

Marketing Capabilities of Early Internationalising Firms

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Abstract:

Research Question: The topic of this study is marketing capabilities of early internationalising firms from Serbia. **Motivation:** As marketing perspective was found to be important for understanding the early internationalisation phenomenon, the aim of this study is to shed light on the marketing capabilities of early internationalising firms from Serbia. This topic was widely examined in the developed countries, but there is an evident lack of research in developing countries, especially in the Western Balkans. Understanding the specifics of early internationalising firms can provide valuable policy and managerial implications for stimulating export activities of small and medium-sized firms. **Idea:** The idea of the paper is to identify the main marketing capabilities of early internationalising firms from Serbia. **Data:** Primary data were collected through semi-structured interviews with the founders or managers of four firms from Serbia, over the period from August 2018 to January 2019. **Tools:** As this topic is not widely investigated in Serbia and other Western Balkan countries, a case study method was found to be appropriate. Primary data were completed with secondary data sources. **Findings:** The results show that in terms of marketing capabilities, early internationalising firms from Serbia express similar features as the ones already recognized in the literature. They develop differentiated, high quality and innovative products, specialized for a particular market niche or segment. **Contribution:** This study provides the results of the first primary research on the marketing capabilities of early internationalising firms from Serbia and offers valuable implications for managers, for developing an effective international marketing strategy, as well as policy implications for export support programmes and small and medium-sized firms' policy.

Keywords: internationalisation, early internationalising firms, marketing capabilities, small and medium-sized firms, international marketing

JEL classification: M13, M16, M31

1. Introduction

The internationalisation of small and medium-sized enterprises (SMEs) has attracted significant attention of researchers in the last two decades (Morais & Ferreira, 2020; Martineau & Pastoriza, 2016). Contemporary business environment stimulates the internationalisation of SMEs, due to the rapid technological development and globalisation. In developed countries, the phenomenon of early internationalisation was identified, which led to the rethinking of the existing models and patterns of internationalisation. As the incremental models were not able to explain the rapid internationalising of SMEs, other perspectives emerged. In order to explain the appearance of early internationalisation firms, a new, born global model of internationalisation was developed. As marketing perspective was found to be important for understanding the early internationalisation phenomenon, the aim of this study is to shed light on the marketing capabilities of early internationalising firms from Serbia. As there is an evident lack of the research of the early internationalisation of SMEs from Serbia and the role of marketing capabilities in the process, which is widely examined in the developed countries (Hagen & Zucchella, 2018; Kalinic & Forza, 2012; Gabrielsson, Kirpalani, Dimitratos, Solberg & Zucchella, 2008), this paper aimed to fulfil that gap. The purpose of this

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paper is to provide the first insight into the characteristics of the early internationalisation of SMEs from Serbia with the focus on marketing perspective, by recognizing the main marketing capabilities of early exporters, which was compared with the main findings in the literature. The following research question was proposed: What are the main marketing capabilities of early internationalising firms from Serbia? As the first research of this topic in Serbia, it should provide valuable managerial and policy implications for speeding up the internationalisation of SMEs.

The paper is structured in six parts. After the introduction, a brief literature review on early internationalisation and the role of marketing capabilities in the internationalisation process will be presented (part 2 and 3), after which the methodological consideration of the research follows. The main part of the paper is dedicated to the presentation and discussion of the findings (part 5), followed by the conclusion.

2. Early Internationalisation Phenomenon: Literature Review

A gradual process of internationalisation has been used as the main theoretical framework for explaining and investigating firms' internationalisation since 1970s (Johanson & Vahlne, 1977). The process of firm internationalisation was seen as a stage process, where the timing of moving from one stage to another is defined by the accumulation of knowledge about foreign markets. However, the appearance of the firms that do not internationalise their activities according to a gradual and incremental model, but exhibit rapid internationalisation and high-market commitment soon after inception (Crick, 2009), announced the new era in the development of internationalisation theories. As learning and knowledge development are the key theoretical propositions of the Uppsala model, it was accepted as a starting point for conceptualizing the patterns of early firms' internationalisation (Weerawardena, Mort, Liesch & Knight, 2007). In contrast to the traditional, incremental model, the born global model of internationalisation emerged. This view holds that firms internationalise from inception, without a strong base on the domestic market, relying on network relations and an entrepreneur's characteristics, rather than on physical distance, with competitive imperative to develop a cutting edge technology, innovative marketing strategies, high quality and specialized products for niche markets (Chetty & Cambell-Hunt, 2004; Cavusgil & Knight, 2015; Martineau & Pastoriza, 2016; Morais & Ferreira, 2020). Empirical studies revealed that traditional, stage models of internationalisation cannot explain the early internationalisation of small and medium firms, providing support for new, born global model of internationalisation (Coudounaris, 2018; Kalinic & Forza, 2012; Gabrielsson et al., 2008; Jones, 2001; Chetty & Cambell-Hunt, 2004).

The majority of studies on the born global model of internationalisation identified a variety of marketing characteristics of early internationalising firms. The main considerations were regarding the small firms' marketing capabilities, as they are capable of developing unique and distinctive products and services (Gabrielsson et al. 2008; Sharma & Blomstermo, 2003; Knight and Cavusgil, 2004), often using disruptive new technologies (Neubert, 2016). Products and process innovations represent some of the frequent ways of their market differentiation and positioning (Hagen & Zucchella, 2018; Cavusgil & Knight, 2015; Chetty & Campbell-Hunt, 2004). They follow value-based strategies of creating innovative products, with high reliance on customer intimacy and greater market understanding (Mort, Weerawardena & Liesch, 2012). Strong customer and market orientation, especially concerning tailoring products to specific customer needs and managing customer relations, is often recognized (Hagen & Zucchella, 2018; Rodríguez-Serrano & Martín-Armario, 2019). Regarding their segmentation and targeting strategy, the main findings were that they target primary industrial buyers (Gabrielsson et al. 2008), and a narrow marketing segment, a niche market (Zucchella, Hagen, Denicolai & Masucci, 2016; Gabrielsson et al., 2008, Zucchella, Palamara & Denicolai, 2007). The main findings in the literature highlight the importance of marketing capabilities in the born global internationalisation model. In the next part of the paper the role of marketing capabilities in the internationalisation process will be further examined.

3. The Role of Marketing Capabilities in the Internationalisation Process

The marketing perspective of born global firms' emergence was important of understanding the early internationalisation phenomenon. Entrepreneurial marketing (Mort, Weerawardena & Liesch, 2012; Kocak and Abimbola, 2009), international marketing (Knight & Cavusgil, 2004) and strategic marketing perspectives (Gabrielsson, Gabrielsson & Seppälä, 2012) are some of the different standpoints evident in the literature. Dynamic capabilities perspective is used in this study, as a theoretical background for investigating the international marketing features of early internationalising firms from a developing country. Based on the conclusion that Weerawardena, et al. (2007) came to, it is a set of dynamic capabilities that enables firms to develop innovative and knowledge-intensive products, allowing them to create unique international

positioning and rapid internationalisation. Kocak and Abimbola (2009) argue that dynamic capabilities reflect a path-breaking perspective, which is appropriate for investigating early internationalisation, as it also represents a path-breaking strategic choice.

Marketing capabilities are seen as a firm's ability to transform resources into valuable outputs based on the classical marketing mix, by defining, developing, communicating and delivering value to target customers (Vorhies & Morgan, 2005; Morgan, Feng & Whitley, 2018). Vorhies and Morgan (2005) identified eight marketing capabilities that contribute to business performance: product development, pricing, channel management, marketing communications, selling, market information management, marketing planning, and marketing implementation.

Weerawardena et al. (2007) have found that marketing capabilities are critical to identify and access international opportunities. Main marketing capabilities of early internationalising firms mentioned in the literature are in the area of developing products, as they offer innovative, unique, customized and highly differentiated products, with high value added to international markets (Gabrielsson et al., 2008; Sharma & Blomstermo, 2003; Chetty & Campbell-Hunt, 2004). Knight and Cavusgil (2004) recognized key marketing actuators, which are inherent in the international competitive position of early internationalising firms: development of unique products, quality focus and leveraging foreign distributors' competencies. Additionally, they found important influences of technological competencies, and two organizational characteristics: international marketing orientation and international entrepreneurial orientation. As those intangible resources create value, they are also unique for every firm, hard to imitate, developed as a result of complex social structures, they can be seen as the main factors of developing a sustainable competitive position, from a resource-based perspective. As there is no significant research on marketing competencies of early internationalising small firms from Western Balkan countries this research aims to shed light on the issue. The following research question was proposed: What are the main marketing capabilities of early internationalised firms from Serbia?

4. Methodology

As there is an evident lack of the research of early internationalising firms in Serbia, a case study method was found appropriate. The research design used in the study was the multiple-case study design that was exploratory. The purpose of the research is to identify and explore the role of marketing capabilities in firms' early internationalisation, and the main similarities and variations in regard to the born global internationalisation model. The multiple-case study research design is often used in the analysis of the early internationalisation of firms (Neubert, 2016; Langseth, O'Dwyer & Arpa, 2016; Kalinic & Forza, 2012). The unit of analysis was the firm. Data were gathered through semi-structured interviews with the managers or owners of the chosen early internationalising firms. The primary data source was accompanied by several external sources (corporate websites, government agencies, media news), allowing the triangulation of the data as recommended by Yin (2003). The sampling strategy is theoretical, rather than statistical, in accordance with the purpose of this research. The focus was on selecting the well-known and most relevant cases that can provide the key insight into the role of marketing capabilities in the internationalisation process. According to Yin (2003), "because a sample logic should not be used, the typical criteria regarding sample size are irrelevant", and the sample of 4 to 6 cases allows us to pursue literal and theoretical replications. The sample size between 4 and 6 cases is usual in the literature on early internationalisation and born global firms, especially in the countries where early internationalisation was an uncommon phenomenon, which appeared recently (Andersson & Wictor, 2003; Andersson, 2004; Thai & Chong, 2008; Kalinic & Forza, 2012; Kocak & Abimbola, 2009; Langseth et al., 2016; Zucchella et al., 2016). In the process of firm selection, the following selection criteria were used: 1) first export (or other international activities) occurred within three years from inception, 2) the share of international sales in total sales is more than 50% (in the last three years) 3) the firm develops its own products and brands². Four Serbian early internationalising firms from different sectors were selected. The expert for Serbian start-up ecosystem was consulted during the sampling process. The main topics in the interview were: the introduction, the business history, the export strategy, international marketing strategy, in terms of market segmentation, targeting, and marketing instruments (price, product,

² This way we wanted to exclude the firms that are operating as an outsourcing partners of multinational companies or other large firms from abroad from the research, as early-internationalization can be a consequence of international outsourcing activities (Hätönen, 2009; Hansen, Schaumburg-Müller & Pottenger, 2008; Niosi & Tschang, 2009; Di Gregorio, Musteen & Thomas, 2009). Although those firms were established for servicing international markets and have a high share of foreign sales in total sales, they are not included in the research.

place and promotion). Interviews were conducted over the period from August 2018 to January 2019. We systemized the data from different sources and analysed them by building single case studies. After the within-case analysis, a cross-case analysis was conducted, aiming to compare them and to identify and analyse the similarities and differences between cases. Pattern-matching and cross-case synthesis were selected as appropriate analytic techniques. Putting the information into different arrays in order to describe the main topics was used as a tool for data systematization.

5. Results and Discussion

This section is structured in two parts. In the first part, every case will be described and in the second part the cross-case analysis will be presented.

Table 1: Characteristics of the sample

Case	No. 1	No. 2	No. 3	No. 4
Year of founding	2010	2001	2002	2015
Year of first export	2010	2001	2005	2015
Industry	Information technology	Information technology	Biotechnology	Food product wholesale
First foreign market	Turkey	France	Croatia	USA
Main foreign markets	UK, Germany, India, Thailand	USA, Germany, Turkey, Austria	Ex-Soviet Union countries, Iran	USA, UK
International sale in total sale (%)	100%	98%	40%	90%

Case no. 1, established in 2010, develops online games. The company introduced its product to the international markets from the inception.

Market segmentation and targeting. The company targets one specific global market segment with its main product. They conduct life-style segmentation, based on people's interest in one specific sport, since the game had such a topic. That way they redefined the usual segmentation strategy in the industry, since they did not target the general population of computer game players.

Marketing mix. The company developed its own version of an already existing product on the global market, as there were several similar products in the specific type of the game. The company differentiates its products by innovating 10% of the product's features, as they add some unique attributes to the game. An additional difference from competitors is regarding the local adaption of the products, especially regarding the language. Two years after launching the game, it was translated into more than 40 languages. Regarding the price policy, the company is in mid-price range, compared to the prices of other games of that type. Although the product was not new on the market, they introduced new distribution channels, in this case a new platform for online games. They created the first game of that type for social media platforms. In 2012, the game was released on Android and iOS platforms, becoming a cross-platform game, one of its kind. Social networks were dominant as the marketing communication media, in the first several years, in developing countries. Later, with entering developed countries and increasing the marketing budget, the company started using traditional media, such as TV, for advertising. Company used sponsorship and public relations (in cooperation with local PR agencies), as additional communication tools.

Case no. 2 is a company that develops hardware for microcontroller architectures. Their main product is development boards, but they have started developing compilers and supporting software. Company was established in 2001 and started to export from inception.

Market segmentation and targeting. In the first several years, the company was oriented toward "do it yourself" market segment in developed countries, in the area of creating smart devices and remote controls for different in-house appliances. The company targeted business-to-business segment also. They have around 400 key accounts, but their main market remains business to consumer.

Marketing mix. The primary characteristics of the products are as follows: high quality, compatibility with different platforms of competitive products, a large number of new products, developing a new product standard in the industry, and launching well-designed packaging. They highlight that the customers always get fully tested and certified products, as a warranty of high quality. Innovations are very frequent, as they

introduce one new product daily. Today, their brand portfolio consists of around 1000 different products. Compared to competitors, predominantly from China, the company offers products at higher prices. The company has organized the distribution using multiple channels: several global distributors, a large number of local distributors, direct sale to large key accounts and online sales through its website. The contact with the first distributor was initiated by a foreign importer from France. Afterwards, using online search, the entrepreneur was actively engaged in distributor recruitment and selection process. Marketing communications were primarily developed through international fairs and the corporate website. Today the company uses a foreign marketing agency for public relations in presenting a new generation of products.

Case no. 3 is a bio-technological company which produces a microbiological products with applications in agricultural production. It was founded in 2002 and started exporting in 2005, first to neighbouring markets, and from 2007 to distant markets.

Market segmentation and targeting. The company targets individual farms and business buyers, oriented toward new technologies and organic agricultural production.

Marketing mix. In the first years, the company offered a unique and innovative product, with a wide application range. In the region, there were no similar microbiological products. As the company is oriented toward high investments in research and development, there is a high frequency of introducing new products. Now, the company offers a wide range of microbiological products and organic fertilizers, with application in a specific area of agriculture production. The level of the specialization of the products was increased dramatically over time, so there are products adjusted to a specific usage, regarding the different types and phases of agricultural production or specific agricultural species. All products are certified and patent protected. The registration process of every product on foreign markets represents a high entrance barrier, which limited the pace of international expansion. Apart from the main brand, the company developed several new brands and sub-brands. The company offers products with similar prices as international competitors. International distribution was organized through multiple channels: international distributors, selling departments on two international markets and an online sale channel. As the company has the expertise in the area which is new for the market actuators, it recognized the necessity to be actively engaged in educational activities on international markets. For that purpose and for dealing with key accounts, the company organized its selling departments on international markets. Participation in different local events, fairs, seminars and appearance in foreign agricultural TV shows were recognised as main marketing communications tools.

Case no. 4 is a company specialized for food wholesale, established in 2015. The entrepreneurs developed their food products and a premium brand, based on food preferences on the main international market, while the production is outsourced to local food-processing companies. The company internationalised its activity from the inception.

Market segmentation and targeting. The company targets premium food products buyers in highly developed countries. Their main focus is on the business to consumer market, but they also targeted the business to business market, such as restaurants and hotels.

Marketing mix. The company offers unique, high-quality products and a premium positioned brand. As the US market was not familiar with such products, some distributors expressed concerns regarding the selling potential. The company organized distributions through two channels: international distributors and online sales. A key point in the internationalisation of the company was the cooperation with the distributor from the USA, as a result of the previously established personal connections. As the company developed a premium brand, the prices were set accordingly. The main marketing communication tools were website and social media, public relations and various forms of sales promotion in the retail stores or local events. Different forms of cooperation with food bloggers and local celebrities in the culinary business were some of the brand building activities.

Based on presented data we can conduct a cross-case analysis.

Market segmentation and targeting strategies. All the interviewed companies are focused on one narrow marketing segment or marketing niche in the international context. Such specialisation in niche marketing is recognized in the case of born global firms from developed countries (Gabrielsson et al., 2008; Knight & Cavusgil, 2015). Such a market segmentation and targeting strategy is a consequence of the resource limitation, on one hand, and the specific product characteristics of analysed firms, on the other. The business to consumer market segment has a dominant share in the total revenue of all companies, although all of them target business to business market segments as well. This result is not in line with the major conclusion in the literature addressing BG from developed countries, where targeting industrial buyers prevails (Gabrielsson et al., 2008). In three cases, companies have started to export to highly developed and/or distant countries which are not traditional trade partners of the home country. This international path is not in line with the traditional, stage internationalisation process (Johanson & Vahlne, 1977), but it fits with the born global model of internationalisation. The physical distance does not have a major impact on the internationalisation dynamics, nor on the export destination, as the role of network relations, learning capacity, marketing

capabilities and an entrepreneurial and proactive approach prevail in the born global internationalisation model (Morais & Ferreira, 2020; Chetty & Campbell-Hunt, 2004). In one case, the traditional internationalisation pattern was recognized, as the company no. 3 started exporting to neighbouring countries before entering some distant markets, but the pace of the internationalisation was more rapid.

The product strategy. In all cases, product and brand development capabilities were dominant. In the first case, the company developed innovative product features, locally adapted for large foreign markets and globally recognized brands. Company no. 2 develops high quality products, features continuous product innovations, establishes new standards in the industry, and additionally adds value through packaging. Company no. 3 is an innovator in the bio-technological preparations for agricultural usage, with high investment in research and development activities and new products development. Company no. 4, as a food trade company, developed unique, high quality products and a strong, premium brand. As high quality, innovation and added value are dominant product capabilities, recognized in all cases, the findings are in accordance with the results from developed countries (Gabrielsson et al. 2008; Chetty & Campbell-Hunt, 2004).

The marketing channels strategy. Case no. 1 was unique regarding the distribution strategy as it used innovative distribution channels to customers, which was key in their market differentiation. The company was the leader in developing a particular game for social media and mobile platforms. In other cases, the results reveal the practice of multiple channels usage (although only online channels are recognized in the case no. 1, multiple online platforms were used for delivering the game) as the companies use an online sale channel and foreign distributors, while company no. 3 additionally establishes sales subsidiaries in foreign markets. In three cases traditional distribution channels have a major impact on the increase in international sales and further expansion. The research on the multichannel distribution strategy of early internationalising firms are not common, but some of the studies considered the issue. Sinkovics, Sinkovics and Jean (2013) described the problem of a “virtual trap”, when firms rely too much on online sales channels, as an alternative to traditional distribution channels and physical market presence. The practice of establishing multiple channels is also recognized in the case of Finnish born global firms (Luostarinen & Gabrielsson, 2006), as conventional single channels, ones that small and medium firms often use, due to limited resources and low international recognition of their brands, are not effective. In all cases there is evidence of online sales importance, already recognized in the literature, from the perspective of the general role of the information technology and the Internet, as an external stimulating factor of small firms’ internationalisation (Knight & Cavusgil, 2004; Knight, Madsen & Servais, 2004; Sinkovics, et al., 2013). Due to cost efficiency, the Internet provides small firms with the access to foreign markets, in terms of identifying international market opportunities, international marketing communications and sales operations. According to Mathews et al. (2016) Internet marketing capabilities enhance international market growth.

The price strategy. As there is an attitude that early internationalising firms do not use the low price strategy (Cavusgil & Knight, 2015), the price strategy is analysed with regard to the main competitors. In three cases such outcome has been confirmed. Although the analysed firms conduct their business in one of the least developed European countries, where the average wages are among the lowest in Europe (Trading Economics, <https://tradingeconomics.com/country-list/>), they do not focus on the low-cost strategy and price competitiveness. This result is in line with the orientation of the early internationalisation companies toward the high-quality strategy and adding value as a way of differentiating the offer. On the other hand, the study of competitive strategies of SMEs from Serbia, even in case of those with high potential for growth and development, showed that they are generally focused on costs as a source of competitive advantage, targeting market segments by low-priced and average quality products (Minovic, Lazarevic–Moravcevic & Beraha, 2016). In the context of the product development capabilities and the price strategy, there is an indication of a vast gap between traditional SMEs and early internationalising SMEs.

The marketing communication strategy. The marketing communication strategy of early internationalising firms has not been widely investigated in the literature. Three main communication tools used by respondents were: online marketing communications, sales promotion activities, mainly through fairs and local events and public relations. Such marketing communications are the consequence of the limited financial resources of BG firms, but also of the usage of information technology, as the main enabler of global market reach (Chetty & Campbell-Hunt, 2004). They dominantly use the Internet as the communication medium, at the beginning of their internationalisation. In the later phases, the PR activities occurred, as an important means for reducing the buyers’ perceived risk and creating trust (Fill, 2009). PR as a marketing communication tool is important for creating trust on international markets (Rakita & Mitić, 2019), but also in case of presenting the newness on the market, as the majority of the companies are leaders in technology, in creating new industry standards and innovative products.

Conclusion

This study explored the marketing capabilities of early internationalising firms from Serbia. As the marketing perspective of the early and rapid internationalisation process was not widely examined in case of Serbia, the aim of this research was to recognize the main marketing capabilities of domestic early internationalising firms. Such results provide a valuable insight for the firms that are planning international expansion in the future. The results show that in marketing capabilities, firms from Serbia express similar features as the ones already recognized in the literature. They develop differentiated, high quality and innovative products, specialized for a particular market niche or segment. Although Serbia is a country where the average wages are among the lowest in Europe, the low-price strategy was not used as the main competitive tool; on the contrary, the companies develop value adding strategies, as a way of differentiating the offer. Traditional distribution channels have a major impact on international sales and further expansion, although the Internet, as a cost-efficient sales channel, provides the firm with the easy access to foreign markets. As this study provides the results of the first primary research on the topic in Serbia, it thus provides the first insight into the main marketing capabilities of early internationalising firms, stimulates debate and represents a starting point for further research in Serbia and other Western Balkan countries. The study contributes to increasing the body of the literature on early internationalisation and provides support for the born global model of internationalisation in one developing, post-transitional country.

The main policy implication can be proposed, in the area of export promotion programmes for assisting the SMEs and SME policy. An educational program aiming to develop the marketing knowledge and skills of entrepreneurs can foster the internationalisation and export results of small and medium sized firms. The distributor service program, for locating an effective representative or distributor, can be vital for rapid international expansion of small firms and, therefore, an important part of the government programme of export promotion. Additionally, a program to encourage SMEs' uptake of e-commerce is necessary, with adequate legal framework, due to the importance of online sales channels for early internationalisation. The results of this study can also be useful to entrepreneurs and managers, as a form of practical mentoring in the area of marketing with the aim to overcome the traditional internationalisation patterns and achieve a more rapid internationalisation. The results showed that a small, newly established firm, without extensive international experience can internationalise from inception and compete on a global scale. Specific marketing capabilities can enhance that. Main recommendations for managers are: 1) implementing global/international niche marketing, 2) developing multi-channel distribution strategy which relies on online sales channels, but also on traditional distribution channels and physical market presence, which requires active engagement in finding international distributors, 3) promotional activities on international fairs and on the Internet can be effective as communication tools for introducing products to the global/international market niche. The main consideration of the management should be investment in creating product and brand development capabilities, given the fact that one of the prerequisites for early and rapid internationalisation is the development of a unique, high-quality and innovative market offer.

The main limitation of the research is associated with the typical constraints of the case study research. The research is exploratory in nature, with a descriptive framework, which limits the representativeness. For a generalisation of the results, it is necessary to include a larger number of cases, from different parts of Serbia (since all the companies have their headquarters in Belgrade), and from other Western Balkan countries as well, with the additional usage of a larger quantitative survey. In the absence of databases about early internationalising firms in Serbia, further examination of the issue should start with mapping those firms. It is necessary to include more firms from traditional industries into the analysis, as the internationalisation process can be under the influence of an industry type. The research can include firms that follow traditional internationalisation patterns, as a control group, which can provide a better understanding of the specifics of early internationalising firms and their marketing capabilities.

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