



Managers' perception of relationship management in heterogeneous markets

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Abstract

Relationship management holds many promises of becoming a new paradigm in marketing and management. However, the development of relationship marketing is still difficult to accomplish in heterogeneous markets, since different management practices are needed in markets ranging from homogenous segments of customers with the same preferences to customers with individual demands for customized services. This paper investigates managers' perceptions of relationship development in heterogeneous markets. Results from a survey of 135 branch bank managers show that they perceive that the more heterogeneous the market, the more difficult to achieve relationship development. The study also finds that more difficult relationship development leads branch managers to perceive a more centralized locus of realized strategy. This suggests that firm relationship development needs to focus more on customer orientation and that realized strategies need to be at a local level to support this. © 2002 Elsevier Science Inc. All rights reserved.

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1. Introduction

Management of business relationships is a key competitive factor and the goal of relationship development has been defined as the ability to attract, maintain and enhance new customer relations [7]. Despite its importance, this field of relationship research is underdeveloped [9,59,60]. This is true also for network studies of relationship development (Ref. [10]; 1999) and studies in supply chain management [46,35]. A reason for this is that it may be problematic to apply relationship marketing effectively [23], for instance because customers are heterogeneous. An illustration is that relationships, where customers have a low and high involvement, differ so that the former are driven primarily by satisfaction and the latter more by satisfaction, trust and commitment [27]. The differences in relational involvement are so great that the researcher suggested that relationship marketing is only suited for firms who are already in a collaborative relationship (Anderson and Narus, 1991).

Proponents of relationship marketing have acknowledged the critique, and propose a combination of relationship and transaction marketing to be the way forward (Grönroos, 1995). These difficulties need to be overcome if relationship marketing will fulfil its potential. This paper tests whether managers perceive that relationship marketing can be achieved in heterogeneous markets.

To date, much of the contributions to relationship management are a number of models for relationship management [9,29,31,32,68]. A common denominator of these models is that firms need to adjust to market conditions. This involves, for instance, narrowing "perceptual gaps," to adjust workflows in the organisation or to activate the customer as a relationship partner. The effectiveness of such adjustments, however, depends on the exchange characteristics of the customer relationships. These characteristics have been found to be contingent on the level of trust and commitment in the relationship [3,50], the type of relationship coordination [2,6,28], the kind of production technology [33,65] and the degree of integration with surrounding business relationships (Refs. [4,10]; 1999). These findings support the fact that customer relations more often seem to be more heterogeneous than homogenous.

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The relationship rests on a number of value creating transformations in which the customer makes different contributions to satisfy their needs, wants and preferences. Lengnick-Hall [47], for instance, identified five different customer contributions: customer as resource, co-producer, buyer, user and product. The resource contribution is when the customer provides capital, information, ideas, etc. and this takes place in many industries, such as capital and information in financial services, the individual body in health care, etc. The co-production contribution is when the customer actively takes part in the production process, for instance, by using automated machinery and the internet. An often overlooked source of customer co-production is complaint, which is a potential rich source of customer involvement to improve production [63]. The customer contributions as buyer and user refer to the traditional purchase and consumption of services. The customer also contributes by being a product of, which is evident in education and health care. However, the customer as product is a growing mode of contribution since internet and other IT-based channels effectively changes the customers' way of interacting with the supplier [15,30,48,69].

The value creating transformations is embedded in a number of different transactions that make up an individual customer relationship. Each transaction may have a unique customer contribution. Together, they constitute a pattern of customer involvement, which emphasises customer action more than a marketer's search for information on customer needs, wants and preferences. The more these patterns vary between different customers, the more heterogeneity can be expected among customer relationships. There may be different reasons for heterogeneous customer involvement, such as industry, size, wealth, lifestyle, customer knowledge and experience, and also whether the customer is a business or an individual. However, these factors are latent in the customer's involvement in the firm.

Management of an heterogeneous customer base is problematic because it requires the firm to customise products and services to a wide range. In order to do this, a firm needs to adjust its internal procedures and structures so that they can be flexible enough to handle different kinds of workflows [24,39,64]. Differences in workflow technology have been analysed in terms of knowledge involved [54], materials used [37] and operations of production [64]. The effect of technology has also been analysed through the characteristics of its antecedents, such as information used in production [25,26].

Another important factor for relationship development is that of the firm's relationship management strategy, which provides a rationale for how the firm relates to its market and environment [57,58]. However, the intended strategy is often different from that which is realized in business operations [49]. It is therefore important not only to consider the intended relationship management strategy, which is antecedent to relationship development, and also the realized strategy, which is an outcome of the work done in the firm.

To develop customer relationships, then, two major constructs can be considered: the intended and realized strategy of the firm and the heterogeneity of existing customer relationships. It is hypothesised that heterogeneity and intended strategy affect relationship development in that heterogeneity requires a workflow organisation that can handle diverse types of information and the intended strategy construct includes assumptions on the kind of workflow organisation the firm will use. This study investigates how intended relationship strategy and relationship heterogeneity affect relationship development in the context of a retail banker. The study also investigates the realized strategy of the firm. The perspective taken is that of management, or more precisely, the decision-maker's perception of customer relationship development. This issue has been researched a little [8] and this study intends to fill this gap in the literature on relationship management by drawing on literature from industrial marketing, supply chain management and network studies.

2. Relationship heterogeneity, information diversity and relationship development

Heterogeneous markets in mainstream marketing have been managed by the use of differentiated or custom marketing strategies. Customers are then grouped or handled individually when the marketer seeks to satisfy customer needs. In effect, each customer can be seen as an individual market segment. Segmentation stems from the idea of effectively using marketing efforts to generate customer sales. Recent marketing thought has redirected its focus from managing the marketing effort to managing long-term relationships with parties that contribute to the company's success [13,14,42,52].

Relationship development has been defined as the ability to attract, maintain and enhance new customer relations [8]. To achieve such desirable aims, a firm needs to achieve mutual rewarding relations with customers. This is achieved through adaptation [33] between customer and firm. Adaptations are a way of bringing about a match between actors, for instance, between how a service firm can provide services to customers and how a customer can utilise these services. In practice, this could involve the reconfiguration of the transaction to fit a certain customer contribution as discussed above [47]. Because of differences between firms in capabilities, it has been proven difficult to manage relationship adaptation [65]. One way to bridge these differences is through information exchange. For instance, it has been shown that adaptation increases with the number of persons involved in the relationship [34].

Adaptations effectively generate knowledge within the firm about the customer. This knowledge is then stored and enhances the firm's capabilities [53]. An important issue in this respect is that knowledge may be tacit, meaning that it is specific to a certain setting in the firm and/or the business

relationship [56]. Tacit knowledge is often part of complex system and not articulated, codified, teachable or observable in use [67]. This kind of knowledge cannot be used in other business relationships, which is why the capability development to handle tacit knowledge has no value outside of its context. Explicit knowledge, on the other hand, is an integral part of firm capability development, since it is often articulated, codified, teachable and observable in use [67]. But, tacit and explicit knowledge are not distinct in real business life, rather, they tend to blend in with each other so that there is a tacit component in each business activity that cannot be, and an explicit component that can be, translated and used throughout the firm and in other business relationships [65]. This need not be difficult to manage, but if there are heterogeneous markets, where business relationships are different from each other, then the information handled by the firm is likely to be diverse [25,26], and thus have a larger tacit component. Different customer contributions to the firm–business relationships will thus probably lead to diversity of information. It is therefore expected that relationship heterogeneity has a strong effect on information diversity in firms.

Given that more diverse information is more difficult to manage, the result is that the firm has more difficulty in adapting to customers and develop relationships. The above reasoning suggests the following hypotheses.

Hypothesis 1: The more heterogeneous the relationships between a firm and its customers, the more diverse the customer information processed by the firm.

Hypothesis 2: The more diverse the customer information processed by a firm, the more difficulty it has in developing customer relationships.

3. Intended customer relations strategies, relationship development and locus of realized strategy

The main focus of relationship research is on existing customer–supplier relationships. Little effort has been devoted to new relationships. For firms that have reasonably many relationships, some of them are likely to be new or established. This may not be the case for industrial firms with one or few customers accounting for almost all demand. However, for firms working in heterogeneous markets with several customers, this may be true. Relationships can therefore be dichotomised as new or established. However, their effect on relationship development is more difficult to predict and this is because there are two considerations to be made. One concern is the firm's level of competence at relationship management. For the firm that has mastered the skills of interdepartmental cooperation to make a smooth, market-oriented customer interface, relationship development is likely to be a routine business. Such a firm has a well-functioning business model. However, studies in market orientation reveal that such firms are

exceptions, rather than the rule [32,38,41,51,61]. While firms may find repeated sales cost efficient, development of the relationships imply that sales need to be developed in new areas. The extension of sales beyond the scope of the existing has been proven difficult, but rewarding task [20]. It can therefore be expected that the firm's level of competence at relationship development is not sufficient to develop established relationships, but that the firm instead finds acquiring new customers the only reasonable mode of relationship development. The efforts necessary for development of the relationship will depend on whether a certain relationship belongs to the former or latter category.

The other consideration concerns the nature of the market. Several studies have found that business markets consist of networks of interrelated relationships [1,21]. An emerging literature shows that consumer markets increasingly consist of interrelated relationships ([55]; Refs. [18,20], p. 269), and that consumers who are loyal to their brands can be seen as having relationships with them [22]. However, there is little understanding of how this influences consumer switching behaviour and the effect on relationship development is therefore unknown. For instance, if relationships between the firm and its customers are strong and interdependent, it may be more difficult to initiate new relationships than to develop existing ones. It can therefore be argued that industries with strong customer ties ought to display more difficult new relationship development than in the subsequent relationship development phase. Therefore, relationship development should be more difficult if the intended corporate strategy is to acquire new customers, rather than to develop the existing customer base.

The above discussion identifies two sources of uncertainty for assessing the effects of existing and new customer relationship development. The average firm's level of competence at relationship development is so low, that it is probably easier to initiate new customer relationships than to develop existing ones. The inertia in customer markets due to the network effect is unknown and the effect is so far difficult to assess. The only statement that can be made is that, if relationships are interrelated in networks, then it would probably be easier to develop existing relationships than acquire new ones. Given the lack of knowledge of the network effect in consumer markets, we choose to hypothesize that a firm's low level of competence at relationship development makes acquiring new customers a more viable alternative than development of existing relationships.

Hypothesis 3: The more a firm's strategy is focused on acquiring new customers (as opposed to developing existing customers), the less difficult will be its relationship development.

Most relationship strategies focus on the exchange relationship and there is strong support for that relationships are best managed at a decentralized level where the interaction takes place. However, as mentioned before, management of heterogeneous firm–customer relationships is a difficult

task and customer-oriented firms are exceptions rather than the rule. This is probably because firms used to, and to a considerable extent still do, organise their customer interaction in centralized marketing functions to better accomplish service production for their customers. For managers of the customer contact interface, it will be more difficult to accomplish customer relationship development in firms with a service offering that is made centrally, rather than locally. Managers who can customise their customer contact interface will thus perceive that relationship development is easier. A case in point is the Swedish ForeningsSparbankens reorganisation of a local branch office to better suit its immigrant-rich local market. They hired recent immigrants to translate the bank’s service offering to suit the customer base, and as a consequence increased business. Evidently, firms that make it more difficult for their customer relationship managers to adapt to local markets will be perceived as more centralized, rather than local. Thus, the following hypothesis can be put forth.

Hypothesis 4: The more difficulty a firm has in managing relationships at the point of customer interaction, the more central, as opposed to local, will be the realized firm strategy, as perceived by relationship managers.

4. A model on strategies for developing heterogeneous customer relations

The hypotheses are put together in a model in Fig. 1. All our hypotheses are expected to be interrelated in this model, meaning that none of them should be singled out of their context in the model. An additional hypothesis is that the four hypotheses relate to each other in the model depicted.

5. Data and statistical method

The banking market was chosen because it caters to a heterogeneous customer base. The services range from standardized, often transaction-related services to customized, often advisory services. The need to handle such a broad array of services has made bankers try divisionalized market structures and market segmentation [17]. Yet, customers often want service packages including standardized and advisory components, making it difficult for banks to handle relationships profitably [62]. Data was gathered from 135 bank branch managers in the Stockholm area in Sweden. The response rate is 95%, since the questionnaire was dispatched to 145 managers. This unusually high response rate was achieved with cooperation from the participating bank’s top management. The branch managers were selected from Sweden’s four dominating bank groups. No selection was made in terms of size or customer base of branches, and the sample includes almost all Stockholm branches from the participating banks. This is because the sample represents an urban and heterogeneous market, which is similar to many real-life decision-making situations. On a question pertaining to the size of the branch’s customer base, 87% of the respondents stated that the branch had a midrange (4 on a seven-point scale, where 1 is *low*) or larger volume of retail clients. The volume of corporate clients was stated as midrange (4) or larger by 62% of respondents. The branch manager is normally personally involved with business buyers, wealthy individuals, family owned and solo-entrepreneur firms. Most bank branches operate in such heterogeneous markets, and it is important for us to capture the respondents enacted view of those markets, since that is what they base their actions on.

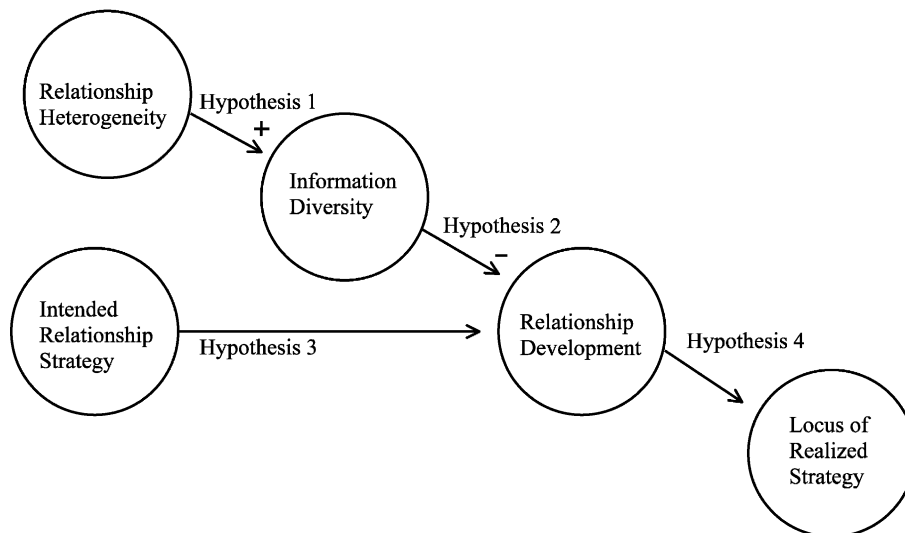


Fig. 1. Hypothesized structural relations.

Data was processed with LISREL, which is a structural equations statistical method for studying putative structural relations [43]. Compared to ordinary correlation techniques, LISREL has two distinct advantages. The first is the inclusion of latent variables, which are higher order variables that represent the underlying commonalities of a set of indicators (i.e., observed variables). The latent variables correspond to theoretical constructs and will hereafter be referred to as constructs. The second advantage of LISREL is that causal relations between constructs can be studied. In forming structural relations between constructs, the gap between theory and measurement can be narrowed. The method has found a number of approaches in the social sciences in general [12,36,40,43], in marketing [5] and international business studies [10,19].

The validity of LISREL models is estimated by the validity of the entire model (nomological validity), and also the extent of separation between constructs (discriminant validity) and the homogeneity of constructs (convergent validity). Nomological validity is important since the structural model should be viewed as an entity, in which causal effects reinforce and counteract each other in a complex pattern. For example, if the relation from a to b to c is investigated, then a affects b and b affects c, but a also affects c, indirectly, via b. LISREL has a way of estimating direct, indirect and total effects in complex causal patterns. The overall fit of the LISREL models is assessed by χ^2 and degree of freedom measures and a probability estimate

(P value) (Ref. [43], p. 121). The χ^2 and degree of freedom together measure the distance between data and model, and the computed P value is a test of statistical significance. Together, these variables measure nomological validity. Discriminant and convergent validity are judged by studying the t values and R^2 values of each relation in the model. The R^2 value is a measure of the strength of a linear relationship estimate (Ref. [43], p. 121). As a test of significance, the t values are studied (Jöreskog and Sörbom, 1993, p. 108).

6. Construct validity

Relationship heterogeneity is operationalised in three indicators. The first concerns the variation of the customers' adaptations, by type of customer relation. The second concerns the variation of the bank's adaptations, by type of customer relation. The final indicator concerns the variation of mutual adaptation between the bank and customer, by type of customer relation. All key statistical values are good for this construct to be convergently valid. Factor loadings and R^2 values are high and t values are well above 1.96 (Table 1).

Information diversity is operationalised in two indicators, of which the first concerns the difference in the type of information. The second indicator comprises the number of information sources used in work. Although both indicators

Table 1
The constructs and their indicators

Construct/indicator	Code in Fig. 2	Factor loading	t value	R^2 value
<i>Relationship heterogeneity</i>				
Is there little or much variation by type of customer relation in the customer's contribution to establish and develop bank–customer relations?	C-HET	0.64	6.28	.41
Is there little or much variation by type of customer relation in the bank's contribution to establish and develop bank–customer relations?	S-HET	0.64	6.32	.41
Is there little or much variation by type of customer relation in the mutual adaptation between customer and bank? Scale: seven steps from <i>little variation</i> to <i>much variation</i> .	M-HET	0.53	5.23	.28
<i>Information diversity</i>				
Is the difference in kind (typ) of information small or large? Scale: seven steps from <i>small</i> to <i>large</i> .	KIND	0.97	6.91	.94
Do you use information from few or many sources? Scale: seven steps from <i>few</i> to <i>many</i> .	NUMBER	0.62	6.72	.38
<i>Intended relationship strategy</i>				
What growth strategy is your bank's, according to you? Scale: seven steps from <i>acquire new customers</i> to <i>develop existing customer base</i> .	INTEND	1.00		1.00
<i>Relationship development</i>				
Is it easy or difficult for the customer to understand and use your services?	USE	0.36	2.97	.13
Is it easy or difficult to get new customers to the bank? Scale: seven steps from <i>easy</i> to <i>difficult</i> .	ATTRACT	0.62	3.67	.38
<i>Locus of realized strategy</i>				
Where is the bank's strategy carried out, according to your opinion? Scale: seven steps from <i>centrally</i> to <i>locally</i> .	LOCUS	1.00		1.00

are valid for the construct, it is evident that the difference in the kind of information is almost identical with the information diversity construct itself. This is shown by a factor loading of 0.97.

The intended relationship strategy is a single-item construct that concerns the growth strategy of the bank. The scale ranges between *acquiring new customers* and *developing the existing customer base*.

Relationship development has two indicators. The first measures the customer’s difficulty to understand and use services, as perceived by bank branch managers. The second measures the difficulty in attracting new customers to the bank. Both indicators are valid in relation to the construct, even though the customer’s difficulty in understanding and use of services has a low R^2 value (.13). The R^2 value is not unacceptably low, since other key statistics are good and, because of conceptual reasons, this indicator is retained with the construct.

The locus of realized strategy is a single-item construct that ranges on a scale from *central* to *local implementation of the bank’s strategy*.

7. Results

The empirical results of the hypothesised structural model are depicted in Fig. 2. The model is nomologically

valid since the χ^2 is 33.76, with 24 *df*, at a probability of .09. All key statistical estimates are significant. The only questionable value is an R^2 value of .15 between intended relationship strategy and relationship development. The relationship has a strong factor correlation (.50) and significant *t* value (3.10). The low R^2 value thus indicates a weak linearity in relations, rather than weak relations altogether. Current research in structural equation modelling aims to develop curve-linear modelling techniques, which may better suit the real pattern of variation in data, but these are not ready at the moment [44,45]. On the grounds of the strong relationship and the fact that an R^2 value of .15 is not alarmingly low, it is accepted as a valid relationship in the model.

The results in Fig. 2 support the hypothesised causal relations in Fig. 1. The more heterogeneous the relationships are, the more information diversity is perceived (.51 in Fig. 2). Increased information diversity makes it more difficult to develop relationships (.48). This causal chain confirms that heterogeneity of firm–customer relations is a key factor for information diversity, and hence management in firms. The results also show that the internal capacity to handle work-flows is instrumental in developing customer relations.

The fact that there is a link between relationship heterogeneity and relationship development provides an answer to the purpose of this article: it is possible to achieve relationship development in heterogeneous markets. There is a way of estimating the indirect effect from relationship hetero-

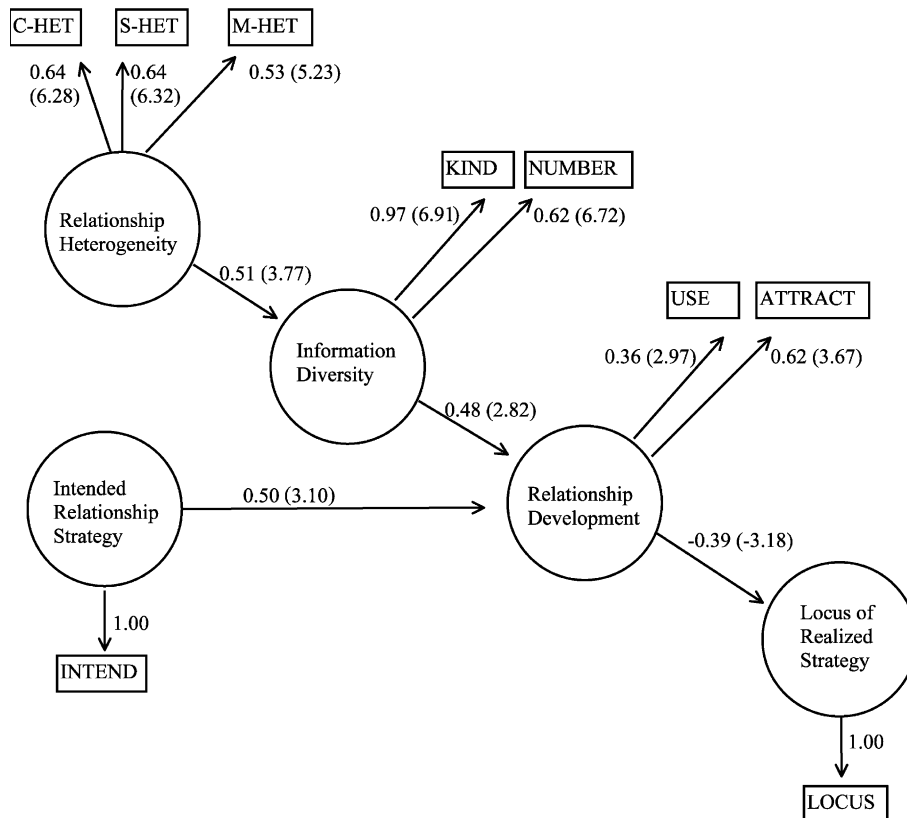


Fig. 2. The resulting structural model. Note: Figures are coefficients, with *t* values in parenthesis. Model χ^2 is 33.76, with 24 *df*, at a probability of .09.

geneity to relationship development, through information diversity. This estimate provides further statistical support for there being an effect of heterogeneity in markets on the difficulty in developing relationships since it is .25, with a *t* value of 2.23.

The firm's intended relationship strategy has a strong effect on relationship development (.50). This result confirms Hypothesis 3. Evidently, the more a firm's strategy focuses on acquiring new customers, rather than development of existing customer relations, the easier the firm can develop customer relationships. This result shows that acquiring new customers is superior to the development of existing customer relations as a growth strategy in banking.

Lastly, the more difficult it is for the bank to develop customer relationships, the more central is the bank's strategy, as perceived by relationship managers (–.39). This result confirms Hypothesis 4. It was expected that difficulty of relationship development caused managers to perceive that their work situation is defined by the central functions in the firm. Conversely, branch managers that find it easy to develop relationships will also perceive that they get the authority and support to adapt to local customer markets. In light of research showing that relationship marketing practices are difficult to implement, this result is understandable [23]. The results should thus be interpreted to support the need to remedy the lack of relationship marketing orientation in banks. Centralized product orientation is in many respects the opposite of local relationship orientation.

8. Conclusions and implications

This study has shown that relationship management is a viable strategy for firms working in heterogeneous markets. However, this is increasingly difficult to accomplish, as the customer base is more heterogeneous. The reason for this is that management needs to handle more complexity and dynamism generated by the customers. It is, thus, possible to achieve relationship development in very heterogeneous markets, only it is more difficult than in less heterogeneous markets.

An important result from this study is that relationship heterogeneity has such strong effects on management of customer relationships. The implication of this is that bank managers should develop organisations so that relationship adaptation can be achieved. This is not simply a matter of segmenting customers, but also signals the need to manage the relationship exchange. It was previously argued that relationships are constituted by value creating transformations in which the customer may contribute in different ways. Relationship development is to improve these processes by capitalising on an increasing customer involvement. It is evident that bank managers are clearly aware of the impact of heterogeneous customer relationships on their work.

This result suggests that relationship development is not solely a matter of customer relationship satisfaction, rather,

it is a combination of relationship heterogeneity, management in the firm and relationship strategies in the firm. Even though this point has been emphasised by many authors, there is still a birth of empirical studies in this area [38,41, 51,61]. Future research could take this area seriously and study how marketing relationships and management is tied in with each other. Areas include how the customer interface can be organized to generate a response in customers.

An important implication of this study is that more knowledge is needed about what managerial problems are caused by heterogeneous markets. A particularly interesting issue is how to develop capabilities. There is a need to learn how to learn from several idiosyncratic relationships. Two issues need attention: (1) how to combine resources so that each individual relationship can be developed and (2) how to capitalise on the diverging relationships to develop a capability for idiosyncratic relationship development. Information and practical issues differ very much between relationships, but the practice or the routines for learning about these idiosyncrasies may be similar. How is it possible to provide customised and standardised services within the same organisation? This study finds that more heterogeneous markets create difficulties in relationship development. Is it feasible to have both standard product/services and idiosyncratic relationship development within the same organisation?

The implications of that relationship management works in heterogeneous markets are that managers should focus on relationship management as a viable strategy to develop their customer base. Managers may be reluctant to commit resources to relationship management because they delegate responsibility for customer contact. But this study suggests that it will pay off in terms of more developed relationships. Indeed, as staff work more and more with customer interaction rather than internal handling of customer orders, their behaviour will be increasingly more important. Achieving an organisation for relationship management is much about delegating responsibility to a competent customer interface, and then to make sure that it is competent in handling relationships.

An interesting tangential point in this study is that acquiring new customers is the easiest way to develop customer relations. As mentioned earlier, banking is known for its strong customer ties. Therefore, it was hypothesised that the best way to develop customer relations would be to enhance the existing ones. The explanations for this finding can be that the banks investigated may not be good at managing heterogeneous relationships. In such a case, it will be very difficult for a branch manager to develop existing customer relations, because the organisation does not support such behaviour. Another explanation may be that relationship development actually may be more difficult in existing than new relations. Customer contributions in existing relationships have already been defined and routinised, whereas new relationships have yet to be moulded.

Another interesting result is that more difficult relationship development is handled at a more central, rather than

local level. This is contrary to the view that the point of relationship exchange is where problems are best solved. The contextual knowledge that a bank branch manager develops on relationships with local customers is a great asset. When customer relationships are lifted out of their situational context, to a more central level, the understanding of the customer contributions should be reduced, rather than increased. This may impede further relationship development. A speculation is that the bank organisation wants to gain control of difficult relationship development, by using a pool of central specialists. Nevertheless, banks should establish and develop relationships with customers in their local context, rather than bringing the customers to headquarters.

The fact that the realized strategy is more central, the more difficult the relationship development has implications for national accounts. National accounts is a growing mode of buying, which is central in the sense that one account manager handles the needs of one customer in many diverse national or international geographical markets [16,66]. These customers often require the seller to support them with complicated issues in various local markets, and so the organisation of the accounts cut across functional and geographical organisation in the selling firm [11]. The results from this study imply that national accounts could benefit from coordinating relationship development with managers in charge of relationship development.

Appendix A. Correlation matrix

	LOCUS	USE	ATTRACT	NUMBER	KIND	INTEND	C-HET	S-HET	M-HET
LOCUS	1.000								
USE	-.023	1.000							
ATTRACT	-.259	.251	1.000						
NUMBER	.113	.204	.164	1.000					
KIND	-.113	.291	.251	.596	1.000				
INTEND	-.284	.070	.292	-.103	-.039	1.000			
C-HET	.046	.017	-.014	.258	.265	-.071	1.000		
S-HET	-.112	.197	.151	.158	.393	.021	.398	1.000	
M-HET	-.024	.054	.061	.224	.224	-.045	.396	.298	1.000

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