Booz | Allen | Hamilton

by

Christian Burger
burger_christian@bah.com

Alex Koster
koster_alex@bah.com

Dr. Christoph Lechner
christoph.lechner@unisg.ch

Michael Szczepanski
szczepanski_michael@bah.com

Making Growth Happen

How to Manage Growth Initiatives Effectively

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No matter the macroeconomic context, companies pursue top-line growth to foster their competitive advantage, and many use strategic initiatives to deliver against ambitious plans. But such corporate-wide efforts all too often flounder, leaving companies to fall short of their strategic goals. Our research sheds light on the importance of choosing and implementing the right context for managing strategic initiatives and provides practical guidance on how to make growth happen.

The cause of growth initiatives' failure is quite complex. Why is it that while one company may grow extremely rapidly, rivals starting at the same point with seemingly comparable wisdom, capabilities, and strategy can be virtually wiped out? How is it that at some European insurance firms, for instance, where exactly the same growth initiatives are being pursued, some of them succeed and others are lagging behind? Our research demonstrates that such growth initiatives fail, more often than not, because insufficient attention has been paid to the process issues around the creation and execution of the strategy in the specific context of the company and the markets it operates in.

In other words, the actual content of a growth strategy (the "what") is only one part of the battle—and often not the decisive one. Whether the content involves innovation, diversification, internationalization, organic growth, alliances, mergers and acquisitions, or the creation of a wholly new market, executives need to understand the strategy's mechanics (the "how") if it is to work in practice. Only by achieving this understanding can they hope to undertake the approach to their growth initiatives that is most likely to lead to above-average performance.

To better understand the practices underlying successful growth strategies, Booz Allen Hamilton and the University of St. Gallen, Switzerland, conducted a study across numerous global firms with various approaches to managing growth (see "Methodology").

Organizing for Growth—The Five Elements

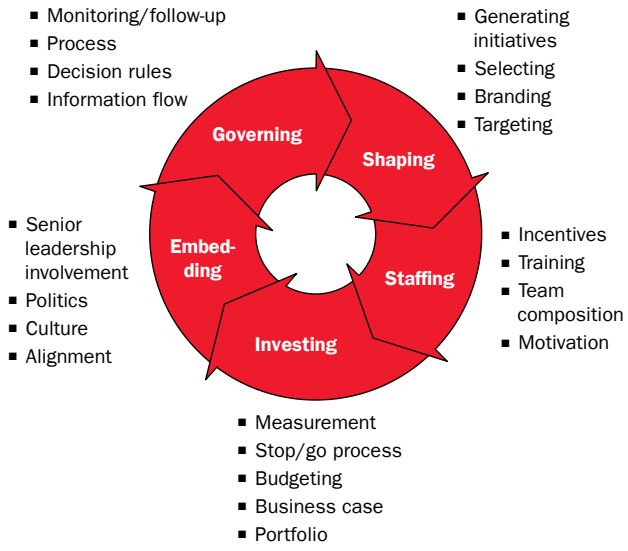
Our research shows that there are five major process issues surrounding growth initiatives that companies need to address (see Exhibit 1, page 2).

First there is the responsibility for shaping growth initiatives. Should top managers come up with the initiatives themselves in a top-down approach, consider external advice, solicit suggestions from subordinates, or fully transfer responsibility to lower-level managers in a bottom-up approach?

Methodology

To understand how companies manage their growth initiatives in practice, Booz Allen Hamilton and the University of St. Gallen, Switzerland, conducted more than 50 personal interviews with leading company executives across various industries on a global basis, from BP and BASF to Microsoft and Dell. These interviews formed the basis of an extensive quantitative study of more than 200 firms into corporate practice in the area of strategic growth.

Exhibit 1
Growth: The Five Elements



Source: Booz Allen Hamilton

Second, there is the staffing issue. Companies need to deploy the best talent in their growth initiatives and therefore must determine the best answers to a number of questions: How to motivate managers to leave their attractive line management roles to engage in a more risky venture? Should companies promise individuals a safe return into previously held line positions if growth initiatives fail? And should an organization carry some slack in its human resources to allow the necessary talent to be redeployed to work on growth initiatives without any resulting damage to existing day-to-day client business?

Third, initiatives need investment. Executives must decide whether to provide growth initiatives with corporate funds or require business units to invest their own budgets. They need to walk a fine line between stopping too early versus throwing good money after bad.

Fourth, companies must tackle the key process of embedding the growth initiative. Should initiatives be implanted within the organization as a whole or run as a skunkworks, with a small unit specifically formed to run them? How should executives counter resistance from staff and business units to the proposed change?

Finally, how do companies set about governing growth initiatives once they are up and running? Should they keep a tight grip on the details, or just oversee the big picture, stepping in to arbitrate on individual issues as they arise? How should they measure the initiative's progress and performance?

A Framework for Growth

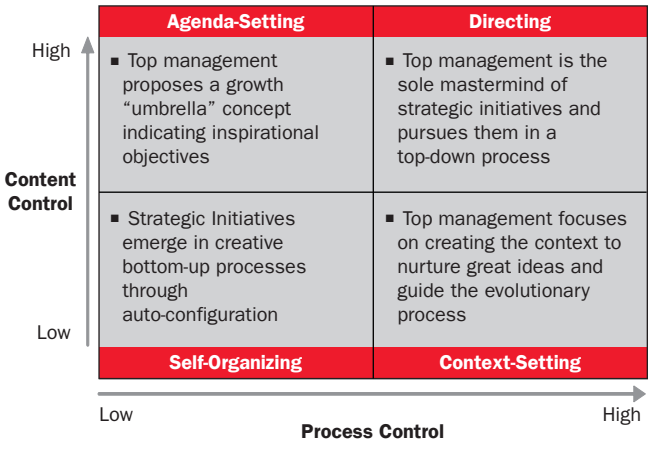
Naturally, companies differ in their approach to these five elements of managing growth initiatives, particularly in their levels of senior executive participation in the overall growth strategy.

First, there is considerable variation in senior executives' level of involvement in formulating the content of the growth strategy. Some senior executive teams retain total control over strategy content, while others avoid this area completely, preferring to cede responsibility for devising growth initiatives to the business unit managers.

Second, senior executive teams assume varying degrees of control over the process of executing the growth strategy, once the content is decided upon. Some maintain a tight hold from the center on such elements of the process as investment and monitoring of progress, while others prefer to allow business units to take the lead with very little control from corporate.

Based on the extent of senior executive control in these key respects, we have identified four distinct corporate approaches to growth initiatives. We have labeled these approaches as "modes": self-organizing mode, agenda-setting mode, context-setting mode, and directing mode. Our framework, comprising the four respective modes, is set out in Exhibit 2.

Exhibit 2
Modes for Managing Strategic Growth Initiatives



Source: Booz Allen Hamilton

The ***self-organizing*** mode, puzzling to many traditional managers, involves a laissez-faire approach in which employees enjoy considerable freedom to devise and then implement new ideas. Growth initiatives therefore arise in creative processes from everywhere in the organization, shunning the straitjackets of hierarchy and bureaucracy. Investment decisions follow a semi-democratic pattern. One prime example is the Madison, WI-based biotech firm Promega, where researchers and managers can launch initiatives they deem appropriate and can draw upon a substantial amount of corporate funding without board approval.

In the ***agenda-setting*** mode, top management establishes a broad, inspirational vision of growth for the organization to follow, but then stands back from the nitty-gritty detail of content and implementation. Samsung, the major Korean conglomerate, provides one such example. Senior management formulated a vision for "next-generation devices," but thereafter restricted its activities to making sure that key experts within the organization connected with each other and to helping teams overcome certain organizational obstacles if called upon to do so.

In the ***context-setting*** mode, top executives focus on creating the framework to nurture the emergence of great ideas and to guide the implementation process, but refrain from actually conceiving the content themselves. For instance, the top management of Allianz Global Risk, the international corporate insurer, invited 100 higher-level managers to propose growth initiatives fulfilling specified financial targets. The most promising initiatives received funding from the center, were put into action, and were carefully monitored through to fruition.

In the ***directing*** mode, top management acts as the sole generator and mastermind of growth initiatives, in terms of both content and process. It pursues them in a top-down manner, with a high degree of central control over the subsequent implementation by subordinate managers. For example, the corporate strategy team at Liberty Global, an international cable broadband company, determines all corporate development initiatives and reviews material growth initiatives proposed by subsidiaries. Thereafter, it closely coordinates implementation for fully owned subsidiaries and screens execution at its affiliates.

This framework can act as a valuable organizational compass for companies to decide where they are and where they should be in their journey through the complexities of the design and execution of growth strategies.

Selecting a Mode

Our research found that the performance of the four modes varies markedly across firms, indicating that no single mode consistently outperforms all others in all situations as a matter of course. The right choice of mode depends greatly on three factors: the characteristics of the company itself, the relevant industry, and the nature of the particular initiative. Based on in-depth interviews with survey participants, we were able to determine the relationship between these three factors and the best choice of mode for an organization (see Exhibit 3, page 4).

The company's approach will vary markedly depending on the mode that it has, often unconsciously, selected. But at companies with successful initiatives, it is not the mode itself that has paved the way for strategic growth. It is the fact that the selected mode suited the requirements of that company in that industry for that initiative at that time, and how well the mode was executed in this context.

The following section looks in turn at each one of the five elements of the growth process. We do not intend to embark here on a comprehensive discussion of the intricacies of the relationship between each of the five elements and the four modes. Rather, we focus on one or two key challenges for each of these elements, as shown in Exhibit 4 (page 5), and highlight some examples of best practices in the way individual organizations approach these issues in their respective modes.

Through these demonstrations of best practice, we intend to convey the vital importance of fitting the mode to the relevant circumstances, as well as a strong sense of the complexities arising from each mode. Executives should be wary of embarking on any strategic growth initiative without a mature grasp of the myriad internal challenges involved.

Shaping—Fomenting Ideas

Ideas for generating growth don't appear from nowhere. Someone, somewhere, has to think them up and push

Exhibit 3
Choosing a Mode: Key Factors

If most or all of these apply to a company's situation...

Level	Characteristics				
Industry	Dynamism	High	Medium	High	Low
	Competitiveness	Low	Medium	Low	High
Company	Corporate Concept and CEO Style	Decentralized Lean corporate center	Visionary CEO Lean corporate center	Conglomerate with process-defining center	Management holding, strong corporate center
	Risk Approach	Risk-embracing	Risk-embracing	Risk-avoiding	Risk-avoiding
Initiative	Risk Exposure/Investment Intensity	Low	Low	Medium	High
	Distance to the Core	High	High	Medium	Low
	Duration/Size	Low	Low	High	High
	Interdependence with Other Initiatives	Low	Medium	High	High
... then this is a company's optimum mode		**Self-Organizing**	**Agenda-Setting**	**Context-Setting**	**Directing**

Source: Booz Allen Hamilton

them forward. But who should be held accountable for this? Some senior management teams maintain a vice-like grip on this whole area, prioritizing central control rather than the input of a much larger pool of intellectual resources. Those who cede responsibility entirely, on the other hand, will benefit from the energy of many more minds, but risk the potential for a poorly organized pipeline of ideas and dispersed efforts.

In the context-setting mode, the shaping of new initiatives resides between these two extremes, with the corporate center retaining control over the framework for idea generation, while at the same time encouraging the wider organization to develop its content.

This framework usually revolves around financial guidance and measurement. For example, SES, a global TV satellite services provider, granted significant leeway to the CEOs of its regional operating companies to pursue strategic initiatives, including mergers and acquisitions within the relevant region. The main stipulation was that the initiatives should aim to fulfill a specific corporate financial objective—a defined internal rate of return (IRR) against which they were subsequently measured.

The context-setting mode allows operating companies to respond with agility to the unique demands of their particular market. However, it partly detracts from the strategic consistency necessary to create and maintain a distinctive corporate brand. Moreover, in the case of SES, the independence of the operating companies did not fully enable the sharing of best practices, or the creation of synergies, between them.

One must also consider the very lengthy investment cycles peculiar to the industry and the high capital expenditure risk involved in each initiative. These aspects, taken together, are one reason why SES seems to be changing tack in its approach to shaping initiatives. Indeed, the SES corporate center now seeks the benefits of more formal content control, effectively moving the company to some degree towards a directing mode, without suffering the disadvantages of that approach.

The context-setting mode is popular among diversified multiunit firms, because the corporate center usually feels it lacks the necessary deep knowledge of the relevant market to be in a position to control the content of the strategy pursued by outlying businesses. As a result, their boards mostly prefer to focus on the financial performance of the business portfolio as a whole, rather than getting involved in the complex industry dynamics within each part.

E.ON, a major European conglomerate, gradually spun off noncore activities to become a focused energy

Exhibit 4
Key Challenges of Each Mode

Level	Self-Organizing	Agenda-Setting	Context-Setting	Directing
Shaping	▪ Chaos	▪ Lack of market intimacy/lofty ideas	▪ Strategic myopia or inconsistency across business units	▪ Senior management group think
Staffing	▪ Resource bottleneck ▪ Leadership by the most vocal	▪ Trendy topics attract best managers (starving the core business) ▪ Champions prevail over experts	▪ Negative incentives for business unit staff ▪ Parallel projects on business unit level	▪ Passive staff attitude ▪ "Headquarter" mistrust and therefore unwillingness to join
Investing	▪ Ad hoc financing	▪ Mismatch between vision and short-term targets	▪ Lack of business unit incentive to finance cross-unit initiatives	▪ "Headquarter" mistrust and therefore unwillingness to join
Embedding	▪ No natural interdependency management ▪ One-man shows	▪ Weak translation of vision into action	▪ Business unit silos ▪ Unclear corporate role	▪ One-size-fits-all approach ▪ Business unit alienation
Governing	▪ Invisible risks at aggregate level	▪ Lack of operational targets	▪ Complex, numbers-focused reporting	▪ Management complexity ▪ Decision cascade delay

Source: Booz Allen Hamilton

company. This portfolio transformation also triggered an effective transition from a context-setting to a directing mode. The board now has the ability to get involved in specific business issues and can effectively control the strategic direction of the company.

Staffing—Balancing Creativity and Efficiency

Among all the hurdles, spotting and committing the right talent to an initiative is the most critical. Our quantitative study revealed the belief of many executives that a firm control of staffing—making sure that the best talent is driving the growth initiative—is significantly more relevant to an initiative's likelihood of success than, say, ambitious targets or tight control over the progress of the initiative.

In self-organizing firms, such control is absent. Individuals volunteer to work on strategic initiatives. This encourages growth through creativity and entrepreneurship, as anyone with an idea can set up an initiative if they drum up sufficient support from colleagues. Another suggested advantage of self-selection is that team motivation, so crucial in the painstaking work of pushing an initiative through to completion, can be higher as a consequence. People will generally not put themselves forward for a project they have little interest in, but there are plenty who will reluctantly agree to something just because a senior manager has asked them to.

But companies face two major challenges with this system. First, there is a flip side to the motivation argument—namely, that there must be sufficient numbers of intrinsically motivated managers and employees in the first place. A self-organizing firm could potentially suffer the worst of two worlds: nobody putting himself forward, and no central control to make sure someone does.

Such companies must therefore pay particular attention to the recruiting process to ensure they get the people with the right stuff. At Google, a prime exponent of the self-organizing mode, new employees must get approved by the founders and each of their potential colleagues. Given the vibrant image of the industry in which it operates, the company also attracts numerous candidates. As a consequence, the recruitment process takes considerable time, with the so-called "Googleness" factor often said to be the decisive criterion. Among other characteristics, "Googleness" summons up the perception of energy, dynamism, and creativity.

The second major staffing challenge of the self-organizing mode is that companies are particularly prone to the threat of a dearth of human resources, as people seem perpetually tied up in countless initiatives. Although many of these initiatives are peripheral or likely to fail, there is often no transparent tracking of progress that would facilitate redeployment of people to more worthwhile projects.

Context-setting companies face particularly onerous staffing challenges. Business units in this type of firm

usually link their incentive structure with their own financial performance. Therefore, their most talented managers rarely see the benefit of moving to risky initiatives run by the corporate center.

In order to attract good people, ABB, a major European engineering group, has started to offer incentive plans and appealing career opportunities as reward for the success of an initiative. In this way, the company finds half the staff it needs for projects. The other half comes from ongoing business unit projects that are dealing with topics related to the new central initiative. These people are systematically incorporated into the initiative, when needed. This approach enjoys a number of advantages. It gathers all the experts, ensures cross-business unit representation and eliminates duplication.

Investing—Maximizing Bang for the Buck

Companies need to decide whether the corporate center or business units should be the primary investors in initiatives. For most companies, getting the funding issue right can be critical in securing genuine business unit commitment for company-wide initiatives.

Consider the case of agenda-setting environments. The visionary CEO may announce a binding strategy, but fail to adjust the business units' financial targets, which may conflict with the overarching strategy. Business units' enthusiasm for the corporate strategy will be understandably muted as a result. Therefore, the corporate center frequently provides the initial "seed capital" to launch initiatives that are in line with the corporate vision. For instance, the European insurer Helvetia, which operated in a strongly decentralized way with its six regional insurance units, has launched a set of growth initiatives. As each of its units is individually steered by measures such as return on equity and combined ratio, it was necessary to finance these European-wide initiatives from the corporate center.

Nevertheless, business units frequently provide the full roll-out budgets in this system. At Samsung, for example, business units are asked to translate corporate growth initiatives into concrete actions with their own money. (This contrasts with their cost reduction initiatives which are both initiated and managed by business units.) However, in return for their investment, business unit managers retain significant freedom in the way they implement these actions.

In directing companies, corporate investment tends to continue until a later stage, as business units are often reluctant to assume financial responsibility for initiatives that they didn't design themselves and are still some distance away from being ready for the market. At Swiss Post, the leading provider of postal services in Switzerland, central funding and expertise for cross-divisional or high-risk initiatives is maintained until the initiative is nearing implementation, at which point business units are handed over the investment reins.

In context-setting companies, the corporate center plays a much less prominent role. The principal challenge is how to secure funding, and enthusiasm, for company-wide initiatives when each business unit has its own ambitions. Firms in this mode frequently solve the conundrum by working on a voluntary, opt-in basis. For instance, at ABB, business units can apply to support proposed corporate strategic initiatives with a share of their own budget.

ABB took such a voluntary approach when it urged its business units to contribute financial and human resources for joint product development and sales. Business units that demonstrated their commitment in this way were then able to participate in growth initiatives involving alternative energy or the railway business.

This led to many positive results. First, business units left the comfort zone of their product silos to consider broader growth opportunities like wind energy, rather than just concentrating on their traditional areas, such as power switches. Second, it shed light on the commercial potential of the initiative as a whole, as each business unit would decide on its prospective involvement after considering the demands of its particular market. Third, it ensured the full commitment from management in those business units that had chosen to participate.

However, although such a system works well for growth initiatives that fit well with the short- to medium-term strategic targets of the business units, it is clearly less suitable for longer-term or more exploratory themes.

Embedding—Getting Off the Ground

Initiatives have now been defined, staffed, and funded. But how can you ensure that an initiative doesn't always remain merely a very good idea that was never

properly implemented? How can these initiatives be connected to the existing organization and business? Should they be integrated into existing business units, or just run as a separate entity?

The context-setting mode tends to reflect a strong silo mentality within companies, with respective business units developing their own very distinct interests. Cross-business unit initiatives therefore often fragment into various "sub-initiatives" which often stray, to a greater or lesser degree, from the original intention of the main initiative.

Because of this likelihood, SAP, a German software company, has introduced a range of methods to embed cooperation and guarantee consistency. An internal group named "Inspire" develops innovations for a period of up to 18 months to prevent business units changing the essential character of the initiative. SES takes the "Inspire" idea one step further: It systematically manages new initiatives as separate companies, with full P&L transparency, as subsidiaries to one of its three operating companies. This ensures maximum visibility for the performance of initiatives.

In directing companies, there is often a great deal of mistrust of initiatives emanating from corporate headquarters. This may well prevent successful growth. Even in a company characterized by top-down directives, business unit managers need to buy into an initiative if the implementation is to have a chance of success.

Without an open and comprehensible process, allegations of favoritism and self-interested political maneuvering can easily arise. For example, in one logistics firm, employees perceived the strategic decisions of top management to be serving the hidden interests of influential actors, and little else. This, in turn, severely undermined the credibility of the entire growth process and led to the departure of a number of talented employees.

The second major challenge facing directing companies is the timing of the handover to business units. Examining an issue for too long from the top of the organization will inevitably result in decisions based on invalid assumptions, as the corporate center will not have the necessary detailed and up-to-date knowledge of the operations of each business unit.

However, a premature transfer of control to business units in directing companies seems generally to lead to seemingly endless issues from the outset. Resistance is rife, with local teams quick to uncover teething problems that lead to a more general cynicism. Liberty Global is circumventing this potential minefield by forming integrated operating-company and group-strategy teams. Group strategy people take the lead during the idea formulation and business planning; operating companies then assume control for the implementation. The team as a whole does not change from inception to closure, thus safeguarding consistency and communication and helping to overcome opposition.

Governing—Maintaining Momentum

Once the strategic initiative is finalized and up and running, how does a company keep the momentum going? Should it allow the process to evolve freely, potentially paving the way for chaos, or impose numerous central checks and balances, with the allied risk of strangling the initiative in complexity and bureaucracy before it has an opportunity to succeed?

Firms in an agenda-setting mode thrive on the entrepreneurial freedom of their business unit managers. Samsung, for instance, has empowered its business unit managers to run the full implementation of strategic initiatives in line with the corporate agenda defined by the vice chairman. There are no group-wide steering committees and targets are tracked only by business unit. The company trusts its managers to reach the targets set.

Directing companies, by contrast, never like to let go. Reporting is frequent and strongly formalized, with the use of standardized templates. Regular steering committee meetings with the involvement of top management are another typical feature.

This tight control is very evident when it comes to measuring the progress of initiatives. Reaching definitive conclusions on the progress of an initiative in its early stages can be very difficult. There is, after all, no measurable income before the initiative is tested in the market.

Despite this difficulty, Swiss Post applies clear measurement criteria, be they financial or qualitative,

to each successive phase of the initiative. Subsequent phases are granted funding only if significant milestones are met. Tracking is pursued diligently and at the top management level. The steering committee that oversees this monitoring of progress includes the CEO, the CFO, the head of group corporate development, and the head of the international division.

This disciplined measurement counters a prevalent cultural flaw among directing companies—namely, that they often suffer from an excessive senior executive detachment from what is actually happening within the engine room of the company. For instance, the arrival of a new CEO at Infineon, the technology company, triggered a very substantial shift of strategic focus away from manufacturing toward the design of solutions, and away from a multitude of average products toward a narrower portfolio of globally leading product lines. In the day-to-day business on the ground, this caused initial confusion at the middle management level. Only with a certain delay did the change in strategy trickle down the organization.

One executive at Pfizer, the pharmaceutical company, compared the effect of the gap between leaders and led in a directing company to what occurs among the crew turning an oil tanker. The moment the captain has given the order to turn around the ship, he assumes the task has been executed. The ship's officer, however, is still passing on the message to the rest of the crew. And, meanwhile, the sailor physically in charge of turning the rudder has not yet even received the order.

Indeed, in directing companies, top management is often already conceiving the third or fourth initiative while local managers are still struggling to get the first one implemented. Sometimes, these initiatives just disintegrate because of this confusion. In other cases, senior management, belatedly realizing that their initiatives have not succeeded, undertake the whole process again. The organization as a whole becomes trapped in a cycle of repeated, yet often futile, bouts of hyperactivity.

A Framework for Managing Growth Initiatives

Our research has revealed that although a clever strategy is a necessary prerequisite for successful growth, it nevertheless remains insufficient in itself. Determining the most appropriate levels of central corporate control, and business unit autonomy, over the formulation and implementation of growth strategy is also crucially important. Not paying due attention to internal processes will inexorably lead to inferior and unsustainable growth performance.

When one considers that the available lifetime for the content of strategic initiatives has dramatically shortened in most industries due to increasing competitive pressure, institutionalizing growth processes appropriately as part of a firm's DNA may become a critical driver of sustainable success. Haphazardly adopting a mode without conscious consideration just because "that's the way we do things here" is not an option.

Focus and consistency in approach are vitally important. In selecting a mode, executives should carefully consider the associated subtleties and trade-offs, and then stick with what they have chosen. According to our findings, firms that oscillated erratically from one mode to the other, or that cherry-picked elements of various modes, performed less well than firms that took a more disciplined approach.

One international media organization suffered from this inability to commit wholeheartedly to one particular mode. Recognizing the innovative capability of the self-organizing mode, the corporate hierarchy urged its people to come up with new ideas and establish project teams. Subsequently, however, the corporate center amended these initiatives to fit with its own vision and thinking. This was clearly a directing company kidding itself into thinking it could adopt a self-organizing approach. There were no positive results from this self-deception—only wasted time and resources, and depleted morale among its staff.

The dangers of inconsistency do not mean that a company should continue to pursue a mode that clearly doesn't fit its requirements: A calculated change of mode is sometimes necessary. When GE, the global conglomerate, turned its attention away from optimizing its cost base toward creating growth, it consciously switched from a context-setting to a directing mode. The company had instituted Six Sigma for cost initiatives, a process

that was to become deeply embedded within the corporate culture and therefore required little central direction. However, realizing that this culture was not yet adequately geared for the growth that had now become increasingly necessary, the corporate center assumed firm control over both the content of growth initiatives and the subsequent process of implementation.

Our research has provided many valuable insights into how to select the mode to fit the particular circumstances and culture of the relevant company, and thereafter how to design and customize the mode to take into account the very specific characteristics of both the company and the growth initiative being pursued.

The pressure on companies to innovate and grow is unprecedented, posing new questions for senior managers. The pursuit of growth initiatives presents a significant number of intricate managerial challenges, often related to securing the necessary commitment of key people in the engine room of the organization. Our framework, which acknowledges these complexities, can prove an extremely useful innovation for senior management teams.

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Contact Information:

ZURICH

Christian Burger
Vice President
+41-43-268-21-21
burger_christian@bah.com

Alex Koster
Principal
+41-43-268-21-21
koster_alex@bah.com

Michael Szczepanski
Principal
+41-43-268-21-21
szczepanski_michael@bah.com

UNIVERSITY OF ST. GALLEN, SWITZERLAND

Dr. Christoph Lechner
EMBA Chair of Strategic Management
+41-71-224-3904
christoph.lechner@unisg.ch

Also contributing to this article were Raffi Amit, Laura Cardinal, Steven Floyd, Christina Heck, Markus Kreutzer, Stefan Loacker, Günter Müller-Stewens, Christophe Niquille, Jens Schädler, Ilona Steffen, and Erich Walser.

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