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## Why chemical buyers are different?

### Work-in-Progress paper

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## Abstract

The role of business relationship is still of primary importance in inter-organisational research. Several authors (Hakansson 1982, Turnbull and Valla 1986, Ford 1990) articulate its significance. As value creation is a cornerstone of business marketing (Anderson and Narus 1999) and the essential of business relationship is creating and sharing value (Anderson 1995) knowing the buyer's (value) orientation is fundamental for the supplier to present different market offerings (Anderson and Narus 1999).

According to these theoretical foundations the main objective of our prior research was to explore the underlying factors that influence the buying behaviour of Hungarian chemical companies. Our empirical findings showed that differences in value orientation of these buyers could serve as a relevant base for a successful segmentation of this market. Buyers' expectations about the supplier's behaviour were considered as value orientation. The Hungarian chemical buyers' value orientation varies between the likely transaction orientation, relationship orientation and a certain industry routine (Mandják et al. 2001).

Our recent research' objective is to proceed with and get a deeper overview of this phenomenon, focusing on the buyer's behaviour in a relationship context incorporating the buyers' value orientation. We focus on the buyers' behaviour in a business relationship as a process, applying and testing the different constructs and indicators of business relationship value.

Our hypothesised model, which is shaped by the results of our preliminary research and the theoretical foundations, consists of 6 constructs. The first one is the components of relationship on exchange (episode) level, which is measured along with six dimensions, where we aim to retest our results of our prior research. This is related to satisfaction, which is connected to the value orientation of the company. We hypothesise two moderating factors, first is size of company and second the inter-relatedness of company. The latter of the two moderating factors can be measured by vertical integration (to what extent is the company involved in vertical integration), by ownership structure and the number of suppliers. The last construct in our model is the perceived value measured at a relationship level.

Confronting several relationship value constructs and relating them with orientation and satisfaction constructs within one model can serve as a contribution of this research to business relationship measurement.

***Subject areas: business relationship, buyer's value orientation, perceived value, Hungary.***

## **Hungarian Chemical Buyers**

Our empirical study focussed on Industrial supplier-customer relationships. We surveyed personnel in charge of purchasing in Hungarian chemical companies in order to identify possible dimensions of inter-organisational relationships. Prior to this research we carried out a quantitative survey into the behaviour of chemical companies last year (Mandják, Simon, Sajtos 2001), however at that stage we were mainly interested in factors and patterns of organisational behaviour. We conducted our research from the point of view of one single international company by interviewing and then surveying its buyers. Our survey did not yield unambiguous definitive findings to empirically substantiate types of relationships so we chose a different approach for this present survey.

Our survey last year was built on a satisfaction concept, which shows that Hungarian chemical buyers' behaviour patterns are quite heterogeneous. This coincides with Anderson and Narus' (1999) criticism of the tunnel vision of commodity markets, and the differences in value orientation of these buyers could be the basis of an eventual segmentation of this market. As a general tendency we pointed out that there was a slight increase in buyers' expectations. Buyers will have higher expectations of the product and the commercial terms in the future and suppliers' performance exceeds buyers' expectations in terms of environmental protection features.

The main objective of our research was to explore the underlying, latent factors, which influence the buying behaviour of Hungarian chemical companies and to identify patterns in our empirical study. Based on this exploratory phase, we managed to unfold the relevant factors which we have used in this phase for further analysis.

The main differences between this current study and the previous one are as follows: 1., We did not conduct our present research on one single (supplier) company but we surveyed companies' suppliers in general, which of course provided a different basis of comparison. 2., We chose a totally different approach to identify chemical buyer behaviour. We concentrated on the conceptualisation and operationalisation of the relationships rather than satisfaction. We have to point out that we thought it relevant because the previous study had not yielded any unambiguous findings. Therefore, as opposed to the first phase, in which we focused on the relationship factors on the level of exchange episodes, in this current research phase we endeavoured to extend the levels of relationships and we concentrated on studying various relationship levels (exchange episodes, relationships) of chemical companies.

In the first phase of our research we used qualitative, deep interviews with the representatives of companies in the chemical business to fine-tune levels of relationships, to make a benchmark and to identify sector-specific factors discussed in the theoretical section.

### **Theoretical approach, the buyer's behaviour in the business relationship**

In this study we present various behaviour patterns of Hungarian chemical buyers. At the first glance chemical raw material buyers are much more transaction oriented. This seems logical if one considers the well-standardised characteristics of these products and the generally low switching costs involved in changing a supplier. Switching costs are not only dependant on the type of the product but also on the situation of exchange and investments in exchange procedures (Jackson 1985). We can paint a more realistic picture of this commodity

buyer's behaviour if we try to calibrate it (Day and Montgomery 1999). This relativisation can be achieved by examining the full bandwidth of the Hungarian chemical raw materials industry (Anderson and Narus 1999). Industry bandwidth, following the authors' approach is a range of business relationships of a marketplace. "Each marketplace is better characterised as a range of relationships that are more collaborative or more transactional in nature relative to that marketplace's norm." (Anderson and Narus 1999 p.374). We attempt to find differences in the buyer's preferences about the product exchange episodes and his expectations about their relationships with the suppliers. We consider the product exchange preferences as a buyer's perception of episode value, and his requirements about the supplier's activity as a perception of the relationship value (Mandják and Durrieu 2000).

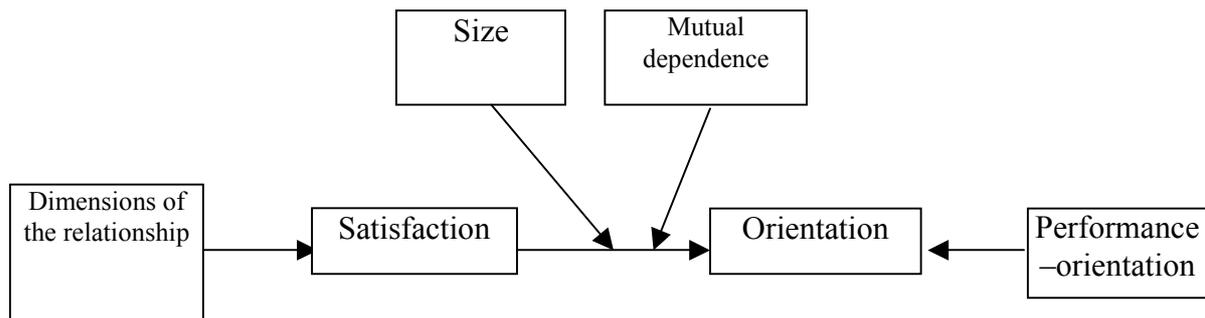


Chart 1: Theoretical model of the buyer's behaviour in the business relationship

In the model we look at the buyer's behaviour in a business relationship. Our approach differs from classic theories researching and describing purchase behaviour in that it does not concentrate on the product itself, or the purchasing activity of the product, but we focus on the buyer's behaviour with the supplier during the entire business relationship.

The model includes statements about the buyer-supplier relationship on the level of exchange episodes and relationship. On the level of exchange episodes we want to analyse the differences between the expectations and actual performance and on the relationship level we explore the actual status.

We endeavour to find correlation between these and satisfaction, which has two indicators: 1, satisfaction with the current supplier and 2, potential change of the supplier.

Satisfaction is related to the types of orientation (relationship, transaction), which can be measured with and expressed by the following indicators: 1., **length of the relationship**, in which we assume that the longer it is the more relationship oriented it is. 2., **time taken to choose a supplier**, in which we assume that the longer it is the more relationship oriented it is 3., **routine nature of the relationship**, the more regular it is, the more relationship oriented it is 4., **change of the supplier**, which is related to satisfaction 5., whether or not **competitors' proposals are followed**.

The two moderating factors between satisfaction and orientation are size and mutual dependence. By **size** we mean the number of employees. Mutual dependence can be described by the following indicators: 1., **vertical integration**, i.e. whether or not the company is part of this 2., **ownership structures** because cross ownership may have an impact on the company's orientation 3., **number of suppliers**, many or few. Performance orientation in this case is interpreted in terms of performance indicators, profits and turnover.

## **Research methodology**

Our empirical study focuses on industrial supplier-customer relationships so field interviews were conducted among managers of chemical companies in order to identify additional possible dimensions of inter-organisational relationships. Prior to our survey, we used qualitative, deep interviews with the representatives of companies in the chemical business to make a benchmark and to identify sector-specific factors.

The questionnaire was fine-tuned in several steps, its final content and structure is the outcome of careful discussions with theoretical and practical experts. With our qualitative survey we managed to test our items and scales developed for the quantitative survey and get recommendations for further benchmark-specific factors and feedback to avoid misunderstandings.

## **Fieldwork**

For the qualitative phase, in a large chemical company one-to-one interviews were conducted with the purchasing director and the CEO about the topic. The qualitative phase was of secondary importance in the current survey because significant qualitative research had been carried out for a similar survey last year and because the questionnaire was very concentrated, the only missing methodological constituent was operationalisation of the levels of relationship in the questionnaire. The company surveyed for the qualitative research was not included in the initial sample of the quantitative survey.

## **Data collection**

Our research was conducted in the initial months of 2002 among companies with more than 20 employees. We used a standardised questionnaire in one-to-one interviews. Out of the initial sample, which contained every chemical company that met the former requirements, we managed to obtain 110 completed questionnaires, which is a 18.3% responsiveness ratio.

First we will present a general analysis of our data in accordance with the structure of our questionnaire and then we will move on to analysing our findings on behavioural construct of the industry. This study excludes verification of the model presented above because it will be supplied during the presentation.

## **Data Analysis**

First we wanted to know who and in what position were in charge of chemical purchases. We wanted to know this because competence was important. The data revealed that most respondents said that the purchasing department and its director was responsible for purchases (31.4%), 22.1% of the respondents said that it was the managing director's job while 3.5% mentioned the marketing department. The purchasing director tends to be in charge of purchases in foreign owned companies with many employees. In Hungarian owned companies it varies but mainly the managing director is in charge of purchases.

In their answer to the question what value orientation means for companies' operation, 51.4% mentioned profit growth, cost reduction and 44.6% said quality insurance. Our questionnaires surveyed relationships – in compliance with the above – both on relationship and episode levels for both primary and secondary suppliers. By primary supplier we meant the company

supplying the largest volumes. We chose these categories because it turned out from the company interviews that this classification seemed the most obvious for companies.

On the level of exchange episodes we can conclude that steadiness of the product's quality and the product's appropriateness and functioning are the most important features. The supplier's willingness to react on problems and its problem solving skills, as well as significance of the product and the competitive price are important for both the primary as well as the secondary supplier. The data indicate that importance exceeded the actual level in nearly each case – except for functioning and reputation of the product.

Based on the findings we can conclude that companies regard every single factor important, however, and it seems the expectations are met in the case of functioning. At the same time, reputation of the supplier and the product or its brand name are less important in this market. If we look at the sequence of importance, we cannot find big differences between the primary and the secondary suppliers. Nevertheless, when the same set of statements were analysed in a joint factor analysis, no applicable results were found for either the primary or the secondary suppliers. Analysing them separately supported our assumption that analysing the relationship on the level of exchange episodes does not reveal actual differences, and it does not provide a basis for segmentation and there was no relevant correlation with satisfaction, i.e. the analysis calls for a different approach.

	<i>Importance</i>			<i>Feature</i>		
	N	Mean	Std. Deviation	N	Mean	Std. Deviation
Primary supplier						
Steadiness of product quality	110	4.84	0.46	105	4.51	0.75
Product use will cause no harm or damage (product adequacy)	106	4.79	0.60	109	4.61	0.92
Functional performance of the product from a technological point of view	106	4.77	0.61	105	4.81	0.56
Supplier's willingness to react on problems, queries	108	4.64	0.59	105	4.31	0.95
Competitive purchase price	109	4.63	0.59	108	4.61	0.62
Significance of product in the output product	105	4.54	0.91	103	4.45	1.03
Supplier's problem solving skills (appropriateness)	106	4.51	0.69	105	4.43	0.73
Supplier's reputation	109	3.83	1.17	106	3.93	1.24
Counselling on use and application	102	3.61	1.39	79	2.41	1.49
Supplier services (specific logistic solutions, e-commerce, further training)	102	3.39	1.28	100	3.56	1.37
Brand name of product	104	2.39	1.48	95	2.60	1.55
Secondary supplier						
Steadiness product quality	82	4.73	0.59	70	4.34	0.81
Product use will cause no harm or damage (product adequacy)	79	4.70	0.67	71	4.42	1.01
Functional performance of the product from a technological point of view	81	4.65	0.71	69	4.64	0.66
Supplier's willingness to react on problems, queries	81	4.46	0.76	70	4.41	0.73
Competitive purchase price	80	4.44	0.73	70	4.34	0.80
Significance of product in the output product	79	4.32	0.74	70	4.33	0.74
Supplier's problem solving skills (appropriateness)	79	4.30	1.03	67	4.15	1.28
Supplier's reputation	80	3.61	1.07	69	3.64	1.16
Counselling on use and application	76	3.50	1.32	50	2.38	1.41
Supplier services (specific logistic solutions, e-commerce, further training)	75	3.41	1.22	68	3.41	1.32
Brand name of product	75	2.12	1.34	58	2.31	1.45

Table 1: Indicators of the relationship for primary and secondary suppliers on the level of exchange episodes

Analysis of correlations above reveals that if a statement is relevant to one supplier it strongly correlates with importance to the other supplier, i.e. relevance/importance of the individual features generally describes all purchases. Functioning of a product strongly correlates with product adequacy, and so does Counselling on use and application with Supplier services, which leads to the conclusion that these statement pairs have identical meaning for the company.

There is contrasting reciprocity between the product's brand name and its functional performance, which negatively demonstrates the importance of branding, there is positive correlation with Counselling on use and application, which means that counselling is important for branded products. Branding of a product correlates with reputation of the supplier and this latter correlates with Supplier's problem solving skills i.e. the brand only manifests through the supplier's reputation and it does not without it, although neither have top priority. Supplier's problem solving skills strongly correlates with Significance of the product.

Looking at the length of the relationship, one can see that companies have been in contact with their current suppliers for 108.5 months i.e. nearly 9 years on the average with the shortest relationship of six months and the longest of 30 years. On the average companies took 19.2 months to select a supplier and they chose their current supplier nearly 6.5 years ago.

By looking at the criteria for selecting the primary suppliers it becomes clear that the most important criterion is price (76.4%), the second most important is the product (74.5%), the third is reliability and (58,5%) the fourth one is terms of payment (31,1%). The two most significant selection criteria are price and product because the difference between their rates is quite small and the ones who go for price take shorter to select their suppliers. At the same time, those companies who spent long enough time to select a supplier tend to watch competitor suppliers' prices to a lesser extent, which supports the former statement.

Nearly one fourth of the companies (22.7%) are considering changing their suppliers, while 73.6% of them would like to keep their current suppliers and 3.6% said they did not know. Those considering a change have had their current suppliers for a shorter time (59 months) and are less satisfied (4.04) while those who would like to maintain the relationship have been with the current supplier for 88 months and are more satisfied (4.47).

### *Satisfaction*

There is weak negative correlation between length of the relationship and the level of satisfaction i.e. the longer the relationship the less satisfied the company is with its supplier. However, those satisfied, feel that the relationship is more of a routine. Regarding expectations, it is the supplier's reputation (0.39) and Counselling on use and application (0.3) that have the biggest impact on satisfaction, and regarding actual performance, it is the supplier's reputation (0.39), Supplier's problem solving skills (0.37) and Supplier's willingness to react on problems most.

Correlation is weaker than average between satisfaction and re-selection, which correlation examined in terms of ownership structure shows that it is even stronger in formerly state owned Hungarian companies. This is supported by the fact that Hungarian companies tend to spend longer time (28 months) selecting a supplier and they tend to have fewer (24-36)

suppliers while the opposite is true for foreign owned companies (with 10 months and 178 suppliers). Based on the length of time spent on selecting a supplier, it seems that foreigners import their relationships, that is they tend to have established relationships. However, there is no significant correlation between the time taken to select a supplier and the number of suppliers. One has to point out that certain important indicators about foreign companies (e.g. size, profits, turnover, headcount) figure at least twice as high as in their Hungarian counterparts. There is no significant correlation between the number of suppliers and satisfaction levels.

Differences are not significant, however but it is interesting to observe that Hungarian companies are the most satisfied (4.42), formerly state owned are less satisfied (4.36) while foreign owned companies are the least satisfied (4.29) with their suppliers.

Analysis of the length of relationships by markets reveals that it takes longer to select a supplier in the market of industrial services and raw materials and shorter in the market of consumer services and industrial production appliances. However, there is reverse tendency as regards the length of existing relationships.

#### *Performance indicators*

Companies think that the three most important indicators of performance are realised profit (70.8%), sales volume (40.4%) and consumer satisfaction (30.3%). Perception of performance indicators for competitors is quite problematic for the respondents because most of the answers were given on average and only in case of employee and customer satisfaction were reported, that they are supposed to be in better position, while they perceived their own performance in financial (capital retention) and market-related (market share, profit margin) indicators as identical to that of the competition. Perception of performance indicators is similar to what we found last year, i.e. mean values tend to be in the same bandwidth, however, managers feel that consumer satisfaction has improved, too.

#### *Analysis of the supplier-buyer relationship on the relationship level*

On the relationship level the most characteristic statement is that The relationship ensures that needs are met (security, stability, continuity confidence, inertia). These statements characterise buyer-supplier relationships in every company at a higher level, while the other statements are quite heterogeneous. As regards secondary suppliers, we received a lot fewer answers with lower mean figures, although statements are nearly in the same order of importance. Table 2 illustrates that general intangible elements of the relationship can be observed in the answers of respondents very easily, however very little of preparation or analysis of financial calculations (cost calculation, cost reduction, value analysis) describe the relationship.

Judging from the correlation between various statements, one can conclude that the length and history of the relationship strongly correlates with quality improvement in the relationship (0.4) which somewhat correlates with value analysis (0.4). The correlation is of the same strength between security, confidence and inertia.

<i>Primary supplier</i>	<i>N</i>	<i>Mean</i>	<i>Std. Deviation</i>
The relationship ensures that needs are met (security)	108	4.70	0.53
Stability of the relationship	108	4.69	0.57
Continuity of the relationship	108	4.69	0.61
Confidence in the supplier	108	4.51	0.79
History of the relationship verifies maintenance of the relationship (inertia)	107	4.48	0.92
Quality improvement in the relationship	103	4.08	1.23
Cost reduction in the relationship	105	3.63	1.28
Value analysis in the relationship	100	3.33	1.52
Attachment in the relationship	106	3.21	1.48
Calculating costs of the relationship	96	2.71	1.46
<i>Secondary supplier</i>			
Stability of the relationship	73	4.42	0.83
The relationship ensures that needs are met (security)	72	4.38	0.98
Confidence in the supplier	72	4.32	0.90
History of the relationship verifies maintenance of the relationship (inertia)	72	4.32	1.00
Continuity of the relationship	73	4.32	0.83
Quality improvement in the relationship	70	3.69	1.26
Cost reduction in the relationship	72	3.67	1.17
Value analysis in the relationship	68	3.12	1.43
Calculating costs of the relationship	64	2.97	1.48
Attachment in the relationship	72	2.83	1.37

Table 2: Indicators of the buyer-supplier relationship for primary and secondary suppliers on the relationship level.

We performed a factor analysis on statements of buyer-supplier relationship on the relationship level. Table 3 displays the two factors that emerged through the use of the principal component analysis method and Varimax rotation. The KMO value was 0.74, which is a very good indicator of the reliability of our analysis. The explained variance figured 45.8%, which is a very good ratio considering that the 2 factors emerged out of 10 statements.

<i>Statements on the level of relationships</i>	<i>1</i>	<i>2</i>
Stability of the relationship	0.69	0.00
History of the relationship verifies maintenance of the relationship (inertia)	0.69	0.04
Confidence in the supplier	0.66	0.15
Quality improvement in the relationship	0.63	0.27
Continuity of the relationship	0.61	-0.06
Attachment in the relationship	0.48	0.38
The relationship ensures that needs are met (security)	0.43	0.35
Cost reduction in the relationship	-0.22	0.76
Calculating costs of the relationship	0.12	0.72
Value analysis in the relationship	0.41	0.57

Table 3: Factor analysis performed on statements of buyer-supplier relationship for primary suppliers on the relationship level

Table 3 illustrates that two factors emerged, the first factor contains all the elements that are usually expected in a relationship (called relationship factor), and factor two contains all the cost related factors (called cost factor, although in the first factor personal preferences or security of the relationship play a lesser role in the importance of the factor since their factor weights are low.

Based on the factors, we identified three clusters, which are described first of all in terms of factors and factor weights. Clusters were derived from factors through the use of WARD method. Table 4 displays mean values of factor weights in various clusters. The higher the positive value is in each column (cluster), the better the given factor describes the cluster. According to the table, 36% of the sample falls into Cluster 1, 42.7% into Cluster 2 and 21.3% into Cluster 3.

	<i>Mean</i>	<i>Std. Deviation</i>
Cluster 1. (36%)		
Relationship factor	-1.13	0.72
Costs of the relationship	-0.24	0.91
Cluster 2. (42,7%)		
Relationship factor	0.52	0.32
Costs of the relationship	0.70	0.54
Cluster 3. (21,3%)		
Relationship factor	0.87	0.38
Costs of the relationship	-0.99	0.83

Table 4: Description of Clusters by factor weights

Based on the factors which describe the clusters, we managed to specify three different groups of companies. In Cluster 1 both of factor weights are negative, in Cluster 2 both are positive and Cluster 3 only the Relationship factor is positive.

Below we will present description of the clusters in relation to other questions where we found significant differences (Table 5).

According to the table, features of Cluster 2, which has positive factor weights for both factors, override those of the other two clusters although brand name is not important here, either. It is the higher average – based on importance - for supplier’s reputation that stands out in Cluster 3. The order of mean figures is nearly the same in each cluster except for the reputation of the supplier and stock related costs which were regarded more important – after Cluster 2 - by Cluster 1 than by Cluster 3.

Regarding actual relationships, apart from importance features we can see features related to costs which get more attention in Cluster 1. Nevertheless, features of long term relationships (supplier’s reputation, problem solving skills of supplier) received high marks in Cluster 3.

This latter statement is somewhat supported by the fact that form among selection criteria price is regarded the most important by Cluster 1. In this respect clusters show distinct differences and illustrate clearly which criterion they regard significant.

It is interesting to compare Time taken for selecting supplier and Time passed since selecting supplier in the segments because it is Cluster 3 that takes the longer to select its partners and also the one that has had the longest relationship with its suppliers. Companies in Cluster 2 spend very little time selecting their suppliers, however, they maintain long-term relationships with them.

The table illustrates that companies in Cluster 3 are the most satisfied which strongly correlates with the fact that they feel the most that the relationship with the supplier is routine-like. This is not surprising if one takes into account the length of the selection process. Although all three clusters tend to be rather satisfied with their suppliers, changing the

primary supplier has only been considered by companies in Cluster 1. At the same time all three clusters would re-select their current suppliers once again (however, this result is not significant). Relationship orientedness and satisfaction in Cluster 3 is demonstrated by the fact that the most important criterion is consumer satisfaction.

It is not a significant finding, however, it explains a lot about the behaviour of Cluster 1 that these companies are mostly owned by the state, while there are mainly privately owned companies in the other two clusters. Similarly, Cluster 2 operates in the market of consumer goods while Cluster 3 in the market of industrial goods.

<i>Features</i>	<i>Cluster 1 (36%)</i>	<i>Cluster 2 (42.7%)</i>	<i>Cluster 3 (21.3%)</i>
Statements on the level of exchange episodes – importance (Primary supplier.)	4.44	4.79	4.53
Counselling on use and application	2.70	4.37	3.50
Supplier services	3.03	3.86	3.18
Stock related costs	3.84	4.18	2.60
Brand name of product	1.71	2.81	2.42
Supplier’s reputation	3.22	4.11	4.20
Statements on the level of exchange episodes – characteristic (Primary supplier.)	1.63	3.04	2.50
Counselling on use and application			
Supply of spare parts	1.42	2.32	1.54
Supplier services	2.65	4.19	3.41
Costs during purchasing	3.72	3.82	2.38
Maintenance costs	2.80	3.22	1.67
Brand name of product	2.00	3.06	2.50
Aesthetic features of the product	2.69	3.50	2.13
Supplier’s reputation	3.22	4.13	4.39
Willingness to respond	3.81	4.50	4.61
Criteria for selecting suppliers	Price Product Reliability	Product Price Reliability	Reliability Product Price
Time taken for selecting supplier	14.5 months	8.4 months	48.1 months
Time passed since selecting supplier	47.1 months	72.7 months	92 months
Satisfaction with supplier	4.16	4.42	4.63
Routine nature of the relationship	3.47	3.86	4.53
Have you ever thought of changing your supplier?	Yes	No	No
Main performance indicator	Realised profit	Realised profit	Consumer satisfaction

Table 5: Description of the segments

In summary we can say that Cluster 1 concentrates on costs and prices but it cares less about supplier relationships and their value and cost implications. On this basis we called them *price-oriented companies* with short-term goals. Cluster 2 includes *those considering everything*, who try to reckon with every single factor of the relationship but the product comes first with all their relationships subject to this. Cluster 3 includes *relationship oriented companies* who, relying on their supplier's reputation, willingness to react and reliability, take a long time to make a selection and tend to maintain long term relationships.

One can conclude from the survey that there are segments in the chemical market based on the relationships with the suppliers. In our presentation we will discuss the described model in more detail.

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