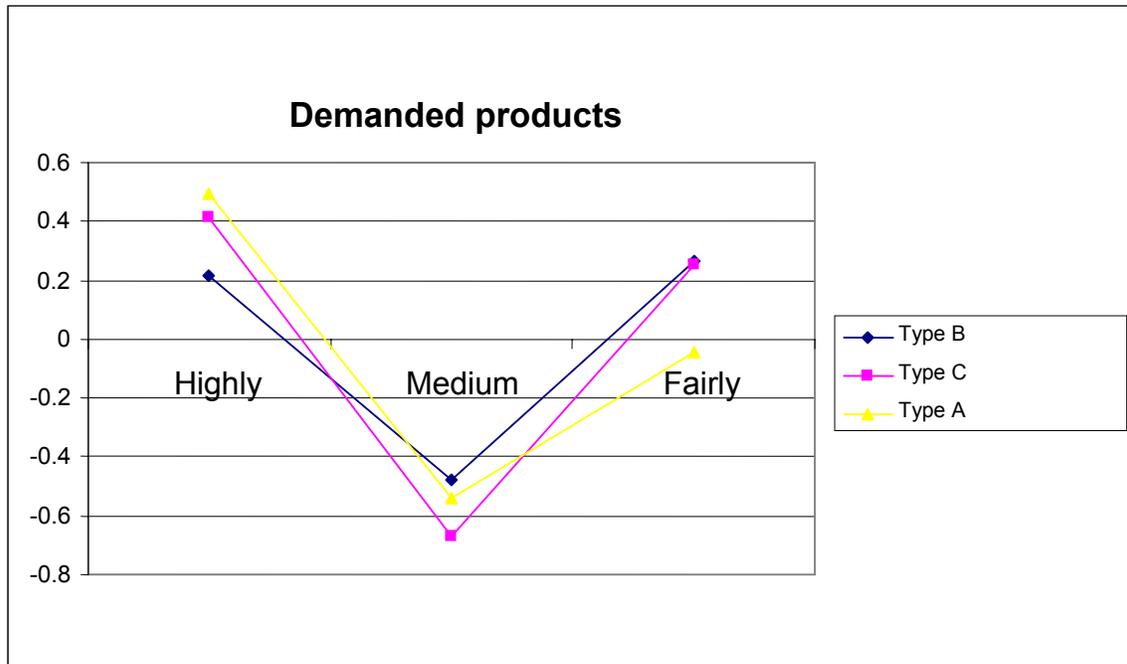
**Figure 8.29 Length of relationship utilities for Type A, B and C (compared)**

### **Demanded products**

While Type B and Type C carpet traders assigned a positive value for both highly and fairly demanded products, Type A traders assigned a positive value only to highly demanded products (see figure 8.30).

Type A carpet traders assigned highly demanded products the highest positive utility rate +0.496 among traders, in second place came Type C traders with 0.414 positive utility rate and last came Type B traders with 0.215 positive utility rate.

For medium demand level which is assigned a negative value by all traders' segments the highest negative utility value was given by Type C traders -0.669, the second highest negative value is given by Type B traders -0.539 and least and last negative value was given to medium demanded products by Type B traders -0.480 (see table 8.8, 8.9, and 8.10).



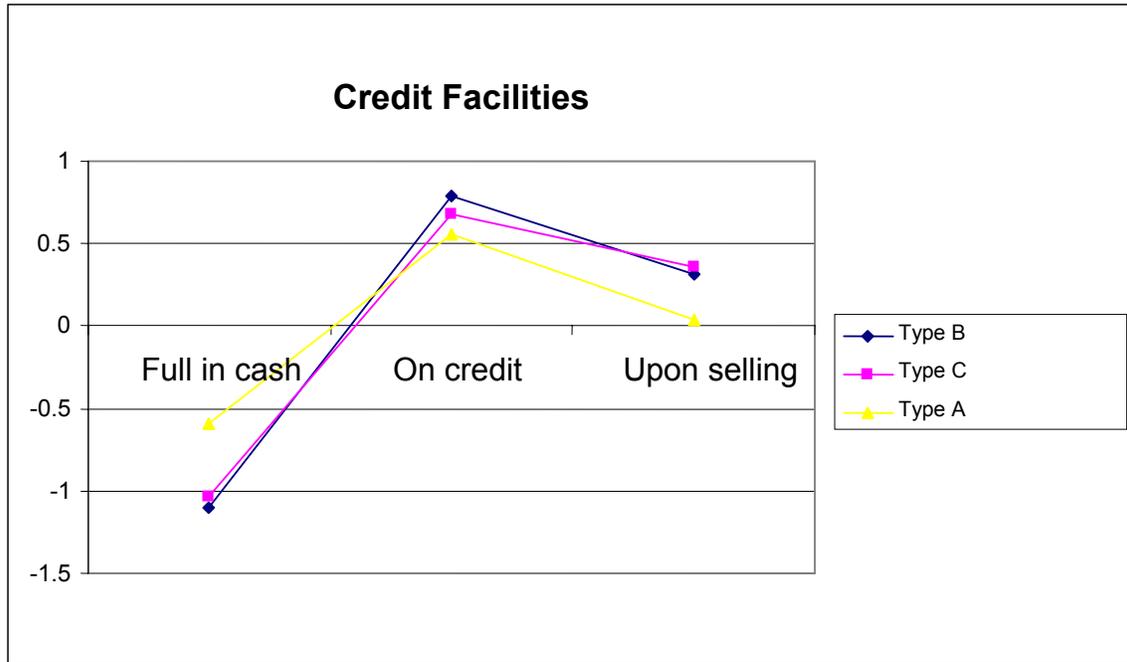
**Figure 8.30 Demanded products utilities for Type A, B and C (compared)**

### Credit facilities

Generally for all segments of carpet traders the on credit facility was valued the highest, upon selling was preferred second and the least preferred is cash-in-full which was given a negative value by all segments which means that whenever it existed it reduced the value of the supplier relationship to the carpet trader (see figure 8.31). The highest negative utility value was given by the Type B carpet traders -1.100, the second highest negative value was given by Type C carpet traders -1.031 and the least negative utility value for the same level was given by Type A carpet traders -0.594.

On-credit facility was valued highest by Type B carpet traders with a 0.789 utility value, Type C carpet traders came second to give it a 0.678 utility value and finally Type A carpet traders came lowest to value the on credit facility at 0.559 utility value.

Upon selling credit facility was given the highest utility value by Type C at 0.353, Type B carpet traders assigned it a 0.311 utility value and finally Type A came last to assign it a small utility value of 0.035. (See table 8.8, 8.9, and 8.10)



**Figure 8.31 Credit facilities utilities for Type A, B and C (compared)**

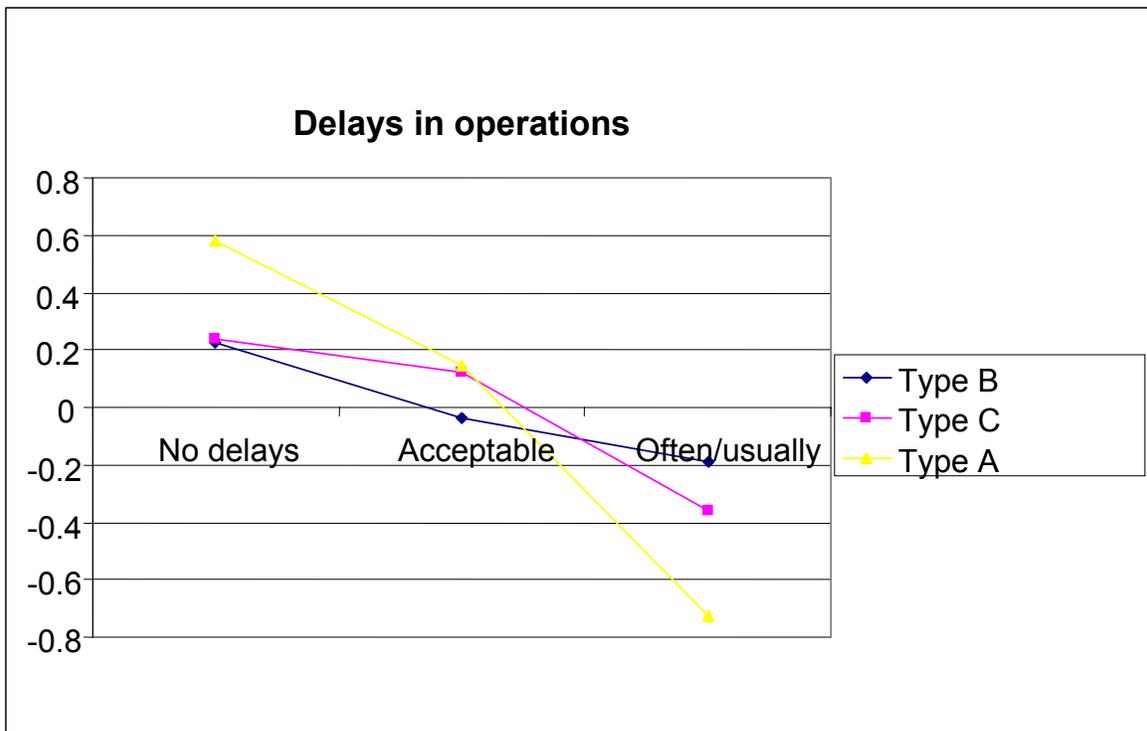
### Delays in operations

No delays at all was given a positive utility value by all segments of carpet traders, the highest positive utility value was given by Type A carpet traders 0.582, the second highest was given by Type C carpet traders 0.239 and the least positive utility value was given by Type B carpet traders 0.226.

‘Acceptable delays’ was given a positive utility value by both Type A and Type C carpet traders at 0.147 and 0.122 respectively. The negative utility value was given by Type B carpet traders -0.035.

Often/usual delays in operations was given a negative utility value by all traders segments. The highest negative value was given by Type A carpet traders -0.729, the second highest was given by the Type C carpet traders -0.361 and the least negative utility value by Type B carpet traders -0.191.

Clear differences exist between segments based on product type (see figure 8.32). It makes sense for managers to use this segmentation in conjunction the utility concept to get a more accurate estimation of their relationship value with their customers (see table 8.8, 8.9, and 8.10).

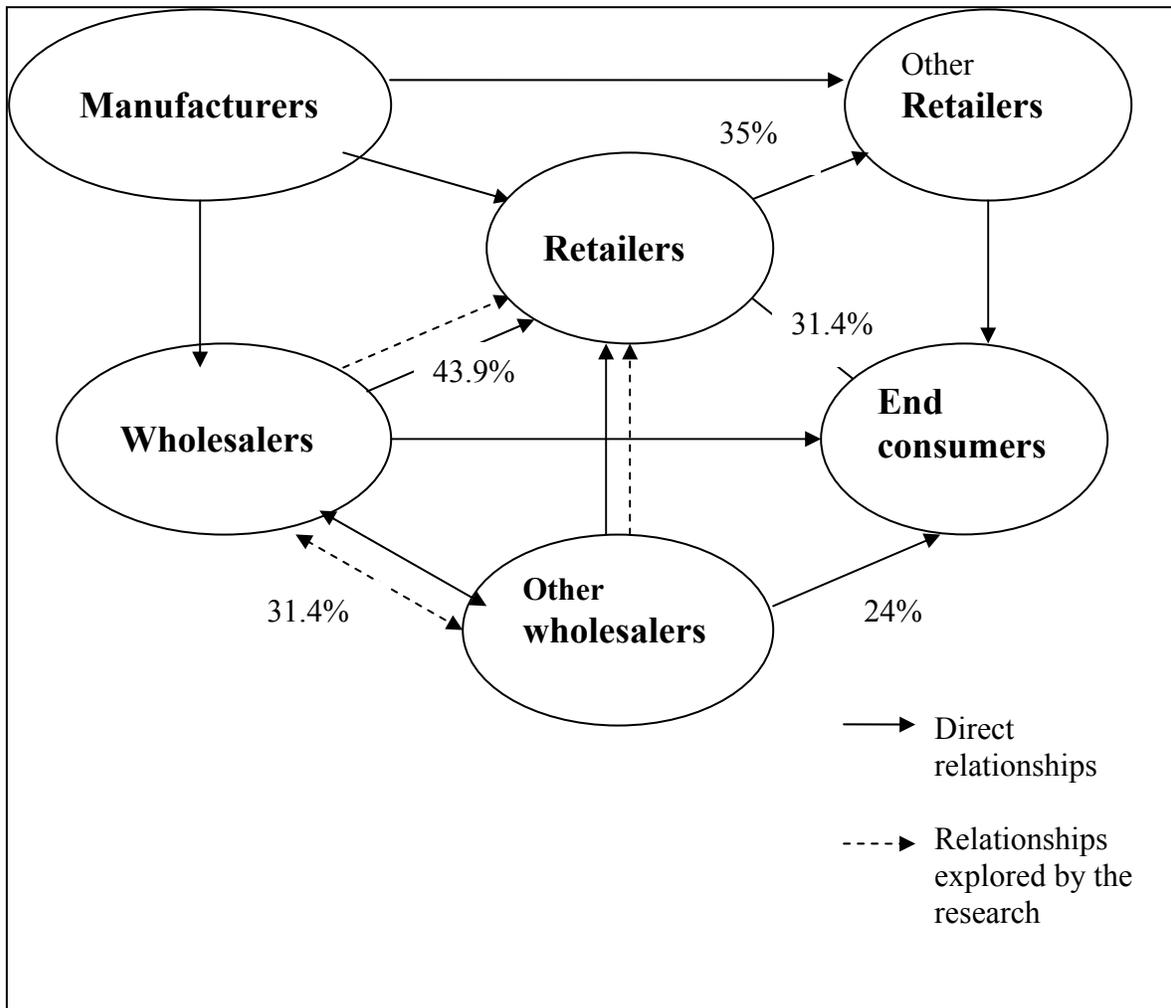


**Figure 8.32 Delays in operations utilities for Type A, B and C (compared)**

### 8.10 Results from firmographics

From the questionnaire several questions were designed to gain an insight on how the carpet wholesale market is structured. Question 3 explored what type of suppliers the respondents had; question 6 explored whom do they sell to and question 7 explored what percentage of their sales goes to which type of customer. The results from their answers

are summarized in figure 8.33, which shows the structure of the Russian wholesale carpet market.



**Figure 8.33 Structure of The Wholesale Russian Carpet Market.**

Some wholesalers in the Russian wholesale carpet network bought their products straight from manufacturers, others from distributors/other wholesalers, and others from both. The customers of the wholesalers ranged from other wholesalers, or retailers, or straight to end customers. The primary data shows that 31.4% of wholesale sales go to other wholesalers only, 43.9% to retailers only, and 24% to retailers and end customers.

Russian carpet retailers have more than one source of supply for their product, these sources range from wholesalers, manufacturers, and some retailers bought their product

from other retailers as well but this was a small percentage. Retailers' customers ranged from other retailers towards which 35% of sales goes and end customers towards which 31.4% goes.

Two retailers were identified by most retailers as the top in the market they are Straik Katabeach and Tree Keta (Tri Kita TK). Also two wholesalers were identified by respondents when asked for the top wholesalers of carpets in the Russian market. They are Cleopatra and Scorpions. See appendix E for a detailed tabulation of top retailers and top wholesalers identified by respondents and also tabulation of sales percentages.

## **8.11 Discussion**

The study brings together a picture of how Russian business managers are experiencing/adapting to the new post-transition Russian market place. The field work revealed that managers rank communication and length-of-relationship at the bottom of their relationship priorities when dealing with their suppliers. This shows that managers still hold onto their old perceptions of how a supplier relationship should be with a high priority of price discounts and credit facilities.

The study reveals that the least favoured variable in their relationship with the supplier is communication, but the personal communication level is the highest for all segments which is in line with the fact that Russians favour personal communication whenever possible.

Although lengths of relationship were rated second least important for all traders but they still had a greater preference to the long term relationship level. When taking a closer look at this result it revealed that wholesalers and retailers differ in their preference. Wholesalers had their highest preference for long-term, while retailers had their highest preference for medium-term. Although the field research does not provide an explanation or reasons for these preferences, the result could be seen as a reflection of the trade-off character of relationship value specially when measured by methods like conjoint

measurement. As conjoint measurement does not measure every variable and their associated levels individually, rather they are rated in consideration with other variables' levels and rated in scenarios. It is the trade-off nature of the relationship value that creates the different preferences between wholesalers and retailers over the most valued level of the attribute length of relationship. Also reasons for this difference in preferences could be seen in the ratings for the variable "delays in operations". Although there is no difference in the order of the rated levels, the level of acceptable delays has been rated much higher by retailers than wholesalers, again reflecting the trade off character.

Another variable that reflects the difference in ratings in the "relationship length" is "demanded products/adaptability". This study reveals that wholesalers and retailers show a big gap in their ratings of the level "medium demanded" products, where retailers rated it much higher than wholesalers. Generally the variable shows a U shaped distribution for all traders, which is opposite to normal distribution, which is usually in the form of a bell shape. The question of why highly demanded is rated first, fairly demanded comes second and medium demand comes third will be taken for further research.

Wholesalers and retailers showed difference over their highest rated variable too, "price discount". The difference between them is over the 5% level of price discount where wholesalers gave it a positive utility rating while retailers give it a negative utility rating. As a matter of fact retailers gave their positive utility rating starting from the 7% discount level. The amount of goods purchased by wholesalers which is much higher than the amount of goods purchased by retailers, could be seen as the reason for this difference. With the larger amount of goods, in our case carpets, purchased by wholesalers a 5% discount level will certainly have a higher value than a 5% discount for retailers.

The Russian carpet wholesale market is a highly structured network with a lot of relationships between different actors. This offers an opportunity for collaboration and turning relationships between these actors into more value generating ones. The creation of valuable relationships creates a smooth movement of goods from manufacturers to end

consumer, as well as value added to every actor in the network through win-win relationships.

It is also important to note that although one of the advantages of conjoint measurement that it is being a segmentation tool, it is yet to be recognized as a segmentation tool for business markets. The study combines the use of relationship value and conjoint measurements to segment business markets. If segmentation is to divide the market to similar groups of similar actors so that they can be targeted with tailor made strategies, the value concept is proposed as the variable to segment the market. Measuring relationship value in business markets using conjoint measurement, then using the resulting value “concept” for the segmentation of that markets, is seen as an important contribution to the relevant literature on measuring relationship value in business markets and business markets segmentation.

# Chapter Nine

## Conclusion

### 9.1 Introduction

This research shows that even with the best products and business practices, strong relationships are vital to success in the market-place.

The study explores the Russian business-to-business network & relationships, given that relationship-value in the Russian carpet business-network is at the centre of the study. How relationship-value is created and the discrepancies in the perception of relationship-values between suppliers and their customers are some of the main issues explored. By identifying these discrepancies, suppliers and customers (traders) should be able to work towards a common understanding between them of what is valuable in a relationship. That is when an absolute relationship transparency is achieved.

The study has considered the “wholesaler-to-wholesaler relationship” and the “wholesaler-to-retailer relationship” only.

### 9.2 Answer to research questions drawn from the study

#### Research Objectives:

1. To identify attributes in the supplier relationship that customers perceive as most valuable in the Russian wholesale carpet-market.
2. To construct a relationship-value concept for suppliers in the Russian wholesale carpet-market.
3. To identify the structure of the Russian wholesale-carpet industry.

The main research aim is;

**To explore the value for business customers in the Russian carpet wholesale market.**

Results from the study have contributed to the answer of this general research question;

- The relationship utility concept is the most important finding and we define it as,  
“The sum of utilities of all relationship value attributes. It’s an indication on how much value the customer organisation is getting from its relationship with a supplier or how much value the supplier is offering to its customers.”
- The relationship utility concept could be used to assess existing relationships as well as forming new ones or forming new offerings. For existing relationships a relationship utility concept spots any existing problem relationships. These will be the ones who carry a zero or a minus value concept. It also identifies problem areas where different strategies need to be applied to increase the value for customers’ organisations. This is achieved by using the key attributes in the concept as a tool to identify the problem areas. Key attributes have different levels and these levels present the different options to solve problem relationships or low value relationships.
- The relationship utility concept becomes an important tool for management to use in business organisations, identifying attributes that need to be changed within a relationship which contribute to higher positive outcomes for the customer organisation. It is a practical tool for management and marketing in business-to-business as it allows for more realistic prediction of the outcome.

The higher the relationship utility concept the higher the relationship is valued by and valuable to customers consequently, the higher the possibility of the customer becoming a long-term loyal customer and staying with the supplier organization.

- A relationship utility concept provides not only a measure for existing relationships but a tool to increase the value of a potential future relationship for a customer and to achieve the optimum value in relation to supplier’s resources and capabilities. It is a trade-off between the different attributes’ levels to achieve the maximum value for the customer, a trade-off here refers to the fact that only a few organizations can provide the optimum value attributes’ level to achieve the optimum relationship

utility concept for the customer because each organization has limited resources and capabilities.

**In an effort to achieve the research objectives, subsidiary, question/s were posed for each objective, for which the answer stems from research conclusions;**

**Research objective 1;**

1. To identify attributes in the supplier relationship that customers perceive as most valuable in the Russian wholesale carpet-market.

**Subsidiary question 1: What are the attributes that customer perceive as most important in their relationship with suppliers?**

- This research investigated and tested several relationship value attributes for customers in the Russian wholesale carpet market. The attributes were identified from the literature and tested on Russian carpet business customers. The most important attributes were found to be price discounts, credit facilities, demanded products, delays in operations, length of relationships, and communication.

**Research objective 2;**

2. To construct a relationship-value concept for suppliers in the Russian wholesale carpet-market

**Subsidiary question 2: What are the values assigned to each attribute in the customer-supplier relationships?**

- Traders differed in the way they rated the six attributes of relationship value and how much importance they give to each attribute. Price discount is confirmed to be of the highest importance to all traders whether taken together or segmented into wholesalers and retailers. However the importance of the price discount that was assigned by each of these segments was different when weighted. Length of relationship and communication were rated least important overall and also with different weights of importance were assigned by each segment. As a result it is concluded that carpet traders differ in the

importance weight they assign to attributes that constitute the value of a relationship between organisations.

- Wholesalers and retailers rated the six attributes of relationship value differently which led to the conclusion that by segmenting the business to business Russian carpet market by wholesalers and retailers a better approach and evaluation of the relationship value is achieved. These differences between the segments showed not only in the attributes' importance but also in each preference levels of each attribute.

**Subsidiary question 3: What are the values assigned for each attribute level in the customer supplier relationship?**

- The price discount attribute is the highest rated attribute for all segments but still segments showed variations between them on how much value they assigned to its levels. The most significant difference between wholesalers and retailers were on the 5% price discount level, where wholesalers assigned a positive value while retailers assigned a negative value.
- For the length of relationship attribute, retailers did not place much value on long-term relationships; a medium-term relationship carries the “highest” value for them, while wholesalers place their highest value on the long-term relationship and have negative values for medium and short-term.
- The communication attribute showed a tendency to favour personal communication rather than impersonal one. This tendency was the same for all traders and when segmenting the market to wholesalers and retailers. This confirms what has been argued in the literature carried out on relationships in Russian business, that Russians favour personal communication in any business context. (Puffer 1996a, Holden et al., 1998; Snaveley et al., 1998, Alexashin and Blenkinsopp, 2005)
- Russians have been known for establishing friendship and social interaction as well as valuing leisure-time more than the business itself (Puffer, 1996a). They favoured face-to-face interactions and relations rather than impersonal meetings (Holden et al., 1998; Snaveley et al., 1998). They tend to depend on personal and informal relationships rather than depending on legal ones such as contracts or institutions, as Russian have a

tendency not to trust contracts and usually contracts are drawn up only after a good relationship has been established between partners (Alexashin & Blenkinsopp, 2005).

- Payment on credit seems to be the most preferred payment term among Russian carpet traders for the credit facilities attribute. The same applies when looking at the values placed by each of the segments: wholesalers and retailers. Preferences for the attribute's levels showed the full payment is least preferred by all segments, and especially by wholesalers. By looking at total utilities the level carries a negative value which means it decreases the value of the relationship for wholesalers.
- Demanded products attribute showed the same order of level importance across segments where highly-demanded products are rated first, fairly-demanded product came second and medium-demanded products came third. This result should be considered for further research and investigation to find out reasons as to why the levels' preferences came in this order for all traders and for the segments wholesalers and retailers. (see further research suggestions)
- For the delays in operations attribute the level of importance across all segments showed no delays as the highest-preferred level, acceptable delays came second and often/usual was the least-preferred level

**Subsidiary question 4: How to segment customers in the Russian wholesale carpet market using the value concept?**

- The relationship utility concept is a suggested tool for segmenting the Russian carpet wholesale by the value that the customer expect from their suppliers.
- Segmenting the market by product-type into expensive & medium, medium-only and medium/cheap carpet traders has been proved significant as it has implications on the order of attributes' importance. Clear discrepancies showed between the segments on how they rated the different attributes of supplier relationship value and how much utilities value they were assigned.

## **Research objective 2;**

1. To identify the structure of the Russian wholesale-carpet industry.

### **Subsidiary question 5: What is the structure of the Russian wholesale carpet market?**

- An important finding of the current study is the structure of the carpet wholesale Russian market (see figure 8.33). Some of the relationships in that structure have been explored in this research. Two of the three triads identified by Smith & Laage-Hellman (1992) in a distribution channel is found to be represented in the Russian carpet market namely; producer-distributor-distributor, and producer-distributor-distributor-wholesaler-retailers.
- In addition to these triads this research has added another triad to types of distribution channels; it is wholesalers-retailers-other retailers which seemed to be present in the Russian carpet distribution channels.

## **9.3 Summary of research contributions**

1. It is realised from the literature review of relationship value that it is important for suppliers to understand what their customers' value the most in their relationships. If value of a supplier relationships can be understood by suppliers in terms of attributes most valued by their customers, suppliers can then use that to build a long lasting valuable relationships with customers. The concept of relationship value and its operationalization is still at its infancy and more research is required to achieve a better and a closer estimation of that central concept in buyer supplier relationships. This study achieves that by presenting a new way of estimating the concept and applying it.
2. This study is the first to use conjoint analysis in measuring attributes most valued by customers in their supplier relationships for suppliers to use in enhancing these relationships. The current study has proofed to be successful in applying the method as it

generated useful results that have implications on the industry and on academic research. This study provides a reference for the carpet industry; by following the same steps in this research for studying other Russian wholesale markets a reference for the Russian wholesale market can be developed. This will contribute to providing a reference for the wholesale market as a whole in Russia for which the knowledge and research is significantly lacking. This is a further research intention to build on the current research.

3. The Russian carpet wholesale is a growing market with low supply compared to demand. If companies want to capture the full potential from such an emerging market, they will have to establish their relationships based on value provided. This equips suppliers with a competitive advantage based on relationship value, which distinguishes them from competition.

4. This research contributes to solving a problem market which is the business-to-business Russian market in general and the carpet market specifically. Identifying a tool for managers in the business-to-business market to use which is developed from a relationship point-of-view, gives organisations a marketing-tool which can be used to add and incorporate the customer relationship dimension into their strategies.

5. It was recognized in the literature review that research is lacking from the intermediaries' point of view. This is a deficiency that this study is trying to overcome by presenting research which takes account of two intermediary relationships namely, wholesaler-wholesaler and wholesaler-retailer relationships.

6. Russia is the biggest emerging market in the world and still managers do not have strategies that are designed to suit the nature of the Russian market. To be able to take advantage of such high potential market, the knowledge base needs to be expanded. This research certainly provides a starting point in studying a small portion of this ever growing market. By using strategies in this research managers will be able to take full advantage of this market and by building on its findings academics will be able to expand on the current research.

7. The structure of the Russian wholesale market was identified in this study; in addition the study identified the direction of relations between network actors. An area of continues study is to consider other parts of the identified network and their associated relationships.

8. The study provides further research ideas that could be used in future research to contribute to a complete and comprehensive knowledge in the Russian business-to-business markets which is considered a very important market due to its high potential for growing in the near future and relatively high unsatisfied demand.

9. Segmentation literature and practical models for segmentation in business to business markets were found to be still underdeveloped. The value concept is proposed in this research as an effective and practical tool for segmenting the market based on valuable relationships.

#### **9.4 Limitations to the study**

- Sample size is a very important factor that needs to be kept in mind while examining the figures to avoid reaching misleading conclusions. As mentioned earlier it has been very difficult to get a complete list of all the wholesale and retail companies in the Russian carpet market so the available list was treated as the actual population which was targeted to try and get them to fill in the questionnaire for the study. With the sample size issue being brought into attention, the conjoint exercise should be considered as a directional tool.
- The study proposes ideas and concepts that require management to have a futuristic and long-term view for the organisation. a recent study by Jovidan (2007) of forward thinking cultures analyzed one of the most important factors that affect organisations management and leadership. The study by Jovidan (2007) proposes Russia as the least future oriented business culture and in light of these results, ideas and concepts involving forward thinking and long-term planning will prove difficult to achieve. Conclusions of the Russian culture by Jovidan (2007) is not seen as a limitation, but rather as a hurdle to implementing strategies proposed in this research in Russian organisations.

#### **9.5 Future research**

- The relationship map represented in the Russian carpet wholesale market structure can be utilized effectively to conduct and more qualitative research such as a case

study approach to discover all the interrelationship between the relationship value attributes.

- Future research needs to explore the reasons behind the difference between wholesaler and retailer organizations over their preference for price discount level and their total utilities especially on the level 5% price discount.
- Future research needs to explore why Russian carpet wholesalers have a high preference for long-term relationships while retailers have a high preference for short-term relationships.
- Future research needs to explore reason why Russian carpet traders rate highly-demanded products first, fairly-demanded products second and medium-demanded products third.

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# Appendix A

## Elicitation questionnaire used in the semi structured interview

Please rate the following attributes in each group according to which one is more important to you in your relationship with a supplier company (where on is the most important)

<b>Product benefits:</b>	<b>Rating</b>
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Price	.....
Price discounts	.....
Design	.....
Quality	.....
Providing demanded products	.....
Origin	.....
Brand name	.....

**Personal:**

Length of relationship	.....
Communication	.....
Mutual trust	.....
Joint problem solution	.....

**Strategic:**

Leads to competitive advantage	.....
Profitability	.....
Payment conditions	.....

**Sacrifices:**

Delays in operations	.....
Loosing out on other opportunities	.....

### Tabulation of the results from the elicitation questionnaire

<b>Product Benefits</b>												
	<b>R 1</b>	<b>R 2</b>	<b>R 3</b>	<b>R 4</b>	<b>R 5</b>	<b>R 6</b>	<b>R 7</b>	<b>R 8</b>	<b>R 9</b>	<b>R 10</b>	<b>Score</b>	<b>Grade</b>
<b>Price</b>	4	2	3	4	3	3	1	1	3	6	30	3
<b>Price Discounts</b>	1	4	1	2	2	1	3	4	2	1	21	2
<b>Design</b>	5	6	4	6	4	5	4	5	6	4	49	5
<b>Quality</b>	6	7	5	5	5	6	5	6	5	3	53	6
<b>Providing Demanded Products</b>	2	1	2	1	1	2	2	3	1	5	20	1
<b>Origin</b>	3	5	6	3	6	4	7	7	4	2	47	4
<b>Brand Name</b>	7	3	7	7	7	7	6	2	7	7	60	7
<b>Personal</b>												
	<b>R 1</b>	<b>R 2</b>	<b>R 3</b>	<b>R 4</b>	<b>R 5</b>	<b>R 6</b>	<b>R 7</b>	<b>R 8</b>	<b>R 9</b>	<b>R 10</b>	<b>Score</b>	<b>Grade</b>
<b>Length of Relationship</b>	1	4	4	3	1	2	2	2	2	1	22	2
<b>Communication</b>	2	1	2	1	2	1	1	4	3	4	21	1
<b>Mutual Trust</b>	3	3	1	4	3	3	4	1	4	2	28	3
<b>Joint Problem Solution</b>	4	2	3	2	4	4	3	3	1	3	29	4
<b>Strategic</b>												
	<b>R 1</b>	<b>R 2</b>	<b>R 3</b>	<b>R 4</b>	<b>R 5</b>	<b>R 6</b>	<b>R 7</b>	<b>R 8</b>	<b>R 9</b>	<b>R 10</b>	<b>Score</b>	<b>Grade</b>
<b>Leads to Competitive Advantage</b>	3	3	3	3	3	2	2	3	3	2	27	3
<b>Profitability</b>	2	1	2	1	2	3	3	2	1	1	18	2
<b>Payment Conditions</b>	1	2	1	2	1	1	1	1	2	3	15	1
<b>Sacrifices</b>												
	<b>R 1</b>	<b>R 2</b>	<b>R 3</b>	<b>R 4</b>	<b>R 5</b>	<b>R 6</b>	<b>R 7</b>	<b>R 8</b>	<b>R 9</b>	<b>R 10</b>	<b>Score</b>	<b>Grade</b>
<b>Delays in Operations</b>	1	1	1	1	1	1	2	1	1	1	11	1
<b>Loosing out on Other Opportunities</b>	2	2	2	2	2	2	1	2	2	2	19	2

R = Respondent

# Appendix B

## Respondents' profile

Respondents' number	Respondents' name	Company	Position	Type of business	Years of experience
1	Olige Reznik	Unitex	manager	Carpet wholesale	7
2	Elena	Olson Limited	Marketing manager	Carpet wholesale	8
3	Tatiana Feodorevtamteva	Sogot Tevtgas	Production expert	Carpet retail	5
4	Sergey Georkof	Mircovrove (carpet world)	General manager	Carpet Retail and wholesale	10
5	Valantina Petrovna Stashevskaja	Carpets from Egypt	General manger	Carpet retail	12
6	Anderai Valentinovetch alexeev	Anderai Valentinovetch for free trade	Manager	Carpet retail	9
7	Olga Yoryovna Kozmena	Bashkeerostan trade centre	manager	Carpet retail	5
8	Yori Gregorivetch Kovalev	Kovaleve yo.G for free trade	General manager	Carpet retail	8
9	Vectoria	Yara Salavna limited	Product expert	Carpet wholesale	7
10	Svetlana	Trod Albove free trade	Product expert	Carpet wholesale	10

# Appendix C

**Business Relationship in the Russian Carpet Wholesale Market**

Questionnaire No.	
-------------------	--

Respondent's Name:	
Respondent's Post :	
Company Name:	
Company address :	
Company Tel:	
Date of interview:	

## SCREENER

Good morning/ evening - My name is Marwa Elgeballi I am Phd student from the University of Huddersfield in the UK. My research is covering the carpet trade market in Russia under the subject of "Business relationships in the Russian Carpet trade market". I would appreciate it if you could give me 15 minutes of your time to have your opinion on this topic.

Your answers are very valuable to us and they will be grouped together with other answers (NO INDIVIDUAL ANALYSIS).

**S.1.** would you agree to participate with us?

Yes	1	<b>CONTINUE</b>
No	2	

At the end of the interview, I will be pleased to offer you a valuable thank you gift for your time exhausted answering our questions.

**S.2.** As mentioned earlier, I am looking for carpet traders in Russia. So would you please tell me can I consider you as a carpet retailer or wholesaler or both or neither?

Retailer	1
Wholesaler	2
Both	<b>WHAT IS THE MAIN BUSINESS RETAILER OR WHOLESALE</b>
Neither	<b>Terminate the interview</b>

**S.3.** As we are interested in the **“wholesaler to wholesaler”** relationship as well as **“wholesaler to retailer”** relationship, I would like to know if your **suppliers** are "wholesalers" or "manufacturers" ? I mean the source where you buy your products from, Is it -----

Wholesalers only	1	<b>PROCEED WITH THE MAIN QUESTIONNAIRE</b>
Manufacturers only	2	<b>TERMINATE</b>
Other retailers only	3	
Both wholesalers & manufacturers	4	<b>WE ARE ONLY INTERESTED IN THE WHOLESALE TO WHOLESALE OR RETAILER RELATIONSHIP</b>
Both wholesalers & other retailers	5	<b>PROCEED WITH THE MAIN QUESTIONNAIRE</b>

**I will send you the questionnaire so that you will have the time to have a look at it for the face to face interview this will save your time. (Confirm the date of interview, address)**

# Business Relationship

## In the Russian Carpet Wholesale Market

### MAIN QUESTIONNAIRE

As mentioned earlier, the main objective of this research study is to gain an understanding of the carpet industry in Russia, so I would like to ask you some questions which would allow me to achieve this objective.

Q.1. Who are the main carpet **wholesalers** in Russia from your point of view?

**PROBE AS MUCH AS POSSIBLE:** who else?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_

Q.2. And who are the main carpet **retailers** in Russia from your point of view?

**PROBE AS MUCH AS POSSIBLE:** Who else?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_

## **BUY FROM**

Now, we would like to get some information about your own business in particular.

Q.3 Who are the wholesalers that you buy your goods from?

Q.4. And what is the percentage of each from your purchases

Q3	Q4
1- -----	----- %
2- -----	----- %
3- -----	----- %
4- -----	----- %
5- -----	----- %
6- Others	----- %
	100%

## **SELL TO**

Q.5. Now, we will move to your customers. Can you please tell me to whom do you sell your goods? Do you sell them to -----?

Other wholesalers only	1	<b>Ask Q. 7 then skip to Q.9</b>
Retailers only	2	<b>Skip to Q. 8</b>
End users only	3	<b>Skip to Q.9</b>
Both other wholesalers and retailers	4	<b>Continue to Q. 6</b>
Both retailers and end users	5	<b>Continue Q. 6 then skip to Q. 8</b>

Q.6 What percentage does your sales to each type of customers represent out of your total annual sales?

Type of Customers	%
Wholesalers	
Retailers	
End users	
<b>Total</b>	<b>100 %</b>

Q.7 Who are the other wholesalers that you sell to?

---

---

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---

---

---

---

---

Q.8 Who are the retailers that you sell to?

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---

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---

---

Q.9 Which are the main areas that you distribute your goods to?

---

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---

---

---

---

---

**Please record the answer to the following question 11 on table A.**

Q.10 thinking about your relationship with your supplier, the following factors has been identified as the most important. Please state reasons for each factor that you think are important?

**Table A**

<b>Factors</b>	<b>Q.11</b>  <b>Reasons for perceiving each of these factors as important</b>
Price discounts	
Length of relationships with employees/employers of other company	
Offers payment facilities / credit facilities	
Communication between your company and your supplier's company	
Offers highly demanded products	
Delivers products/ goods in-time	
Other: <b>Specify:</b> -----	
Other: <b>Specify:</b> -----	

## FIRMOGRAPHICS

**Q.11 Just for statistical purposes, I would like to know how many branches do you have inside Russia? (Circle the appropriate answer)**

Number Of Branches	
One Branch	1
Two – Five	2
Six – Ten	3
Eleven – Fifteen	4
Sixteen – Twenty	5
Over Twenty Branches	6

**Q.12 In which of the Russian cities are these branches locates? (Circle the appropriate answer)**

Moscow	1
Anady	2
Magaden	3
Kazan	4
Omsk	5
Murmansk	6
Rostov	7
Tuapse	8
Other: Specify: -----	

**Q.13 Do you have branches outside Russia?**

Yes	1
No	2

**Q.14 Do you mainly deal in -----?**

Expensive carpets	1
Medium priced carpets	2
Cheap / economic carpets	3

**Q.15 In average, how many employees do you have?**

NO. OF EMPLOYEES: \_\_\_\_\_

**Q.16 In average, what is your annual turnover, if possible? IN LOCAL CURRENCY**

**AVERAGE ANNUAL TURNOVER: \_\_\_\_\_**

## VALUE MEASUREMENTS

We would like to gain a better understanding of how you choose your supplier as this is the core of our study.

**Q17** Now, I will show you different cards, each card represent a different offer that you might get from your supplier. As I show each card / offer, I would like you to rate how interested this offer is to you, using this scale.

Not at all interested					Very interested				
1	2	3	4	5	6	7	8	9	10

BUNDLE NO	RATING	BUNDLE NO	RATING
Offer 1		Offer 14	
Offer 2		Offer 15	
Offer 3		Offer 16	
Offer 4		Offer 17	
Offer 5		Offer 18	
Offer 6		Offer 19	
Offer 7		Offer 20	
Offer 8		Offer 21	
Offer 9		Offer 22	
Offer 10		Offer 23	
Offer 12		Offer 24	
Offer 13		Offer 25	

**Q.18.** Can you kindly refer me to other wholesalers or retailers so that we can contact and interview just like you?

**Company Name:** -----

**Reference Name:** -----

**Telephone number:** -----

### **OFFER 1**

<b>Discounts</b>	0 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	No delays

### **OFFER 2**

<b>Discounts</b>	0 %
<b>Length of relationship</b>	Medium Term (5 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	Acceptable delays

### **OFFER 3**

<b>Discounts</b>	0 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Payment on Credit
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	Often/ usual delays

### **OFFER 4**

<b>Discounts</b>	0 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	Medium demand
<b>Delays in operation</b>	Often/ usual delays

### **OFFER 5**

<b>Discounts</b>	0 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	No delays

### **OFFER 6**

<b>Discounts</b>	3 %
<b>Length of relationship</b>	Medium Term (5 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Payment on Credit
<b>Demanded products</b>	Medium demand
<b>Delays in operation</b>	No delays

### **OFFER 7**

<b>Discounts</b>	3 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	Acceptable delays

### **OFFER 8**

<b>Discounts</b>	3 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	Often/ usual delays

### **OFFER 9**

<b>Discounts</b>	3 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	Often/ usual delays

### **OFFER 10**

<b>Discounts</b>	3 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	No delays

**OFFER 11**

<b>Discounts</b>	5 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	No delays

**OFFER 12**

<b>Discounts</b>	5 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	Acceptable delays

### **OFFER 13**

<b>Discounts</b>	5 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	Medium demand
<b>Delays in operations</b>	Often/ usual delays

### **OFFER 14**

<b>Discounts</b>	5 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Payment on Credit
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	Often/ usual delays

### **OFFER 15**

<b>Discounts</b>	5 %
<b>Length of relationship</b>	Medium Term (5 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	No delays

### **OFFER 16**

<b>Discounts</b>	7 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	No delays

### **OFFER 17**

<b>Discounts</b>	7 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Payment on Credit
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	Acceptable delays

### **OFFER 18**

<b>Discounts</b>	7 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	Often/ usual delays

### **OFFER 19**

<b>Discounts</b>	7 %
<b>Length of relationship</b>	Medium Term (5 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	Often/ usual delays

### **OFFER 20**

<b>Discounts</b>	7 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	Medium demand
<b>Delays in operation</b>	No delays

### **OFFER 21**

<b>Discounts</b>	10 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	No delays

### **OFFER 22**

<b>Discounts</b>	10 %
<b>Length of relationship</b>	Long Term (10 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	Medium demand
<b>Delays in operation</b>	Acceptable delays

### **OFFER 23**

<b>Discounts</b>	10 %
<b>Length of relationship</b>	Medium Term (5 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	Often/ usual delays

### **OFFER 24**

<b>Discounts</b>	10 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Inpersonal relationship
<b>Credit facilities</b>	Full payment upon selling
<b>Demanded products</b>	High demand
<b>Delays in operation</b>	Often/ usual delays

**OFFER 25**

<b>Discounts</b>	10 %
<b>Length of relationship</b>	Short Term (2 Years)
<b>Communication</b>	Personal relationship
<b>Credit facilities</b>	Payment on Credit
<b>Demanded products</b>	Fair demand
<b>Delays in operation</b>	No delays

**Деловые взаимоотношения**  
**на российском рынке оптовой торговли коврами**

Номер анкеты	
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Имя респондента	
Должность респондента	
Название компании	
Адрес компании	
Телефон компании	
Дата взятия интервью	

**ОБЗОР**

--

Доброе утро/ Добрый вечер. Меня зовут Марва Ельгебали, я учусь на факультете философии в университете г. Хадерсфильда, Великобритания. Моё исследование касается российского рынка оптовой торговли коврами по предмету “ Деловые взаимоотношения на российском рынке оптовой торговли коврами”. Я буду вам благодарна, если вы уделите мне 15 минут вашего времени, чтобы узнать ваше мнение по этой теме.

Мы очень ценим ваши ответы и они будут сгруппированы вместе с другими ответами (БЕЗ ЧАСТНОГО АНАЛИЗА)

1. **S.1.** Вы согласны участвовать с нами?

Да	1	<b>ПРОДОЛЖАЙТЕ</b>
Нет	2	

В конце этого интервью я с удовольствием вручу вам подарки, чтобы отблагодарить за время, потраченное на ответы нашей анкеты

2. **S.2.** Как было сказано ранее, я ищу продавцов ковров в России. Итак, скажите, пожалуйста, являетесь ли вы розничными продавцами, оптовиками, и тем и другим, ни тем и ни другим.

Розничный продавец	1
Оптовик	2
И то и другое	<b>КАКОЙ ОСНОВНОЙ БИЗНЕС – РОЗНИЧНАЯ ТОРГОВЛЯ ИЛИ ОПТОВАЯ</b>
Ни то, ни другое	<b>Интервью завершено</b>

3. **S.3.** Так как мы заинтересованы во взаимоотношениях “оптовая торговля – оптовая торговля”, так же, как во взаимоотношениях “ оптовая торговля – розничная торговля”, я хотела бы знать, являются ли ваши провизоры “оптовиками” или “производителями”? Я имею в виду источник, откуда вы покупаете. Это \_\_\_\_\_

Только оптовая торговля	1	ПРОДОЛЖАЙТЕ ОСНОВНУЮ АНКЕТУ
Только производители	2	АНКЕТИРОВАНИЕ ЗАВЕРШЕНО
Только розничные продавцы	3	
Как оптовики, так и производители	4	МЫ ЗАИНТЕРЕСОВАНЫ ТОЛЬКО В ОТНОШЕНИЯХ “ОПТОВАЯ ТОРГОВЛЯ - ОПТОВАЯ ТОРГОВЛЯ ” ИЛИ “ОПТОВАЯ ТОРГОВЛЯ – РОЗНИЧНАЯ ТОРГОВЛЯ”
Как оптовики, так и розничные продавцы	5	ПРОДОЛЖАЙТЕ ОСНОВНУЮ АНКЕТУ

**Я отправлю вам анкету, чтобы у вас было время просмотреть её перед интервью, это сэкономит ваше время. (Подтвердите дату интервью и адрес).**

Деловые взаимоотношения  
на российском рынке оптовой торговли коврами

**ОСНОВНАЯ АНКЕТА**

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. Как было упомянуто ранее, основная цель этого исследования – понять сущность производства ковров в России, поэтому я хотела бы задать вам несколько вопросов, которые позволят мне достичь этой цели.

в.1. Основные оптовики в России с вашей точки зрения? **Сообщите как можно больше:** кто ещё?

- 11. \_\_\_\_\_
- 12. \_\_\_\_\_
- 13. \_\_\_\_\_
- 14. \_\_\_\_\_
- 15. \_\_\_\_\_
- 16. \_\_\_\_\_
- 17. \_\_\_\_\_
- 18. \_\_\_\_\_
- 19. \_\_\_\_\_
- 20. \_\_\_\_\_

в.2. Основные розничные продавцы в России с вашей точки зрения? **Сообщите как можно больше:** кто ещё?

- 11. \_\_\_\_\_
- 12. \_\_\_\_\_
- 13. \_\_\_\_\_
- 14. \_\_\_\_\_
- 15. \_\_\_\_\_
- 16. \_\_\_\_\_
- 17. \_\_\_\_\_
- 18. \_\_\_\_\_
- 19. \_\_\_\_\_
- 20. \_\_\_\_\_

**ГДЕ ВЫ ПОКУПАЕТЕ**

А сейчас мы хотели бы получить некоторую информацию о вашем собственном бизнесе в частности

В.3. У каких оптовиков вы покупаете свой товар?

В.4. Какой процент купли?

<b>В3</b>	<b>В4</b>
1- -----	----- %
2- -----	----- %
3- -----	----- %
4- -----	----- %
5- -----	----- %
6- Другие	----- %
	100%

**КОМУ ПРОДАЁТЕ**

В.5. А сейчас перейдём к вашим покупателям. Скажите, пожалуйста, кому вы продаёте свой товар? Вы продаёте его \_\_\_\_\_?

Только другим оптовикам	1	<b>Ask Q. 7 then skip to Q.9</b>
Только розничным продавцам	2	<b>Skip to Q. 8</b>
Только конечным покупателям	3	<b>Skip to Q.9</b>
Как оптовикам, так и розничным продавцам	4	<b>Continue to Q. 6</b>
Как розничным продавцам, так и конечным покупателям	5	<b>Continue Q. 6 then skip to Q. 8</b>

в.6 Каков процент ваших общих ежегодных продаж к каждому типу клиентов?

<b>Тип клиентов</b>	<b>%</b>
Оптовики	
Розничные продавцы	
Конечные покупатели	
<b>Итог</b>	<b>100 %</b>

В.7. Каким оптовикам вы продаёте?

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В.8. Каким розничным продавцам вы продаёте?

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В.9. В какие основные районы вы распределяете свои товары?

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**Пожалуйста, запишите ответы на вопрос 11 в таблицу А.**

В.10. Думая о взаимоотношениях с вашими провизорами, следующие факторы могут быть самыми важными, пожалуйста, укажите причины для каждого фактора, важного на ваш взгляд

**Таблица А**

<b>Факторы</b>	<b>В.11. Причины для того, чтобы считать каждый из факторов важным</b>
Скидки	
Продолжительность взаимоотношений со служащими / работодателями	

другой компании	
Предложения льгот по платежам / кредитам	
Связь вашей компании с компанией провизора	
Предложения товаров повышенного спроса	
Доставка продуктов / товаров вовремя	
Другое: Уточните	
Другое: Уточните	
Другое: Уточните	

## ФИРМОГРАФИКА

В.11. Только для статистической цели я хотела бы знать, сколько филиалов у вас в России? (Обведите в кружок соответствующий ответ)

Количество филиалов	
Один филиал	1
2-5	2
6-10	3
11-15	4
16-20	5
Свыше 20	6

В.12. В каких русских городах находятся эти филиалы? (Обведите в кружок соответствующий ответ)

Москва	1
Анадырь	2
Магадан	3
Казань	4
Омск	5
Мурманск	6
Ростов	7
Туапсе	8
Другие: Уточните	

Q В.13. Есть ли у вас филиалы за пределами России?

Да	1
Нет	2

В.14. Вы торгуете в основном . . . . .?

Дорогими коврами	1
Коврами средней стоимости	2
Дешёвыми коврами	3

В.15. Сколько у вас работников?

Количество работников \_\_\_\_\_

В.16. Если возможно, сообщите средний годовой оборот капитала. В местной валюте.

**Средний годовой оборот капитала:** \_\_\_\_\_

## ОПРЕДЕЛЕНИЕ СТОИМОСТИ

Мы хотели бы лучше понять, как вы выбираете своих провизоров, так как это суть нашего исследования.

В.17. Сейчас я покажу вам разные карточки, каждая карточка представляет различные предложения, которые вы можете получить от провизора. Я показываю карточку/ предложение, а вы оцените, используя шкалу, насколько интересно вам это предложение

<b>Совсем неинтересно</b>					<b>Очень интересно</b>				
1	2	3	4	5	6	7	8	9	10

BUNDLE NO	RATING	BUNDLE NO	RATING
Предложение 1		Предложение 13	
Предложение 2		Предложение 14	
Предложение 3		Предложение 15	
Предложение 4		Предложение 16	
Предложение 5		Предложение 17	
Предложение 6		Предложение 18	
Предложение 7		Предложение 19	
Предложение 8		Предложение 19	
Предложение 9		Предложение 20	
Предложение 10		Предложение 21	
Предложение 11		Предложение 22	
Предложение 12		Предложение 23	

В.18. Не могли бы вы назвать других оптовиков или розничных продавцов, чтобы мы могли связаться с ними и проинтервьюировать их, как вас?

**Название компании:** \_\_\_\_\_

**Имя референта:** \_\_\_\_\_

**Номер телефона:** \_\_\_\_\_

### **Предложение 1**

<b>Скидки</b>	0%
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Задержек нет

### **Предложение 2**

<b>Скидки</b>	0%
<b>Длительность взаимоотношений</b>	Средний срок ( 5 лет )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Приемлемые задержки

### **Предложение 3**

<b>Скидки</b>	0%
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Оплата в кредит
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 4**

<b>Скидки</b>	0%
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Средний спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 5**

<b>Скидки</b>	0%
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Задержек нет

### **Предложение 6**

<b>Скидки</b>	3 %
<b>Длительность взаимоотношений</b>	Средний срок ( 5 лет )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Оплата в кредит
<b>Товары, пользующиеся спросом</b>	Средний спрос
<b>Задержки операций</b>	Задержек нет

### **Предложение 7**

<b>Скидки</b>	3%
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Приемлемые задержки

### **Предложение 8**

<b>Скидки</b>	3 %
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 9**

<b>Скидки</b>	3 %
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 10**

<b>Скидки</b>	3 %
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Задержек нет

### **Предложение 11**

<b>Скидки</b>	5 %
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Задержек нет

### **Предложение 12**

<b>Скидки</b>	5 %
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Приемлемые задержки

### **Предложение 13**

<b>Скидки</b>	5 %
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Средний спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 14**

<b>Скидки</b>	5 %
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Оплата в кредит
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 15**

<b>Скидки</b>	5 %
<b>Длительность взаимоотношений</b>	Средний срок ( 5 лет )
<b>Общенье</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Задержек нет

### **Предложение 16**

<b>Скидки</b>	7 %
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общенье</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Задержек нет

### **Предложение 17**

<b>Скидки</b>	7 %
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Оплата в кредит
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Приемлемые задержки

### **Предложение 18**

<b>Скидки</b>	7 %
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 19**

<b>Скидки</b>	7 %
<b>Длительность взаимоотношений</b>	Средний срок ( 5 лет )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 20**

<b>Скидки</b>	7 %
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Средний спрос
<b>Задержки операций</b>	Задержек нет

### **Предложение 21**

<b>Скидки</b>	10 %
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Задержек нет

### **Предложение 22**

<b>Скидки</b>	10 %
<b>Длительность взаимоотношений</b>	Длительные отношения ( 10 лет )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Средний спрос
<b>Задержки операций</b>	Приемлемые задержки

### **Предложение 23**

<b>Скидки</b>	10 %
<b>Длительность взаимоотношений</b>	Средний срок ( 5 лет )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 24**

<b>Скидки</b>	10 %
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общение</b>	Неличные взаимоотношения
<b>Условия льгот по кредитам</b>	Полная оплата после продажи
<b>Товары, пользующиеся спросом</b>	Высокий спрос
<b>Задержки операций</b>	Частые / обычные задержки

### **Предложение 25**

<b>Скидки</b>	10 %
<b>Длительность взаимоотношений</b>	Короткий срок ( 2 года )
<b>Общение</b>	Личные отношения
<b>Условия льгот по кредитам</b>	Оплата в кредит
<b>Товары, пользующиеся спросом</b>	Значительный спрос
<b>Задержки операций</b>	Задержек нет

# Appendix D

## Reasons for perceiving the factors as important

- ▶ **Price Discounts**
  - ▶ Opportunity to do corresponding discounts for buyers
  - ▶ Market relationship
  - ▶ Help in moving “over stock”
  - ▶ Limited purchasing power (solvency) of customers
  - ▶ Competition
  - ▶ Price defines customers demand
  - ▶ Profitability of the Company
  
- ▶ **Length of Relationship**
  - ▶ Business has to fulfill personal interests of each partner specially the owner
  - ▶ Basic criteria which defines demand & returned goods
  - ▶ Opportunity to previously select carpets needed for successful trade
  - ▶ Emotional & social stability are important to do business
  - ▶ Exchange of experience & enjoyable
  
- ▶ **Offers payment/credit facilities**
  - ▶ Credits are always important
  - ▶ Seasonal reception of good irrespective of running costs
  - ▶ Enable us to have stock in the right time to be prepared for the right season
  - ▶ Company’s development
  - ▶ Long delivery time
  
- ▶ **Offers highly demanded products**
  - ▶ Gives a very high support/increase Sales
  - ▶ Most people like new designs
  
- ▶ **Delivers products/goods in-time**
  - ▶ Gives a very high support/increase Sales
  - ▶ Enable us to have stock in the right time to be prepared for the right season
  - ▶ Very important if working on (per order) basis

## **Main Factors for Expensive & Medium priced carpet seller for choosing Suppliers**

- ▶ **Price Discounts**
  - ▶ Opportunity to do corresponding discounts for buyers
  - ▶ Limited purchasing power (solvency) of customers
- ▶ **Length of Relationship**
  - ▶ Long term relationships is a basic criteria which defines demand & returned goods
  - ▶ Longer term relationship offers the opportunity to precisely select carpets needed for successful trade.
  - ▶ The longer the relationship the better the communication and understanding between partners.
  - ▶ Longer relationship means more price discounts and easy payment policies.
- ▶ **Offers payment/credit facilities**
  - ▶ Seasonal reception of good irrespective of running costs
  - ▶ Being able to have stock in the right time to be prepared for the right season

## **Main Factors for Medium priced carpet seller for choosing Suppliers**

- ▶ **Price Discounts**
  - ▶ Competition
  - ▶ Market relationship
  - ▶ More Value for goods (high quality & good price)
  - ▶ Competition
  - ▶ Profitability of the Company
- ▶ **Length of Relationship**
  - ▶ All other factors depends on it
  - ▶ Easier communication & problem solving
  - ▶ Important in taking decisions considering payments & delivery
  - ▶ Emotional & social stability are important to do business and this comes with the longer term relationships.
- ▶ **Offers payment/credit facilities**
  - ▶ Gives wider choices
  - ▶ Company's development

## **Main Factors for Medium & Lower priced carpet seller for choosing Suppliers**

- ▶ **Price Discounts**
  - ▶ Help in moving “over stock”
  - ▶ Limited purchasing power (solvency) of customers
  - ▶ Price defines customers demand
  - ▶ Competition
  
- ▶ **Length of Relationship**
  - ▶ Business has to fulfill personal interest of each partner specially the owner
  - ▶ Exchange of experience & enjoyable
  
- ▶ **Offers payment/credit facilities**
  - ▶ Credits are always important
  - ▶ Long delivery time
  
- ▶ **Offers highly demanded products**
  - ▶ Matching consumer demand
  
- ▶ **Delivers products/goods in-time**
  - ▶ Very important if working on (per order) basis
  - ▶ Receiving order in the appropriate season is an essential criteria.

# Appendix E

**TOP10 Carpet Retailers in Russia  
(indications by Wholesaler & Retailer)**

Position	Name of Retailers	Percentage given
1	<b>Straik Katabeach</b>	<b>32.2%</b>
2	<b>Tree Keta (Tri Kita TK)</b>	<b>23.7%</b>
3	<b>Troy Dom</b>	<b>22%</b>
4	<b>Gronada</b>	<b>20.3%</b>
5	<b>Kavkas City</b>	<b>13.6%</b>
6	<b>Mirkovrov</b>	<b>11.9%</b>
7	<b>Lotche Kavre (best carpets)</b>	<b>10.2%</b>
8	<b>Enesy Limited Hyper Markets/Big Commercial Malls</b>	<b>8.5%</b>
9	<b>ART de Vivre</b>	<b>5.1</b>
10	<b>Marlin Lyroa (Lero Marlyn)</b>	<b>3.4%</b>

Remark: 23.7% no reply

**N= 59**

- **TOP 5 from WHOLESALERS' Point of View**

Position	Name of Retailer	Percentage given
1	Tree Keta (TRI KETA TK)	26.7%
2	Straik Katabeach	23.3%
3	Troy Dom	16.7%
4	Gronada	13.3%
5	Kavkas City Lotche Kavre (best carpets) Enesy Limited	10%

Remark 33% no reply

No 30

- **TOP 5 from RETAILERS' Point of View**

Position	Name of Retailer	Percentage given
1	Straik Katabeach	41.4%
2	Troy Dom Gronada	27.6%
3	Tree Keta (Tri KITA TK) Mirkorrov	20.7%
4	Kavkas City	17.2%
5	Lotche Kavre (best carpets) Hyper Markets/Big Commercial Malls	10.3%

13% no reply

No 29

- **TOP 3 Retailers by segments**

Segment1: expensive to medium priced carpets

Position	Name of Wholesaler
1	Tree Keta (TRI KITA TK)
2	Troy Dom
3	Straik Katabeach Gronada Mirkorrov

Segment 2: medium priced carpets

Position	Name of Wholesaler
1	Straik Katabeach
2	Gronada
3	Troy Dom Kavkas City

Segment 3: expensive carpets

Position	Name of Wholesaler
1	Tree Keta (TRI KITA TK)
2	Troy Dom
3	Straik Katabeach

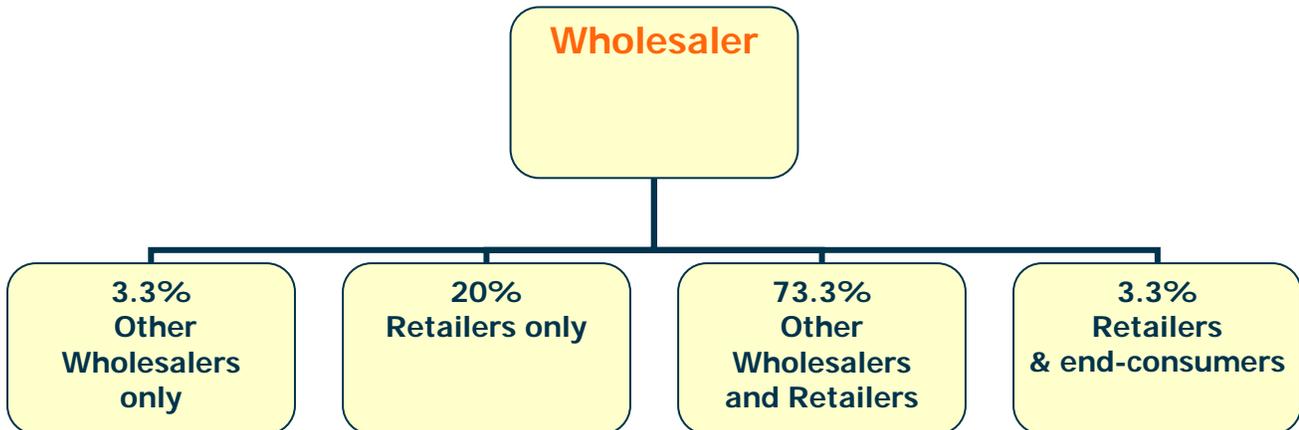
**TOP10 Carpet Wholesalers in Russia**

Position	Name of Wholesaler	Percentage given
1	Cleopatra	41.3 %
2	Scorpions	40 %
5	Mirkovrov	32.2 %
8	Floory Imoldenia	25.5 %
9	Uniflor	23.8%
10	Carpet House	8.5%

**No 59**

## Percentage of sales by type of trader:

Wholesalers sell to...



Sales % to each channel...



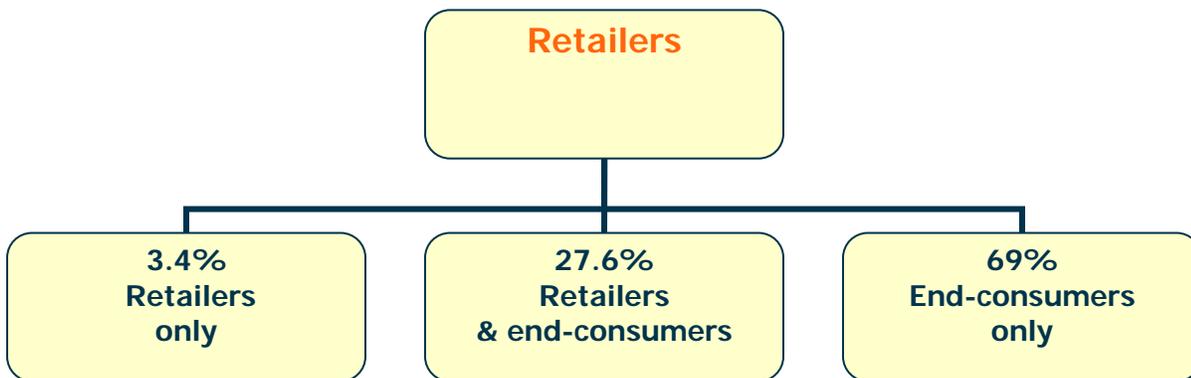
No 30

### Main Cities of Distribution for wholesalers (TOP4)

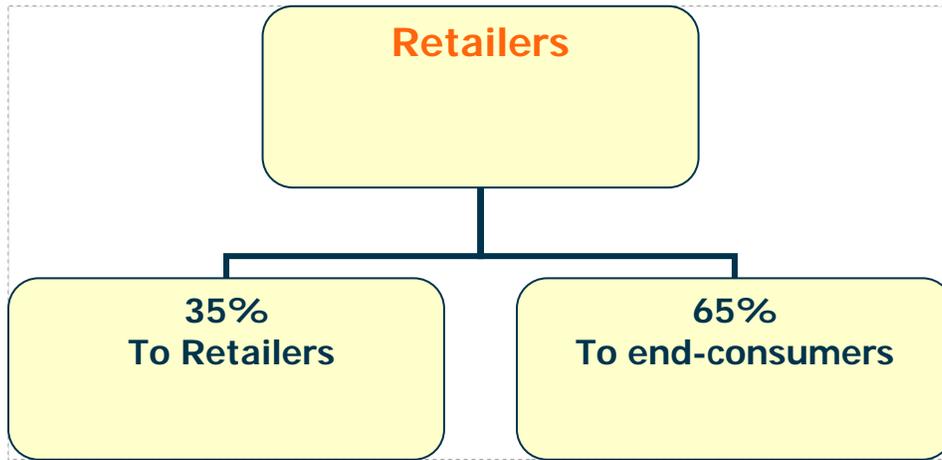
Position	Name of City	Percentage given
1	Moscow	23.3%
2	Siberia	16.7%
3	Krasnodarsk Tolyatti	10%
4	Kaborofsk (Kislovosdok City) Kaluga Saint Petersberg Tyumen Russian Supertos	6.7%

33.3% no reply  
NO 30

### Retailers sell to...



**Sales % to each...**



No 30

**The main Cities of Distribution for retailers (TOP3)**

Position	Name of City	Percentage given
1	Moscow	20.7%
2	Siberia	10.3%
3	Zelatogreid City Kurgan Minsk City Krasnodar City	6.9%

10.3% no reply  
NO 29