

# **Creating a Balanced Value Proposition**

## **Exploring the Advanced Business Creation Model**

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## **Exploring the Advanced Business Creation Model**

### **Executive Summary**

This conceptual paper intends to explore the relationships between four dimensions that are important for start-ups: entrepreneurship, business models, strategic planning, and the development of a business plan. Based on an exploration of these dimensions, we present an innovative model – Advanced Business Creation Model (ABCM) – that demonstrates the manner in which a start-up can be originated. Additionally, the model can also be employed to develop new entrepreneurial activities within an organization. The core of this model is the concept of value proposition and, more in particular, on how this proposition is encompassing economic, social, environmental, and psychological values. We consider these values as a crucial aspect of the value proposition in order to achieve success in the market.

**Keywords:** entrepreneurship, business models, strategic planning, business plan, value proposition.

## INTRODUCTION

There is a deficiency in the literature concerning conceptual models for the establishment of start-ups that connect entrepreneurship, business models, strategic planning, and business plans. This type of model could assist entrepreneurs in creating new organizations and simultaneously discerning the significance of the different stages in the development of their ideas. The entrepreneurial attitude should be consolidated on the basis of market research and market orientation to create new products and services that satisfy human needs and desires. This leads to a business model design that proposes a method whereby the entrepreneur can produce and deliver a balanced value proposition to the market. The entrepreneurial process and the business model could be embedded into a strategic plan and, most times, into a business plan. Thus, an elaborated business plan includes a strategic plan which subsequently leads to a business model. These can be considered the result of an entrepreneurial process.

Work by Moroz and Hindle (2012, p.781) indicates that the “extant models of entrepreneurial process are highly fragmented in their claims and emphases and are insufficient for establishing an infrastructure upon which to synthesize an understanding of entrepreneurial process”. They conclude that it is urgent to develop a single harmonized model of the entrepreneurial process and present a taxonomy of entrepreneurial process models that categorizes them, e.g., into Stage Models, Static Frameworks, Process Dynamics, Quantification Sequences, and others. We utilize their taxonomy and propose that our model can be regarded as a Dynamic Phased Model, because it represents 15 increments with a circular process during the first four crucial phases, as we will see in Figure 1 in the next section. Thus, our aim is to systematize and conceptualize the most appropriate method to support entrepreneurs in the initiation of a new venture. Moroz et al. (2012) also mentioned that there are particular points of agreement among researchers, such as the importance of the relationship between individuals and opportunities; the assessment of the transformative and

disruptive value of knowledge; the importance of acting on time; the commitment to action; the context; and the emphasis on the way the value for stakeholders is created by designing new business models.

There are various approaches to the concept of business models (see Osterwalder, Pigneur & Tucci (2005), and Zott, Amit, & Massa (2011), for an extensive literature review). Our goal is to integrate the flow of decisions based on a value proposition which subsequently lead to a model that puts together important concepts in a systematized way. This model points out a holistic view about venture creation and organizational development with a balanced value proposition. It begins with an entrepreneurial phase, followed by the creation of a business model that may evolve through strategic planning in order to end with a business plan. The integration of several approaches to the concept of value, the proposal of a broader and balanced view of value proposition, and the inclusion of many important concepts that were missing in other models are also a contribution to the literature. The use of the ABC model will also be an opportunity to enhance research over strategies followed by different types of entrepreneurs, and to find new ways to help them to be successful. Moreover, the ABC model can also contribute to strategic thinking about entrepreneurial learning and teaching.

Osterwalder et al. (2005, p.17) consider that a “business model can be seen as the conceptual link between strategy, business organization, and systems”. Our approach contends that a business model is the link between market opportunity and the objectives of an organization. Of course, business model implementation through a strategic plan includes all of those dimensions in relation to goals or objectives and for various stakeholders. In the succeeding section, we perform a concise theoretical review of the primary concepts involved in Advanced Business Creation Model (ABC model).

## **THEORETICAL FRAMEWORK LAYING THE FOUNDATION FOR THE ABCM**

There are four principal components that offer the building blocks of the ABC Model, namely Entrepreneurship, Business Model, Strategic Planning, and Business Plan.

### **Entrepreneurship**

Entrepreneurship is to create something, most of the times through one or another type of organization, which serves and satisfies human wants and needs.

Korsgaard and Anderson (2011) contend that entrepreneurship is as much a social as it is an economic phenomenon. The social context is significant because it can motivate or constrain the entrepreneur (Johannisson, 1988). The essence of entrepreneurship is to create and extract value from a market opportunity (Anderson, 1998) not only in an economic sense but also in an individual and social sense. For individual entrepreneurs, it concerns values such as self-realization, independence, autonomy, improvement of skills, acquisition of knowledge, new experiences, or community development. There is also social entrepreneurship that generates values for social ends and seeks to maintain the sustainability of the business (Chell, 2007; Michelini, 2012) in order to proceed with its social mission. This type of organization can distribute profits or not; if it does not, it is considered a non-profit organization. However, even in this context, financial sustainability continues to be of concern to owners and managers. Therefore, our model may be employed in all entrepreneurial contexts because it encourages people to think about all of the issues concerning the success of the new venture.

In the beginning, an entrepreneur must care about market orientation and market research in order to create the best offer for his/her client. Market orientation is defined as business philosophy and behavior based on planning and implementing activities which lead to an offer that intends to satisfy the present and latent needs and wishes of stakeholders

(Carvalho (2004) based upon Kohli & Jaworski (1990) and Narver & Slater (1990)). Thus, in a start-up, the founders must visualize that which they intend to create in the future that will satisfy customers' needs with a product or service as being the only successful strategy to survive in the market. While it is often assumed that all needs and wants of all stakeholders can be satisfied, we believe that this is not feasible considering their contradictory nature. Therefore, we must create a balanced value proposition in the best possible way that takes in consideration all the stakeholders' needs and wants.

Market orientation, or stakeholder orientation, focuses on understanding which values are the most important to satisfy certain stakeholders. On the one hand, this focus leads to lowering total costs in the supply chain (Cannon & Homburg, 2001) and to a greater probability of success for the new product, improved customer retention, and superior growth (Slater & Narver, 1995). On the other hand, the set of benefits the organization promises to deliver to the customer or to other stakeholders is based on market-oriented feedback and organizational learning (Vargo & Lusch, 2004, 2008b). The organization's ability to continuously aggregate intelligence regarding present and latent needs of customers and about how to satisfy those needs (Kohli & Jaworski, 1990) is essential for the creation and improving of the customer value (Slater & Narver, 2000). Of course, this gathering of intelligence should not only consider customers but also other stakeholders like suppliers, distributors, competitors, partners, reference groups, state, community, etc. (Carvalho, 2004; Teece, 2010).

In fact, the entrepreneur must determine what value the customer can create by using the product (value-in-use) and which value propositions are preferred. This process should be done in continuous interaction with customers' perceptions about the value of the product (Ballantyne & Varey, 2006; Vargo & Lush, 2004). Therefore, knowledge is generated through the collaboration, experimentation, and repetitive experience of the customers (Slater & Narver, 2000; Teece, 2010). Thus, business model innovation must be customer centric

(Magretta, 2002) and involve continuous market experimentation and learning (Chesbrough, 2010; McGrath, 2010).

Thus, the innovative entrepreneurial process is initiated with research into covert or unsatisfied human needs or desires and the concept of a new product (good, service, idea) to fulfill them. The entrepreneur must subsequently assess the potential of the market opportunity through the study of business sector attractiveness, estimating demand, analyzing organizational competitiveness, and resources availability by performing PESCT (political, economic, social, cultural, and technological tendencies) and SWOT (strengths, weaknesses, opportunities, and threats) analyses. These are traditional and well-known conventional instruments to assess a market opportunity that can be found in literature concerning strategic management or strategic marketing.

However, if an entrepreneur would like to avoid an early failure, the market should be continuously tested in relation to the product (Blank & Dorf, 2012) employing test prototypes and engaging in a process of design thinking (Martin, 2009). This can be defined “as a discipline that uses the designer’s sensibility and methods to match people’s needs with what is technologically feasible and what a viable business strategy can convert into customer value and market opportunity” (Brown, 2008, p.86).

During this process, it can be determined which customer segments (one, some, or all of them) will be served with the product. What we refer to as the entrepreneurial phase of the ABC Model interacts with the first business model decisions (second part of the ABC Model) where the strategic marketing approach is established through segmentation, targeting, and product positioning (Figure 1). These interactions between market research and market orientation are crucial to the success of the product. The business plan is dynamic and based upon contact with customers. It is known that the interaction among entrepreneurship, human

resource management, and market orientation is an important driver of innovation and customer value (e.g. Matsuno et al., 2002; Nasution et al., 2011).

**Figure 1 – The beginning of new venture: looping interactions**



The business model depends on the context of the product and the market that must be analyzed in the entrepreneurial phase. In Figure 1, the interactions between the entrepreneurial phase and the beginning of the creation of a business model are demonstrated. The business model will subsequently be the basis for strategic and business plans.

### **Business Models**

According to Afuah and Tucci (2001, p.3), a business model is “the method by which a firm builds and uses its resources to offer its customers better value and to make money in doing so”. Osterwalder et al. (2005, p.4) describe “the business model's place in the firm as the blueprint of how a company does business”. In this aspect, we contend that there are other arguments beyond making money or capturing economic value. Creating social and shared value are recently lines of thought that sustain these approaches (Austin & Seitanidi, 2012b;

Porter & Kramer, 2011). Thus, creating and offering value is the common foundation for every business model. A business model outlines the organization's value proposition for its stakeholders and the key activities, in that respect, used to create, deliver, and capture that value (Magretta, 2002; Osterwalder & Pigneur, 2010; Seddon et al., 2004; Teece, 2010; Zott et al., 2011). As Webster (1994, p.29) suggests, the crucial question for the organizations is "How does the customer define value and how well are we providing it?" The business model is also a potential source of competitive advantage (Casadesus-Masanell & Ricart, 2010; Markides & Charitou, 2004), because it carries the potential to better satisfy the stakeholders, and its core is the concept of value and the manner in which this is being created. Finally, it should be difficult to replicate a business model innovation and use processes that are hard to imitate such as the value of a particular network (Chatterjee, 2013) or intellectual property protection (Teece, 2010).

Value creation may be defined as the contribution to the utility of a product to customers (Bowman & Ambrosini, 2000), and value capture as the difference between revenue and cost retained by the organization. Thus, the competitive advantage of the value proposition is crucial for customers' decisions to purchase or to adhere to the organizational product (good, service, or idea). As a consequence, each market segment must possess its own adjusted value proposition because, in order to be successful, the product must satisfy a customer need or desire within that segment.

There are numerous definitions of customer value. Zeithaml (1988, p.14) defines customer value as "the consumer's overall assessment of the utility of a product based on perceptions of what is received and what is given". In the same celebration, Monroe's (1990, p.46) states that it "is a trade-off between the quality or benefits they perceive in the product relative to the sacrifice they perceive by paying the price". Gale (1994) has a mathematical approach considering customer value as a weighted sum of a relative over-all perceived quality

score and price competitiveness scores (Customer value = Relative Overall Quality Score × Quality Weight + Relative Price Competitiveness Score × Price Weight). Woodruff (1997, p.142) has a means–ends perspective of value outcome and considers customer value as “a customer’s perceived preference for and evaluation of those product attributes, attribute performances, and consequences arising from use that facilitate (or block) achieving the customer’s goals and purposes in use situations”. Another approach to value is based upon the concept of experience outcomes (e.g. Hirschman & Holbrook, 1982; Holbrook & Hirschman, 1982). Holbrook (1994, p.27) defined value as an “interactive, relativistic preference experience”. Thus, on the one hand, value is relative, meaning that it is not the same for one certain person given a specific situation (and context) that it would be for different people consequently having distinct evaluations of the same value being offered. On the other hand, is the concept that a value is based on experience on the interaction between a subject and an object? Gronroos (2008, p.303) states that customer value means that, after their use of a product (good, service, idea), “they are or feel better off than before”. Gronroos (2011, p.282) delved deeper into the meaning of customer value, stating that it is “an experiential perception of the value-in-use that emerges from usage or possession of resources, or even from mental states”. Pitelis (2009) refers to it as the perceived worthiness of a product. Thus, value creation creates potential value either through the use of a product (Gronroos, 2011) or a (service) process with the aim to increase the customer’s well-being (Vargo et al., 2008).

These various approaches provide a beneficial overall insight about how value is being created. Additionally, we also consider the concept of *psychological value* that influences or transforms an individual’s mentality (mind-set value). This type of value is dominant in what can be referred to *social products*. This value is related to individual self-realization, enhancement of skills, or new knowledge and experiences that influence a person with new perceptions and how to behave. There are many examples in new business models linked to a

healthier lifestyle, an ecological way of dealing with waste, a different understanding of human problems, or an easier utilization of technology, etc. (Carvalho et al., 2013). Integrated with the notion of customer value, as previously outlined, the construct of value has financial and non-financial features. The first concerns the price, the customer's capacity to pay, and the opportunity costs involved (alternative ways to spend the money). The second non-financial costs comprise physical, psychological and social aspects related to the use of the product. Finally, every product also has disadvantages of value destruction.

While this provides an appropriate two-sided perspective on value, there are many more perspectives about the concept of value. Many authors mention social or societal value in correlation with economic value (e.g. Korsgaard & Anderson, 2011; Seelos & Mair, 2007; Thompson & MacMillan, 2010). McWilliams and Siegel (2001) discuss the existence of a demand for social attributes of a product that can be appreciated by the stakeholders. In that respect, societal value has an impact on reducing poverty or human suffering whereas social value has an impact on, e.g. community development. As a consequence, there are positive externalities (e.g. improved education, reduced pollution, better health, safer neighborhoods) as social returns associated with innovative activity (McWilliams & Siegel, 2011).

Organizational value is related to offered activities, products, and services which are perceived to be of worth by consumers, suppliers, or competitors, and the value depends on manifested value captured (Pitelis, 2009). Value creation and value capture may not necessarily correspond because value can be co-created by a mixture of economic and social agents (Pitelis & Teece 2009). This leads to the concept of a network possessing the potential to create value and to the idea of creating and capturing collective value in networked markets (Zott & Amit, 2009; Zott et al., 2011). The idea of collective value creation refers to the assumption of multiple value creation – where the network is simultaneously creating additional values through a variety of co-occurring actions. This can only happen when different constituencies

(e.g. suppliers, partners, distribution channels) collaborate intentionally (Jonker, 2011). Gronroos and Helle (2010) discuss monetary gains created mutually and reciprocally by business partners. Thus a value network is created by a cluster of economic and social actors who are creating values to be delivered to customers (Pagani, 2013) and themselves (Jonker, 2011).

The classical stakeholder theory (Freeman, 1984; Freeman et al., 2007) explores how organizations accommodate multiple beneficiaries and the beneficiaries' contribution to the value creation and in a cross-sector partnership (Le Ber & Branzei, 2010). In addition, the Service-Dominant Logic theory emphasizes the potential for co-creation and sharing of knowledge resources between customers, suppliers, and other market actors (Vargo & Lusch, 2004; Flint, 2006). For an extensive literature review on economic value creation and capture for partnerships or value co-creating among the for-profit, non-profit, and public sectors, see Austin and Seitanidi (2012a, p.728) where collaborative value is discussed "as the transitory and enduring benefits relative to the costs that are generated due to the interaction of the collaborators and that accrue to organizations, individuals, and society". They consider that there is a virtuous value circle among economic, social, and environmental values. In addition, we have included the concept of psychological or mind-set value. Our approach to the complex concept of value proposition takes into consideration the impact on economy (production of economic value to the firm, to the customer, and to society); on people (social value related to economic externalities, health, security, etc.); on the earth (ecological value, environmental concerns); and on mentalities (mind-set or psychological value, increased awareness of the subject, attitudinal change, knowledge creation, learning new skills).

Among the proposed determinants of value creation (e.g. Austin & Seitanidi, 2012a; Flint, 2006; Pitelis, 2009; Zott et al., 2011), the most relevant appears to be innovation, addressed heretofore by Adam Smith (1776). It is not in the scope of this paper to develop

theories on innovation, but it is obvious that innovation can emerge in the product itself or in the strategies for value creation and capturing (Pitelis, 2009) Thus, the value proposition must be composed within a strategy that contributes to creating value. Certain authors state that organizations must have a strategy that presents a unique value offering (e.g. Slater 1996; Woodruff 1997). We understand this as a differentiated proposition that may include individual, organizational, and societal benefits as a foundation to economic, social, ecological and psychological values to customers or other stakeholders. Therefore, a clear and discernible value proposition must be framed in a strategy that contributes to creating a supportive value creating logic. A precise and recognizable value proposition is the result of strategic choices leading to a corresponding organizing logic. This can occur in organizations, in value chains, or in networks between constituents. Having an ability to design and craft the value proposition can be considered as the bridge between the entrepreneurial idea and a successful business model.

A plethora of business models is proposed in literature (e.g. Afuah & Tucci, 2001; Al-Debei & Avison, 2010; Blank & Dorf, 2012; Chatterjee, 2013; Chesbrough & Rosenbloom, 2002; Gyorffy, 2010; Habtay, 2012; Lindgreen, 2012; Michelini, 2012), but the most widespread method to construct a business model is the CANVAS method (Osterwalder, 2004; Osterwalder et al., 2005; Osterwalder & Pigneur, 2010) which identifies nine building blocks that generally have a great deal in common to the other models: (1) Value Proposition (provides an overall view of an organization's assemblage of products and services); (2) Target Customer (describes the segments of customers to whom an organization wants to offer value); (3) Distribution Channel (describes the various instruments the organization can utilize in order to contact its customers); (4) Customer Relationship (explains the types of connections that an organization establishes between itself and its various customer segments); (5) Value Configuration (describes the arrangement of activities and resources); (6) Core Competency

(outlines the competencies necessary to execute the organization's business model); (7) Partner Network (portrays the network of cooperative agreements, which are necessary to efficiently offer and distribute value, with other organizations); (8) Cost Structure (sums up the monetary consequences of the means employed in the business model); and (9) Revenue Model (describes the way an organization earns cash through a variety of revenue flows).

With respect to those models, our definition of a business model emphasizes the crucial role of stakeholders (Freeman, 1984), of co-creative networks (Chatterjee, 2013; Zott & Amit, 2009; Zott et al., 2011) and of multiple value creation (Elkington, 1997, Jonker, 2011). This leads to a definition of a business model as a strategic, conceptual, and operational tool that describes the values (economic, social, ecological and psychological) offered to constituents through the creation of a product (good, service, or idea). It is based on organizing a corresponding set of coordinated key activities that are required in order to realize the value proposition. This is accomplished with an organizational network of partners delivering those values in order to achieve a balanced blend of economic, societal, ecological, and psychological values. Based on this definition of a business model, it is now feasible to explore the ideas of strategic planning and business plan.

### **Strategic Planning and Business Plan**

The next step after determining a promising business model is to establish the organizational strategic issues (e.g. structure, mission, values, vision, goals and objectives as well as strategies) included in a business strategic plan. This is a process that assists an entrepreneur in designing their goals, objectives, and strategies; to predict market and organizational evolution; and to achieve and assess individual, collective and organizational performance. Thus, we define strategic planning as the process of defining goals, objectives, and strategies in the medium-long term based on the analysis of available information

concerning organizational resources, capacities, and competencies as well as on the market and its constituents of political, economic, social, cultural and technological trends (Carvalho, 2012, 2013). Therefore, strategic planning is the method in which to organize the offer of value to the stakeholders. The way to do it can be summarized in the acronym *FAMOUS* (Carvalho, 2013). Strategic planning must be: (1) Flexible, meaning that it needs to be reviewed annually to update market intelligence and to better tune value proposition; (2) All-embracing, meaning that all employees and partners must be included in the development process of the strategic plan; (3) Market-Oriented, i.e. it is the crucial strategic orientation to the success and organizational sustainability; (4) Usable, meaning that the strategic plan should result in annual operational programs; and (5) Sustainable, meaning that prioritized goals (more than a year) and objectives (until a year) must be established that contribute to the economic and financial sustainability of the organization along with social and environmental concerns.

A strategic plan includes all of the processes required to establish a value proposition, providing a formal consistency to an existing organization or a start-up. If it is necessary to gather financial support or attract new partners, it is important to present some facts and figures which support a business plan.

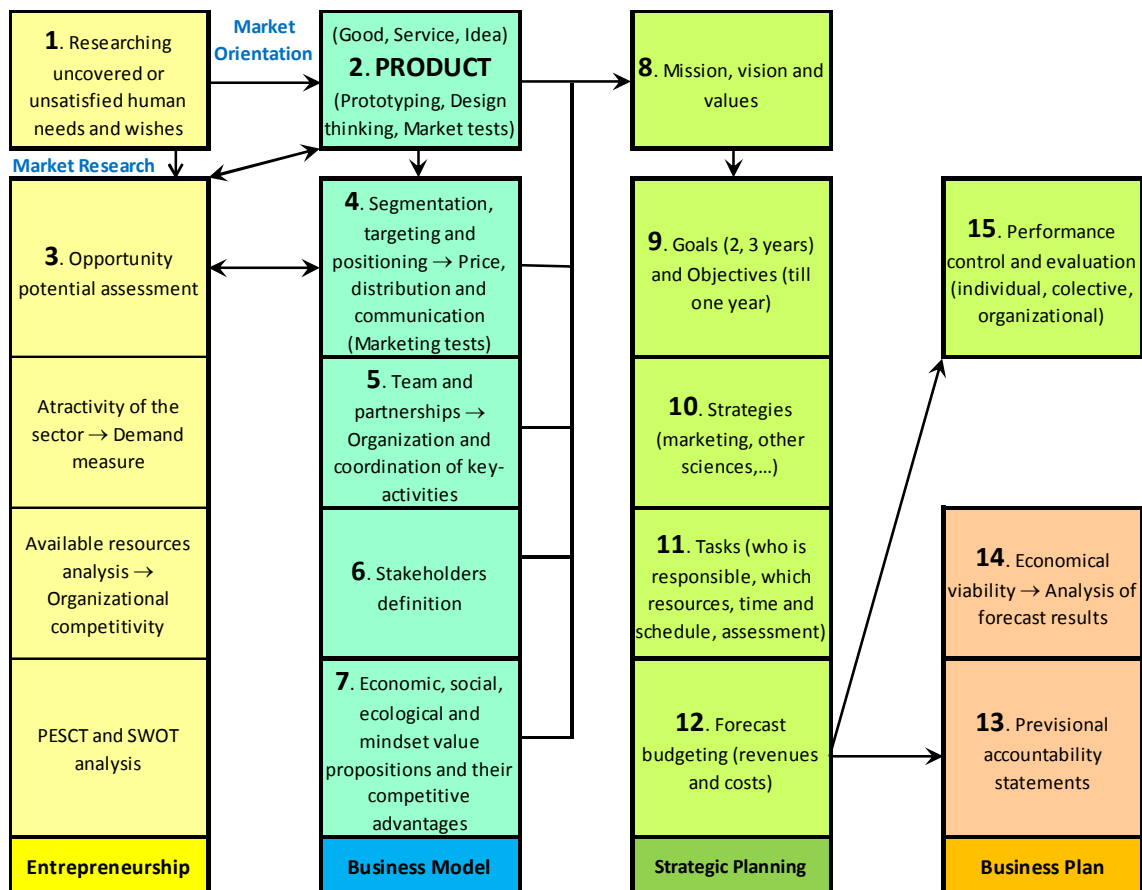
A business plan can function as an important management tool. First of all, and in the form in which we are presenting it, it will provide a blueprint and step-by-step instructions on how a concept can be turned into a product with economic, social, environmental, and psychological profits. Second, a business plan is beneficial as a means of communication with professional advisors thus helping to minimize the risks of failure. Third, a business plan is crucial to convince potential lenders, investors, and partners to join and invest in the new organizational project. There are innumerable manuals that can help an entrepreneur to construct a strategic and/or a business plan (e.g. Dornelas, 2005; Stutely, 2002). Our aim was

to show the conceptual and formal link between entrepreneurship, business models, strategic planning, and business plans, so to gather these parts in a simple model.

### The ABC Model

The ABC Model (Figure 2) exhibits 15 building blocks depicting the phases that an entrepreneur can experience in achieving a suitable value proposition as well as balancing economic, social, ecological, and psychological aspects in order to be successful in the market.

**Figure 2 – ABC Model**



Entrepreneurship (blocks 1 and 3) and business model (blocks 2, 4-7) are cohesively intertwined and are the primary foundation of a new venture in the market or inside a company. Existing organizations and start-ups both need to aspire for these blocks to ensure success in the market. However, we defend that is important to perform a process of strategic planning (blocks 8-12 and 15) if the organizational development is to be improved. If required, provisional accountability statements (block 13) can be included for the next three to five years (e.g. balance sheet, profit and loss account, cash-flow forecast, investment plan, etc.) as well as the analysis of economic and financial viability (block 14) in order to have a complete business plan.

Summarizing, we can find that value creation is the common ground linking all components of ABC model. Therefore, to be an entrepreneur, one must identify a need or wish not yet covered by existing products (good, service, idea), and then create a value proposition in order to satisfy the potential customer. The entrepreneurship phase is followed by all the tests of the business model to make the adjustment of the value proposition in terms of marketing, partnerships needed to produce and deliver, taking into account the stakeholders involved. Then, the entrepreneur need to start a company, and it is important to systematize his/her ideas for the business, which lead us to the core part of strategic planning: mission, vision, values, goals, objectives, strategies, performance control and evaluation, which are operationalized in tasks and budgeting. Of course, these steps are encompassed into a business plan, which will be completed when the entrepreneur does the analysis of economic viability and previsual accountability statements.

## **Conclusions**

This paper intends to fill a gap in literature by presenting a new model – Advanced Business Creation Model – for the creation of start-ups, or new activities in an existing business, which links four crucial elements, specifically: entrepreneurship, business models, strategic planning, and a business plan. At the very core is the concept of value and value creation. Value has many aspects such as customer value, economic value, social and societal value, environmental value, organizational value, and network value. In this contribution, we have also presented related concepts such as value creation, value capture, value chain, shared value, and multiple creation of value. Within the framework of a business model, we consider that the value proposition must include four dimensions: economic, to ensure the feasibility of the offer and the transaction; social, related to the impact on the community; environmental, related to ecological issues; and psychological, related to the contribution to a new state of mind.

Although the first three dimensions are commonly mentioned in literature, the fourth (psychological or mind-set value) is stressed as a new contribution to theory and practice in strategic management, strategic marketing, and entrepreneurship. Additionally, this conceptual approach systematizes many ideas around the possible connections among entrepreneurship, business models, strategic planning, and a business plan that can be viewed in an all-in-one model.

This model can help entrepreneurs and practitioners to be aware of all the aspects that contribute to the success of their ventures, trying to focus their attention in the way one can create value in a profitable market, with a successful business model and business plan, passing through a strategic thinking. However, to start a new venture, an entrepreneur could use the Basic Business Creation Model (blocks 1 to 8, 12, and 14), which has a focus on three main

actions: market research, market orientation, and market tests, to find a market and a product. The starting point is discovering unmet human needs and the better way to satisfy it – the product (good, service or idea). Then, the product is tested and retested with potential customers in order to establish whom are we going to serve, if it exists a profitable market, if we have all the needed resources, and which could be the price, distribution, and communication strategy. At this time, the entrepreneur designs the business model in terms of key activities, teamwork, partnerships, stakeholders addressed, and competitive value proposition (economic, social, ecological, and psychological). To complete the initial draft, it is crucial to do forecast budgeting and assess economic viability of the business model. Afterwards, the entrepreneur may go further in the other steps of the ABC model to get a business plan, or to develop an existing activity.

The use of the ABC model will be an opportunity to do more research around the strategies followed by different types of entrepreneur personalities, and to find new operating steps that may help them to be successful. Additionally, the ABC model can also contribute for more strategic thinking about the way we teach and learn entrepreneurship.

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