

## Improving E-Retailers Performance via Social CRM Capabilities

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### Abstract

*The widespread usage of social media has deeply transformed the mechanisms that e-retailers adopt to acquire customers' information, interact and build relationships with them. In order to be successful in this new context, e-retailers need to integrate their customer relationship management (CRM) system with social media applications in order to develop new marketing capabilities, namely social CRM capabilities that are useful to achieve a superior competitive advantage. Hence, the aim of the study is to analyze the role and the impact of social CRM capabilities on customer relationship performance and financial performance, as outcomes. Data retrieved from 102 European e-retailers that actively use Facebook to engage customers have been processed with structural equation modelling technique. Findings contribute to marketing literature highlighting a strong relationship between social CRM capabilities and customer relationship performance and suggesting that only when those capabilities improve customer relationship performance, firms can significantly increase also financial performance.*

**Keywords:** Customer relationship management (CRM); Social CRM capabilities; Firm performance; Social media; E-retailer,

### 1 Introduction

Traditionally in the retail environment, customer relationship management (CRM) has received a lot of attention from both academicians and practitioners (Doherty & Ellis- Chadwick, 2010; Guha, Harrigan, & Soutar, 2017; Lee- Kelley, Gilbert, & Mannicom, 2003), highlighting the importance of building and maintaining relationships with customers. This because retailers and, especially, e-retailers have shown a great ability and interest in monitoring customer decision-making process and buying behavior, and collecting information that can be useful to provide a superior customer experience (Constantinides, Romero, & Boria, 2008; Nadeem, Andreini, Salo, & Laukkanen, 2015; Oberoi, Patel, & Haon, 2017). More recently, the progress of CRM systems and processes and the advent of social media applications have sparked interest in their integration and in the development of new capabilities that allow firms to acquire a competitive advantage. Within the marketing literature, evidences have suggested that the merge of CRM systems with social media, namely social CRM (Greenberg, 2010; Malthouse, Haenlein, Skiera, Wege, & Zhang, 2013; Trainor, 2012), contributes to the development of a new concept of social CRM capabilities (Trainor, Andzulis, Rapp, & Agnihotri, 2014). It has emerged that social CRM capabilities, leading to a more collaborative and interactive organizational approach, enhance relationships between firms and customers. Therefore, social CRM capabilities can be seen as a combination of firms' ability and competencies, social media resources, and customer-centric management systems that play a crucial role in fostering firms' performances (Trainor et al., 2014; Z. Wang & Kim, 2017).

Even if the extant literature have demonstrated that firms' performances are affected by the ability to transform resources into capabilities (Barney, 1991; Day, 1994; Newbert, 2007), how to acquire and maintain superior business performances still remains of great interest for both academics and practitioners.

For this reason, previous studies in the social CRM context have tried to understand how social CRM capabilities affect both customer relationship performance (Choudhury & Harrigan, 2014; Trainor et al., 2014), and financial performance (Berthon, Pitt, Plangger, & Shapiro, 2012; Wang & Kim, 2017). However, few studies have focused on the effect of social CRM capabilities on firms' performances in the e-retailers context. Moreover, the simultaneously effect of social CRM capabilities on both customer relationship performance and financial performance remain under-investigated.

To address this gap, the aim of the research is to explore the relationship between customer relationship orientation, social CRM capabilities and firm performances, among e-retailers that actively use social media to communicate, interact and build relationships with their customers. More in detail, this study proposes a conceptual model useful to analyze the role and the impact of customer relationship orientation through social media, on social CRM capabilities, and on customer relationship performance and financial performance, as outcomes. In addition, the research tries to understand and sheds some lights on the direct and the indirect effect of social CRM capabilities on financial performance.

To reach the research objective, the work studies European e-retailers that use Facebook as the main social media to engage customers. As e-retailers are willing to enhance their customers and establishing relationships with them especially through social media (Nadeem et al., 2015), it is fundamental to understand how they can reinforce those relationships. Thus, the e-retailers environment can be considered as a suitable context to carry out a research on social CRM topic. Moreover, the study adopts an e-retailers perspective because they turned out to have a proactive approach towards social CRM and an increasing attitude towards Facebook as a mean to actively interact with customers and build relationships (Abraham & Lone, 2017; Perego, Pontiggia, Ronconi, Mangiaracina, & Fraternali, 2017).

The results suggest that the adoption of a customer relationship orientation within the whole organization is critical to achieve higher social CRM capabilities. In fact, customer relationship orientation allows firms to acquire insights useful to develop a deeper knowledge of customers' needs and preferences and, when combined with other resources such as social media, it contributes to gain social CRM capabilities. The study contributes to marketing literature evaluating the contribution of social CRM capabilities to both customer relationship performance and financial performance. More in detail, results highlight a strong relationship between social CRM capabilities and firms' customer relationship performance, whilst the direct effect on financial performance is not so effective. However, even if social CRM capabilities positively affect financial performance, empirical results suggest that only when those capabilities lead to an improvement of customer relationship performance, firms can significantly increase their financial performance.

The rest of the paper is organized as follows. After reviewing the literature on the relationship between customer relationship orientation, social CRM capabilities, customer relationship performance and financial performance, the study develops hypotheses, and describe the research method and data set. Thereafter, the paper presents the results of both measurement and structural model and draw theoretical contributions. Finally, the paper conclude with conclusions, managerial implications, and potential areas for future research.

## ***2 Theoretical background***

### **2.1 Customer relationship orientation and social CRM capabilities**

Since '90s (Kohli & Jaworski, 1990; Narver & Slater, 1990), customer relationship orientation, that is firms' ability to set and develop customer interactions, collect information about customers, and gain a competitive advantage (Jayachandran, Sharma, Kaufman, & Raman, 2005), has been investigated in order to understand its contribution to firm performance. By adopting a customer relationship orientation, firms recognize to customer relationship a crucial role in gaining a competitive advantage (Day, 2000). Several studies demonstrate that being customer focused, firms can better understand and satisfy customers' needs, strengthen relationships with them and, in turn, improve their performance (Joshi & Sharma, 2004; Vorhies, Orr, & Bush, 2011). In this scenario, technologies such as CRM software and social media are largely considered to support firms because they contribute to easily collect, store, and manage information about customers and their preferences. However, previous studies demonstrate that technologies alone are not sufficient to provide value to firms but, in order to be more valuable, they need to be combined with other firms' abilities and resources (Coltman, 2007; Jayachandran et al., 2005).

Being customer relationship oriented, firms can better understand customers' needs, effectively manage firms-customers relationships, and improve collaboration with them. Moreover, the collection of customers information and its sharing within the firms let employees be aware of customers' preferences and exigences and, consequently, timely provide customers with adequate support. Thus, combining customer relationship orientation with the usage of social media, firms can develop superior marketing capabilities, namely social CRM capabilities, that are more effective to engage customers in collaborative conversations and enhance customer relationships (Trainor et al., 2014) than traditional ones. Therefore:

**H1.** *Customer relationship orientation positively affect social CRM capabilities*

## **2.2 Social CRM capabilities, customer relationship performance and financial performance**

In line with resource-based view and dynamic capabilities theory, firms can obtain better results and, in turn, competitive advantages, if they succeed in exploiting their resources and transform them into capabilities (Barney, 1991). Previous studies highlight that firms can use new technologies to better interact with customers (Ahearne, Hughes, & Schillewaert, 2007), coordinate the acquisition and the use of customers' information (Malthouse et al., 2013) and, above all, exploit their marketing capabilities in order to develop stronger customer relationships (Hooley, Greenley, Cadogan, & Fahy, 2005; Rapp, Trainor, & Agnihotri, 2010). Social media and CRM software can be seen as resources useful to develop marketing-related capabilities (Z. Wang & Kim, 2017). Greenberg (2010) and Trainor (2012) suggest that social CRM is a combination of technological resources that integrates traditional customer-facing activities (Reinartz, Krafft, & Hoyer, 2004) with social media applications and that allows firms to engage customers. By developing social CRM capabilities, firms improve their communication with their prospects and customers, and enhance their marketers' understanding of customers' needs in terms of satisfaction, loyalty and retention, namely customer relationship performance (Trainor et al., 2014).

Furthermore, in a marketing perspective, evidences from the literature highlight that marketing capabilities are critical factors to gain and maintain a competitive advantage (Day, 1994) and, consequently, they can contribute to improve firm performance (Krasnikov & Jayachandran, 2008). Moreover, other studies suggest that CRM capabilities play a crucial role in driving positive return on marketing investments (Rust, Lemon, & Zeithaml, 2004) and in improving financial performance (Vorhies et al., 2011). As a superior performance is dependent on increasing market knowledge (Kohli & Jaworski, 1990; Narver & Slater, 1990), social CRM capabilities can be useful to better grasp customers' needs and bring to market products and services that match their preferences (Z. Wang & Kim, 2017). Therefore:

**H2.** *Social CRM capabilities positively affect customer relationship performance*

**H3.** *Social CRM capabilities positively affect customer relationship performance*

## **2.3 Customer relationship performance and financial performance**

Customer relationship performance, especially in terms of customer satisfaction, customer loyalty, and customer retention, is the main advantage that derives from a strong customer relationship management approach (Chuang & Lin, 2017). Previous studies have underlined the importance of building and maintaining successful relationships with customers in order to obtain superior outcomes (Bolton, Lemon, & Verhoef, 2004; Gupta & Zeithaml, 2006; N. A. Morgan & Rego, 2006; R. M. Morgan & Hunt, 1994; Srinivasan, Vanhuele, & Pauwels, 2010). Customer relationship performance is widely recognized as an important prerequisite for sales growth, market share increase and profitability (Hallowell, 1996; Reinartz et al., 2004; Storbacka, Strandvik, & Grönroos, 1994; Y. Wang, Po Lo, Chi, & Yang, 2004). In fact, firms that are able to acquire and maintain valuable customers seem to perform better because the costs to transform customers into loyal ones and to retain them are less than acquire new ones (Reinartz et al., 2004). By gathering and sharing customers' information, better satisfying customers' needs, and retaining loyal customer, firms can increase their customer relationship performance and in turn improve their financial one. Thus, customer satisfaction, loyalty, and retention appear to be crucial in order to create a competitive advantage and enhance firm performance (Rapp et al., 2010; Reinartz et al., 2004). Therefore:

**H4.** *Customer relationship performance positively affect financial performance*

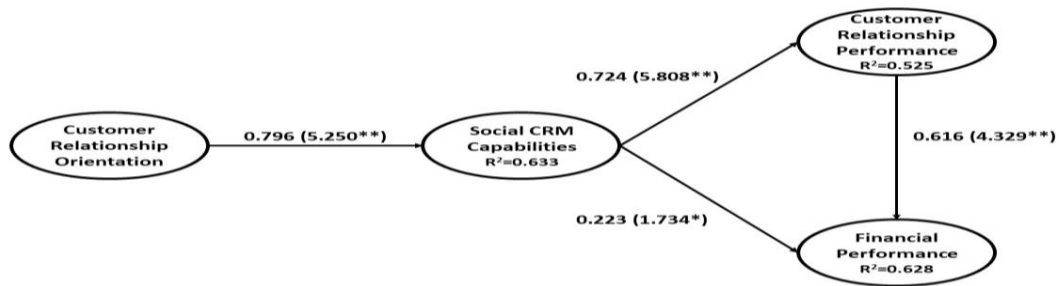


Fig. 2. Structural model results.

### 3 Methods

#### 3.1 Data collection and sample of analysis

This study was administered using an online questionnaire-based survey. A structured questionnaire in which respondents self-reported their answers was developed to measure both multi-item scales constructs and descriptive information. From November 2015 to February 2016, an email survey was sent to a sample of managers of four European countries (France, Germany, Italy and Spain, that actively use social media for their marketing and communication activities. The surveyed managers were identified from IIFAC.it – TBS Group database, a list of direct email contacts of managers of the major firms operating in Europe, giving priority to those strictly involved in social media marketing and communication activities. Before mailing managers, the questionnaire was pretested in order to check the questions in terms of order and comprehension and to improve platform usability and stability. At the end of the collecting process, 290 valid responses were collected. Since the study focuses on European e-retailers that use Facebook as the main social networking site to communicate and interact with their customers, build long-lasting relationships with them, and to acquire and manage relevant, accurate and updated information through an effective social CRM system, the final sample of analysis includes 102 respondents out of 290. The choice of e-retailers as the context under investigation seems consistent with the aim of the research because e-retailers have a proactive approach towards social CRM capabilities and a growing attitude towards Facebook (Abraham & Lone, 2017; Perego et al., 2017). These make the research setting appropriate for the study aim. As shown in Table 1, the majority of respondents are marketing managers (28.4%) of firms operating in Italy (43.1%), followed by Spain (25.5%), Germany (17.6%) and France (13.7%).

Table 1 Sample characteristics

	Frequency	Percentage
<b>Country</b>		
France	14	13.7%
Germany	18	17.6%
Italy	44	43.1%
Spain	26	25.5%
<b>Position</b>		
Managing Director	25	24.5%
Marketing manager	29	28.4%
Social media manager (Web and creativity)	15	14.7%
Communication manager	14	13.7%
Sales manager	6	5.9%
Other	13	12.7%
<b>Firm size</b>		
Small	18	17.6%
Medium	36	35.3%
Large	48	47.1%
<b>Business</b>		
Domestic business	66	64.7%
Foreign business	5	4.9%
Equally from both domestic and foreign	31	30.4%
<b>Firm clients</b>		
Mainly final customers (B2C)	36	35.3%
Mainly business customers (B2B)	28	27.5%
Equally from both B2C and B2B	38	37.3%

Moreover, the majority of e-retailers interviewed are made of large-size firms (47.1%) with a firm turnover mainly comes from domestic business and, with reference only to the firm domestic turnover, that operate equally in both B2C and B2B markets.

### 3.2 Measurement of variables

All of the constructs of the study were evaluated using multi-item measurement scales drawn from an extensive literature review. The constructs were measured on 5-point Likert scales, with responses ranging from 1 – Strongly disagree to 5 – Strongly agree. Customer relationship orientation was evaluated using the measurement scale of Jayachandran et al. (2005). The multi-item scale of Social CRM capabilities was taken from Trainor et al. (2014). Customer relationship performance was measured through the scale of Rapp et al. (2010). Finally, the multi-item scale used to measure financial performance was drawn from Vorhies and Morgan (2005).

## 4 Empirical results

Using LISREL 8.80, structural equation modeling (SEM) technique with the maximum likelihood method of estimation (Anderson & Gerbing, 1988) was applied in order to empirically test the conceptual model and the research hypotheses.

### 4.1 Measurement model

This study assessed Cronbach's alphas (CA), item-to-total correlations (ITTC), and confirmatory factor analysis (CFA) in order to test reliability, convergent validity and discriminant validity of each construct (Anderson & Gerbing, 1988; Jöreskog & Sörbom, 2005). All Cronbach's alpha values exceed the suggested threshold of 0.70 (Bagozzi & Yi, 1988; Nunnally & Bernstein, 1994), ranging from 0.797 to 0.925, signifying an acceptable reliability of each of the constructs. With regard to convergent validity test, all item loadings were greater than the threshold value of 0.50 (Hair, Black, Babin, Anderson, & Tatham, 2010), and the composite reliability (CR) values, ranging from 0.795 to 0.927, were higher than the recommended threshold level of 0.70 (Bagozzi & Yi, 1988; Nunnally & Bernstein, 1994), indicating an adequate convergent validity for all variables. Moreover, the average variance extracted (AVE) values exceed the recommended threshold of 0.50 (Fornell & Larcker, 1981), excepted for social CRM capabilities construct. Social CRM capabilities AVE value is 0.414 that, according to Fornell and Larcker (1981), still corresponds to an acceptable convergent validity for the construct. Finally, all AVE values are greater than the squared correlations of the constructs, showing a good level of discriminant validity of the measurement scales (Fornell & Larcker, 1981). Thus, also the discriminant validity of the constructs is verified. Table 2 shows reliability, convergent and discriminant validity examinations.

**Table 2** Reliability, convergent validity and discriminant validity tests.

Constructs	$\alpha$	CR	AVE
Customer relationship orientation	0.797	0.795	0.568
Social CRM capabilities	0.873	0.873	0.414
Customer relationship performance	0.838	0.842	0.640
Financial performance	0.925	0.927	0.760

### 4.2 Structural model

The structural model results, including the relationships among constructs, overall explanatory power, completely standardized coefficients and t-values are presented in Figure 2. The structural model has an acceptable fit with the empirical data (Barbaranelli & Ingoglia, 2013) with Chi-Square 338.687; Degrees of Freedom (DF) 166; Chi-Square/DF  $2.04 < 3$ ; Root Mean Square Error of Approximation (RMSEA)  $0.10 \leq 0.10$ ; Comparative Fit Index (CFI)  $0.95 \geq 0.95$ ; Standardized RMR (SMRM)  $0.078 < 0.09$ . All items load significantly on their assigned latent constructs. T-values indicate that all research hypothesis presented in Figure 1 are supported. The relationship between customer relationship orientation through social media and social CRM capabilities is positive and significant ( $\gamma = 0.796$ ,  $t = 5.250$ ,  $p < 0.01$ ), supporting H1. Social CRM capabilities positively and strongly affects customer relationship performance ( $\beta = 0.724$ ,  $t = 5.808$ ,  $p < 0.01$ ), supporting H2. Besides, social CRM capabilities exhibits a positive but marginal influence on financial performance ( $\beta = 0.223$ ,  $t = 1.734$ ,  $p < 0.10$ ), supporting H3. Furthermore, the relationship between customer relationship performance and financial one is positive and significant ( $\beta = 0.616$ ,  $t = 4.329$ ,  $p < 0.01$ ). Finally, the structural model explains 63.3% of the variance in social CRM capabilities ( $R^2 = 0.633$ ), 52.5% of that in customer relationship performance ( $R^2 = 0.525$ ), and 62.8% of that in financial performance ( $R^2 = 0.628$ ).

The causal relationships among constructs and the hypotheses test are synthesized in Table 3.

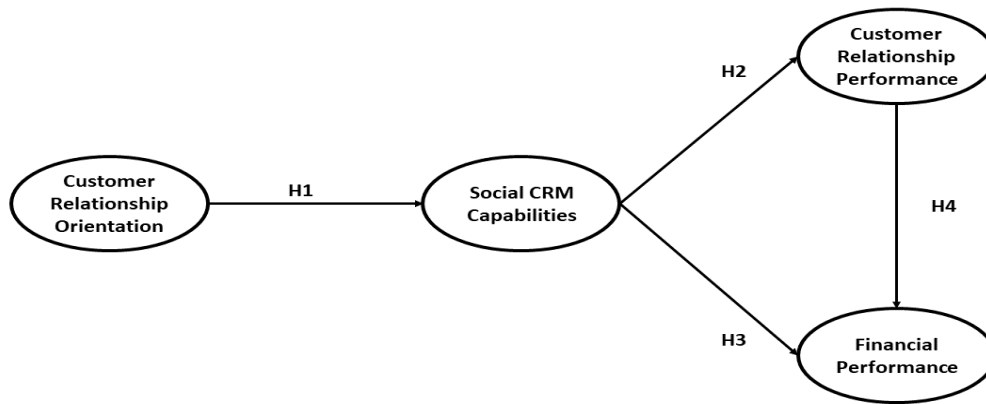


Fig. 1. Research model.

Table 3 Structural relationships and hypotheses testing.

Hypotheses	Path	Completely std $\gamma$ and $\beta$	t value	Decision
H1 (+)	Customer relationship orientation → Social CRM capabilities	0.796	5.250**	Support
H2 (+)	Social CRM capabilities → Customer relationship performance	0.724	5.808**	Support
H3 (+)	Social CRM capabilities → Financial performance	0.223	1.734*	Supported
H4 (+)	Customer relationship performance → Financial performance	0.616	4.329**	Support

\* p < 0.10; \*\* p < 0.01

### 5 Discussion

The rise of social media has interconnected and empowered customers as nothing before, opening up new business opportunities for firms and brands. Managing relationships with customers through the integration of social media into CRM and the development of adequate social CRM capabilities have become a fundamental asset for firms to boost their performances.

In this context, the study aims at understanding and evaluating the causal relationships existing between customer relationship orientation, social CRM capabilities and firm performances, in terms of both customer relationship performance and financial performance. Moreover, the study examines the effect of customer relationship performance on financial performance in order to assess the possible indirect effect of social CRM capabilities, and the relative net effect of being a satisfied and loyal customer on firms’ sales and profitability. Thus, the paper proposes a conceptual model, also validated empirically, to analyze how social CRM capabilities are developed through customer relationship orientation, and how these capabilities affect firms’ performances.

In line with previous research (Choudhury & Harrigan, 2014; Kohli & Jaworski, 1990; Narver & Slater, 1990; Soltani & Navimipour, 2016; Trainor et al., 2014), the structural equation modelling analysis provides evidence of the central role that customer relationship orientation plays in the development of the social CRM capabilities. In fact, the path through customer relationship orientation and social CRM capabilities has the highest coefficient. This result suggests that considering customer relationship as a valuable asset, taking care of customers’ needs, encouraging and emphasizing managers and employees to focus on customer relationship as a major priority, allow firms to develop those skills and capabilities useful to meet customers’ preferences and indirectly enhance their performances. Thus, while the digital and social media transformation is under way, being oriented around customers is still very actual and an important antecedent of the development of social customer relationship management organizational capabilities. In fact, results suggest that customer relationship orientation allows firms to acquire insights functional to develop a deeper knowledge about customers’ needs and that, if combined with other resources such as social media, are useful to gain superior marketing capabilities, namely social CRM capabilities.

Findings also reveal that social CRM capabilities are fundamental antecedents of customer relationship performance. This result points out that by listening, talking, and responding to customers, firms can effectively boost their customer relationship performance. Social CRM capabilities seem to represent a new kind of capabilities that firms can exploit in order to create superior value for their customer, engage them and thus acquire a competitive advantage. This result is consistent with previous research (Trainor et al., 2014; Z. Wang & Kim, 2017), validating the role of social CRM capabilities as an important driver of firm performances. Despite the great effect of social CRM capabilities on customer relationship performance, the causal relationship that links social CRM capabilities with financial performance has the lowest coefficient. In other words, the direct effect on financial performance is not so effective. This result can be probably explained by the fact that customer relationship performance seems to be a mediator of the relationship between social CRM capabilities and financial performance. It can be argued that financial performance can be enhanced not only through the direct influence of social CRM capabilities but also and more effectively through the indirect effect of social CRM capabilities on customer relationship performance. This represents the most interesting result of the present research because adds to the existing literature on social CRM by shedding some lights and offering new insights on both direct and indirect relationships of social CRM capabilities on financial performance. Although recent studies have proposed conceptual frameworks in order to empirically investigate the relationship between social CRM and firm performances (Berthon et al., 2012; Choudhury & Harrigan, 2014; Trainor et al., 2014; Z. Wang & Kim, 2017), few studies have explored both the direct and indirect effect of social CRM capabilities on firm financial performance. Thus, this interesting result extends previous studies and suggests that social CRM capabilities effectively enhance financial performance, especially when they are able to improve customer relationship performance. In this context, it has emerged that the firm ability to better manage information and relationships with customers, also exploiting the potentiality of social media, are critical for firms not only to engage their customers, but also to create value for firms themselves. Customer satisfaction, retention and loyalty appear to be vital in order to influence customers' attitude to get engage with firms, to influence customers' long-time profitability and consequently firms' financial gains.

### ***6 Conclusions and managerial implications***

The wide usage of social media all over the world has deeply transformed the relationship existing between firms and customers (Hudson, Huang, Roth, & Madden, 2016; Malthouse et al., 2013; Ngai, Tao, & Moon, 2015). Nowadays customers are not only listening to firms, but they are paying increasing attention to their peers who share, in the online environment, their experiences with firms. This study investigates the European e-retailers context and sheds some lights on the impact of implementing a customer relationship orientation on social CRM capabilities, describes the effects of developing such capabilities on firms' performances, both customer relationship and financial ones, and seeks to understand the influence of customer relationship performance on financial performance. Results from the structural model confirm that adopting a customer relationship orientation within the firm contributes to develop superior social CRM capabilities that, in turn, can be useful to enhance financial performance and, mainly, to achieve greater customer relationship performance.

From a theoretical perspective, this study provides some insights useful to better understand the importance of developing new social CRM capabilities for achieving, in a direct or indirect manner, higher performance in terms of both customer relationship and financial results.

Furthermore, findings also provide some important implications for marketers and practitioners. First, the study remarks the importance of adopting internal strategies, such as customer relationship orientation, that take into account the crucial role customers have in the social media era and, consequently, provide a concrete support to the development of superior social CRM capabilities. In this scenario, social media technologies should not be seen as a mere cost but, if combined with other firms' resources and capabilities, they can effectively contribute to achieve a competitive advantage. Second, managers should exploit their firms' ability to listen to customers on social media, spread data collected within the whole organization and use them to timely react to customers' requests and, in turn, obtain superior performance, in terms of both customer relationship and financial results. In fact, social CRM capabilities appear to be crucial to better fulfill customers' needs, increase their level of satisfaction and loyalty to the firm and, finally, obtain better financial results. However, managers should notice that, while the development of social CRM capabilities strongly contributes to enhance customer relationship performance, it seems that the same capabilities weakly affect financial performance.

Instead, results show that, when social CRM capabilities are used to enhance customers' satisfaction, loyalty and retention, the improvement of customer relationship performance plays a fundamental role in achieving higher financial performance too. This result is of particular interest because it suggests that firms must pay attention to the radical shift that is changing today competitive environment. In fact, in order to obtain better performances, firms should adopt a customer perspective within the whole organization. Adopting new technologies such as social media and developing strategies and operational solutions that help to get, share, and manage customers' information, firms can respond promptly and in a satisfactory way to customers, engage them, and establish long lasting relationships that, in turn, can positively affect customer metrics and, finally, firms' financial performance.

The limitations and future research directions are as follows. Firstly, the present study aims to investigate European e-retailers and their ability to develop social CRM capabilities in order to improve their firms' performances. The sample has been set up getting information from 102 European e-retailers. Hence, data collected to test the research hypotheses are limited and the sample provides only a limited heterogeneity in terms of firm size and home country. Future research interviewing firms from different countries and enrolling a larger sample of firms would further enhance the goodness of this study results.

Secondly, this study does not empirically test the indirect effect of customer relationship orientation on firm performances through the mediation or moderation effect of social CRM capabilities. Thus, future research would investigate in-depth this pathway in order to provide a better understanding of the contribution of being customer centered to the development of new kind of capabilities that in turn can be exploited to achieve a superior competitive advantage in the social media era.

Finally, empirical findings of this study derive from a sample of European e-retailers, who are quite different from those operating in other areas such as South-East Asia or North America. Even if e-retailers all around the world are adopting strategies to better understand customers and, in turn, achieve better performance, Europeans, Asians and Americans have significantly different cultural perspectives about online selling and the adoption of new technologies. Thus, future research could complement and improve this study findings by adopting a multi-continental perspective and enrolling in new studies firms operating in different areas.

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