

How Stock Sourcing Affects Growth of Small and Medium-sized Enterprises in Imenti North Sub-County, Kenya

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Abstract

Procurement optimization has become critical in fostering growth of businesses. Quality goods issued by suppliers generate revenue that translates to economic growth. However, growth of SMEs in Imenti North Sub-County has been low. The purpose of this study was to analyze the influence of stock sourcing on growth of small and medium-sized enterprises in Imenti North Sub-County, Kenya. According to micro and small enterprises Act number 55 of 2012, and MSE bill, Sessional Paper No. 2 of 2005, SMEs comprises firms that have staff population of between 10-100 employees, and a turnover of Kshs500, 000 to 30,000,000. There are 31 SMEs specialized as supermarkets, hotels and restaurants, manufacturing firms, assembly firms, whole sale and retail outlets, and processing firms. The study was guided by resource-based view theory and used descriptive survey research design to collect data from a target population of 10 SMEs specializing in manufacturing in Imenti North Sub-County. Simple random sampling method was used to select 20 percent of a target population of 250 respondents. Hence, 50 Head of Departments in sales and marketing, operations, compliance, finance and procurement officers were selected and issued with closed-ended questionnaires. Data was analysed using SPSS. Descriptive statistics such as mean, percentage, frequency, standard deviation were computed while hypotheses were tested using regression analysis. The study found out that unitary, stock-sourcing predicted seventy five percent of growth of SMEs variable. The remaining percentage was due to other factors. The study concluded that stock sourcing had a positive significance on the growth of SMEs in Imenti North Sub-County, Kenya. The study recommends that procurement oversight authority in Kenya develops policies to ensure that various suppliers are vetted and the information availed to SMEs owners for making stock sourcing decisions.

Keywords: *Small and medium-sized enterprises, Sourcing, low- deal, Growth, Imenti north sub-county Meru*

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1.0 Introduction

Growth is the increase of size in a business to a level where it has extended choices to increase revenue (Kim & Loayza, 2019). Growth is measured differently in various industries in the economy. For instance, sales and gross income are used in automotive industries (Gesicho, 2018), while net profit

and return on equity are used in hospitality industry (Asdullah & Rehman, 2015). Banking industry uses capital adequacy, return on equity and return on asset to measure growth (Central bank of Kenya [CBK], 2018). Growth in small and medium enterprises (SMEs) are measured by total

sales, return on equity, return on assets and total expenses because they are recognized as performance measures of SMEs in Kenya (CBK, 2018).

SMEs are business entities whose personnel range between 50 to 249. They also have a turnover of between 10 to 50 million euros (European Commission [EU], 2020). In Kenya, the micro and small enterprises Act number 55 of 2012 defines a SME as a firm or industry whose yearly turnover is between Kshs 500,000 to Kshs 5,000,000; has employees between 10 and 50, and machinery assets worth between ten million and fifty million shillings (incase in manufacturing industry). In case of service and farming enterprises, the equipment investment as well as registered capital of the enterprise should be between five million and twenty million shillings for it to be termed as a SME. (National Council for Law Reporting [NCLR], 2012).

Despite SMEs being the main thrust behind monetary flourishing around the world, there have been copious challenges obstructing their growth. In America, issues such as digital crimes, difficulty in keeping up with innovative progression, future vulnerability, , and dubiousness in SMEs cycles of enquiring for recommendations have negatively affected SMEs. Further, there have been low exactness of reliable data, hence prompting ignorant purchasing; and helpless administration of stock control. However, SMEs sourcing have been improved where sourcing has been limited to only accredited and certified suppliers and offshore sourcing (Ponemon Institute, 2018; Prasanna et al., 2019).

In Europe, SMEs in nations like United Kingdom have been encountering issues such as negative impacts of Brexit which incorporate low deals because of added sanctions, network safety, declined markets, and expansion difficulties. In addition,

changing client inclinations, over valuation of organizations and significant costs of working have also affected SMEs sourcing (British Business Bank 2019; Hassan et al., 2019). However, SMEs have been improving growth by having a shorter lead time when sourcing, upgrading of purchasing markets; enacting laws to give the guidelines for negotiation and shielding SMEs traders from exploitations (Hassan et al., 2019). Covid threat in Asia has adversely influenced SMEs causing low deals, deficient stock, and inadequate workers since some have passed on because of the infection. (International Monetary Fund [IMF], 2019; Johnson & Palmer, 2020).

In Asia, SMEs that are occupied with worldwide sales supplies have confronted acquisition and supply issues (United Nations [UN], 2019). However, SMEs growth has been improved through normalizing of procurement procedures such as e-procurement facilitate timely payments; and enhancement of automated inventory keeping methods that best suit SMEs operations (UN, 2019). SMEs in South Africa have been encountering low selection of present buying techniques; failure to separate how FIFO, LIFO and LILO applies in their business because of helpless record keeping of merchandise which result to wastages; political shakiness, xenophobic impacts, vulnerability over monetary conditions; and poor monetary administration (Farouk et al., 2019) SMEs in North African nations, like Egypt and Algeria grapple with obsolete business obtainment measures, absence of strategies, item supply quality issues; and high charges and operational costs (African Development Bank [ADB], 2018 In West African countries like Ghana and Nigeria, SMEs have been having issues like digital violations, weakness issues, non-enhancement of incomes to put resources into different zones, absence of variety of providers hence low quality items; and poor

monetary administration concerns (ADB, 2018; Price Water house Coopers [PWC], 2019). SMEs in East African countries like Rwanda, Uganda and Tanzania face low stocks because of the closure of supplies by China which has been their sole cause of provisions; political precariousness; expansion issues; untalented sales representatives, as well as threatening laws and guidelines (Agyapong & Attram, 2019; Johnson & Palmer, 2020). SMEs have been growing especially having laws enacted that indicates, 30 percent of any South African contracts that are below 30 million Rands being allotted to SMEs or disabled groups; training on stock sourcing in North African nations and low-cost sourcing anchored on precise measures in East Africa (PWC, 2019).

In Kenya, SMEs are battling with poor laws and guidelines; poor monetary administration; restricted market access; high business operational costs; political precariousness; and slow expansion (Osano, 2019; United Nations Development Program, [UNDP], 2015). These worries have been compelling SMEs in Kenya to basically survey their stock sourcing practices to guarantee that the development is steady. The capacity to give elevated levels of consumer loyalty has been viewed as a basic element of business achievement and in numerous associations. Intermittent increment of requests of clients' fulfillment have prompted a requirement for upgrades in quality and administration (Ellegaard, 2013). Such pressing factors have constrained numerous SMEs to audit their way to deal with how they can balance their stocking practices versus the value they generate out of the sold stocks. SMEs growth has been improved by having emphasis put on giving SMEs owned by women and people living with disabilities special accordance to access tenders, establishment of e-procurement systems to aid in sourcing; and prioritizing technology

and innovation as the foundation for growth of SMEs (UNDP, 2015). Stock sourcing comprises of decisions applied when tracing traders of the goods and services (UNDP, 2015). That is, stock sourcing entails looking for suppliers who offer the goods or services that an SME will need in their operations.

Statement of the problem

A thrilling small and medium-sized venture is expected to possess set up framework of selling, and adopt growth-oriented strategies such as hedging, client management, competition management, utilization of emerging opportunities, pursuing collaborations; and networking with a view to expanding market share (International Labor Organization [ILO], 2016). To achieve this nature of growth, SMEs are expected to acquire merchandises from dependable sources upon following the procurement rules.

Poor stocking practices have adversely affected the growth of SMEs. Majority of SMEs in Kenya are not able to survive while others hardly mature to large enterprises (UNDP, 2015). Indeed, businesses in Kenya have not yet had the option to strongly operationalize their stocking practices since the vast majority of them have been encountering trouble with poor supply of products and enterprises due to overreliance on one provider; and misfortunes which many atimes result to expired merchandises. Hassan et al. (2019) and Prasanna et al. (2019), have both contended on the difficulties such as under standard products that arise from dependence on one supplier. Locally, a couple of studies have been done on obtainment practices. Nyagah (2015) and Ouma (2018), identified inadequate financing and poor procurement practices as major drawbacks. This gap was instrumental in informing the need to analyze the influence of stock sourcing on growth of small and

medium-sized enterprises in Imenti North Sub-county Meru, Kenya.

Purpose of the study

To analyze the influence of stock sourcing on growth of small and medium-sized enterprises in Imenti North sub-county, Kenya.

Hypothesis

H₀: Stock sourcing do not significantly influence the growth of small and medium-sized enterprises in Imenti North sub-county, Kenya.

Theoretical review

Resource based view theory by Wernerfelt (1984) argues that an organization's value is based on the internal resources it possesses. That is, accessibility of assets for use in an organization enhances accomplishment of extraordinarily competitiveness. These assets may either be substantial or elusive. Stocks are the definite assets that an organization has. Intangible assets are information and abilities utilized particularly on lead legitimate stock control in a firm. This theory was applicable to this study because an SME operator strives to ensure that quality products and strives to know how and where to store them effectively so that they do not spoil or break; and that they are easily accessible when need be (OECD, 2004). The value from which an SME derives its operations is highly linked to both the tangible and intangible resources it has. It is one thing to source for stocks, and it is another thing to ensure that the personnel in SMEs have skills to ensure that the sourced stocks are properly stored for efficiency in sales. Customers get attracted to an SME that always has quality products that are well maintained and which are easily available for sales (Gurbuz, 2017).

Empirical review

Stock sourcing is the process of searching for suppliers who issue goods or services that are

essential to a small and medium sized enterprise. There are various types of stock sourcing, namely; international, local, prime arrangement, conventional agreements and captive service operations (Osano, 2019). In 2019, the global market was expected to grow by 15 percent in the following three years (Market Research Future [MRF], 2019). MRF (2019) measures the global acquisition in reevaluating market while majoring on corporates in Ireland, France, America, and Spain.

The report showed that stocking development causal perspectives include utilizing outside sourcing aptitudes and mechanical information; development of essential for driving ability and adequacy in the inventory network thus scaling of the worldwide acquisition sourcing market; improvement of need for adhering to overseeing rules and justifying consistence. MRF (2019) shows that anxieties like lack of information and unscrupulousness in the stock sourcing have been repressing full development noted in SMEs. MRF (2019) did not look at the global pricing of goods and services that would be supplied. Nonetheless, inflated pricing could be a reason why international outsourcing markets were underdeveloped.

Masroor and Asim (2019) examined how SMEs in America, Finland, Sweden, China, France and Denmark have been coping in the contemporary period of universal competition. They noted that SMEs in these countries are unbendingly participating in worldwide economy. The SMEs are however facing serious sourcing impediments. Masroor and Asim (2019) however focused on four factors: capital speculation, abundance assets and liquidity; solid innovative work; exchange influence; and cost effectiveness. The aspect of government strategies which enormously influences how organizations work was not acknowledged in that review. Mungai (2019) focused on how exhibitions of banks were influenced when

there was coordinated acts of gaining merchandise and enterprises. Mungai (2009) notes that provider relationship organization prompts improvement of the products purchased with appropriate assessment of the providers prior to drawing in the providers.

Acquirement of data systems helped in understanding the way of life of providers so as to have straightforward buys Arranged sourcing enables the banks to have a streaming chain of providers who are eager to supply easily. Mueni (2018) evaluates the influence of strategic sourcing practices such as planned outsourcing, converse logistics, and information administration on performance in Kenya Airport Authority. A noteworthy conclusion is that inventory management does not have a constructive importance on performance in government entities in Kenya. Mueni (2018) concludes that planned outsourcing has a constructive importance on impact of performance of government entities in Kenya. This finding raised a need to know whether planned outsourcing had any impact on non-governmental entities such as SMEs in Meru County.

Another study done by Munanu (2017) notes that vital sourcing improves cost productivity in police training college stores in Embakasi, Nairobi. That is to say that when an organization entity takes care of the sourcing function, there is a high likelihood that there would less expenses in knowing what, where and how to outsource. According to Nyakundi (2018), procurement best practices such as green procurement, supplier partnership, digitalization and ethics on purchasing, significantly influence procurement performance of SMEs in Nairobi County. The study was carried out in 45 randomly selected SMEs. The results showed that decreasing information pursuit charges for suppliers, short lead time delivery of goods and professionalism in procurement

of quality goods are some of the outcomes of procurement best practices.

2.0 Material and Methods

There are 31 SMEs specialized as supermarkets, hotels and restaurants, manufacturing firms, assembly firms, whole sale and retail outlets, and processing firms in Imenti North Sub-County, Meru County. The respondents were 250 Head of Departments in sales and marketing, operations, compliance, finance and procurement in these SMEs. These five departments were the ones involved in various procurement processes, namely; stock sourcing, negotiation, bidding and inventory control in any organization. Therefore, head of departments were the best respondents since they had immense knowledge relevant for this study's objectives.

The study used descriptive survey research design to collect data from a target population of 10 SMEs specializing in manufacturing in Imenti North sub-county, which were selected through simple random sampling method. Further, simple random sampling method was used to select 20 percent of a population of 250 respondents. This came up with 50 Heads of Departments in sales and marketing, operations, compliance, finance and procurement who were issued with closed-ended questionnaires. To ensure reliability, the study conducted a pre-test in Kenya Tea Development Agency (KTDA) in Igembe central sub-county in Meru County. KTDA is a tea manufacturing firm in Igembe central sub-county. It was picked because it was also located in Meru County, hence sharing the same geographical and economical attributes. The respondents in the pre-test were sampled using purposive sampling method based on the key departmental areas of this study. Content, criterion and face validity were also emphasized in the study. Once the main

study's data was gathered, the study sorted the questionnaires and used Statistical Package for Social Sciences (SPSS) software version 25 to analyze the data. Mean, percentage, frequency and standard deviation were computed while regression analysis was used to test the hypothesis. Information was presented in tables.

3.0 Results and Discussion

The study issued 50 questionnaires to head of departments from sales and marketing, operations, compliance, finance and procurement derived from 10 SMEs. The returned questionnaires were 43 in number

Table 1

Demographic Information

Status of established procurement department	Frequency	Percent	Cumulative Percent
Poor	0	0	0
Fair	10	23	23
Good	30	70	93
Excellent	3	7	100
Total	43	100	
Year in operations	Frequency	Percent	Cumulative Percent
Less than 1 year	8	26	26
2-5 years	9	35	61
5-10 years	11	21	82
Above 11 years	15	18	100
Total	43	100	
Number of employees	Frequency	Percent	Cumulative Percent
10-50	24	56	56
50-80	14	33	89
80-100	5	11	100
Total	43	100.0	
Annual Turnover (Kshs)	Frequency	Percent	Cumulative Percent
500,000-5,000,000	28	65	65
5,000,000-10,000,000	8	19	84
10,000,000- 30,000,000	7	16	100
Total	43	100.0	

From Table 1, most SMEs have procurement departments whose status is good 30(70%) while those whose procurement department was fair were 10(23%). From this specific

which represented 86% response rate. This shows that the respondents participated in a significant way. According to Gustavson et al. (2019), when the results are above 70% there is very high response rate. The results therefore could be relied upon.

Background profiles of the respondents

The study sought to determine the background details of the respondents, such as working in procurement department, number of years their SMEs had existed, employee turn-over and annual stock turn-over of the SMEs. The results are shown in Table 1.

result, we can attest that most of SMEs in Imenti North are keen to ensure that SMEs have a department such a procurement that will ensure that tracing, approving, and

obtaining goods and services from a reliable source is regular through a competitive tender process. However, there is still work needed to be done to ensure the procurement department are excellent. This is because only 3(7%) are indicated to be in excellent status. Table 1 further indicates that most SMEs were operational for more than 11 years 15(35%) and between 5-10 years which were 11(26%). This proves that the economic conditions in Imenti North sub-county were favorable and conducive for SMEs to survive in the region as compared to other regions such as Nairobi. This was attributed by high level of monetary circulation in Imenti North Sub-County.

The results further revealed that 24(56%) of SMEs had 10-50 number of employees. Those SMEs that had 50-80 employees were 14(33%) SMEs. Lastly, SMEs with 80-100 employees were confirmed by only five SMEs. Nyagah (2013) notes that high presence of manpower in an SME does not ensure that targets are met on time and hence resulting to growth of SME. However, due to corona virus pandemic, when data was being collected, it was revealed that most SMEs in this study had reduced the number of employees as a measure to reduce expenses. Table 1 reveals that the average turn-over in most SMEs which were 28 (65%) was

between Kshs 500,000 to Kshs 5,000,000. However, other 8 (19%) and 7 (16%) SMEs had an annual turn-over of five million shillings to 30 million shillings on average. This further proves that SMEs in the region are struggling to ensure that they remain afloat in business venture. It further indicates that SMEs in the region are not innovative towards ensuring that they tap into the high money circulation in the region. Ouma (2018) affirms that innovation strategies that SMEs use should be diverse and not over-rely on one type of strategy. Over using a strategy leads to low turn-over before an SME plunges into losses side of business (Ouma, 2018).

Descriptive analysis of stock sourcing

The key objective of the study was to determine the influence of stocks sourcing on growth of small and medium-sized enterprises in Imenti North Sub-County Meru County, Kenya. Stock sourcing variable had several elements that were measured in Likert scale as: strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). The sentiments were in positive form and mainly featured on quality of products, quantity of products, replacement of products, prices of products and lead time. Responses with regard to each statement are shown in Table 2.

Table 2

Descriptive Statistics on Stock Sourcing

Statements	1	2	3	4	5	Mean	Std Dev
N=43							
Quality of goods have increased the total sales	0(0%)	0(0%)	0(0%)	4(9%)	39(91%)	4.90	0.29
Increased quantity of goods has improved the net income	0(0%)	2(5%)	1(0%)	5(12%)	36(83%)	4.71	0.75
Enhanced replacement of goods has increased to return on assets	0(0%)	0(0%)	0(0%)	3(8%)	40(92%)	4.89	0.48
Good prices of products have led to an overall return on equity	0(0%)	8(19%)	0(0%)	22(51%)	13(30%)	3.93	1.03
Short lead time has reduced total expenses	0(0%)	2(5%)	0(0%)	22(51%)	19(44%)	4.33	0.74
Different suppliers have enabled availability of manufacturing goods at all times	0(0%)	5(12%)	0(0%)	17(39%)	21(49%)	4.25	.96
Average Mean						4.50	0.71

According to results in Table 2, stock sourcing reported a summated mean of 4.50 and a standard deviation of 0.71. It is clear that quality of goods increased total sales which was linked to reliable suppliers. This enhanced replacement of goods which further caused an increase in return on assets as indicated by a mean of 4.90 and 4.89, respectively. The results indicated that various SMEs in Imenti North have complied with bureau of standards stipulations outlined by the government of Kenya. This has continually increased the use of materials issued by the suppliers hence the final product is very reliable and safe to use. In relation to conforming to the required standards, there is an increase in pricing of the products sold making the products very expensive to purchase. This was emphasized by the results indicating that prices of

products had led to an overall return on equity. This statement had the lowest mean of 3.93. Therefore, SMEs in Imenti North Sub-County, Meru County have a tough task of ensuring a balance between maintaining the quality of products and regulating the prices to ensure maximization of profit.

A prior study by Nyakundi (2018) complements this argument that the skill of balancing between quality and prices is anchored on nature of business, experience level and technological investments done in an SME. However, Odhiambo and Kwasira (2019) disagrees with Nyakundi (2018) in that the balance between quality and price of products depends on demand of the product. While considering what is needed to attain a procurement contract in Migori county government, Odhiambo and Kwasira (2019) reveals that when an SME's product is not

intended for attracting a bid, the quality is low.

Hypothesis Testing

The study conducted a univariate regression analysis to test the first null hypothesis. The

null hypothesis stated that, stock sourcing did not significantly influence the growth of small and medium-sized enterprises in Imenti north sub-county Meru County, Kenya. Results on model summary are shown in Table 3.

Table 3

Model Summary of Stock Sourcing and growth of SMEs in Imenti North Sub-County Meru County, Kenya

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
Stock sourcing	.866 ^a	.750	.734	2.017	1.956

b. Predictors: (Constant), stock sourcing

Stock sourcing have an R value of .866^a and a Durbin Watson value of 1.956. This shows that there is a strong correlation between the two variables, that is, stock sourcing and growth of SMEs, while the R-square is 0.750. This implies that stock-sourcing as a construct predicted 75% of growth of SMEs variable in this study. The remaining 25% is due to other factors not examined in this particular single construct.

Analysis of variance on Stock Sourcing and growth of SMEs in Imenti North Sub-County Meru County, Kenya

The researcher further wanted to know whether the reported relationship is statistically significant. The ANOVA analysis results provided in Table 4 shows a clear picture.

Table 4

ANOVA of stock sourcing and growth of SMEs in Imenti North Sub-County Meru, Kenya

Model		Sum of Squares	Df	Mean Square	F	Sig.
Stock Sourcing	Regression	866.790	1	866.790	7.324	.008 ^b
	Residual	366.080	42	4.068		
	Total	1232.870	43			

a. Dependent Variable: growth of SMEs

b. Predictors: (Constant), stock sourcing

The results show that stock sourcing had an F statistic of 7.324 and significance level. P= 0.008. The significance level being less than alpha value, P<0.05, provides sufficient

evidence to reject the null hypothesis and conclude that stock sourcing significantly and statistically influence the growth of small and medium-sized enterprises in Imenti north

sub-county, Kenya. This implies that, for an SME to effectively grow, it should focus on how, who and where the stocks are sourced. Stock sourcing should be an ever-continuous process in the operations of SMEs. This will ensure that a SME does not miss out on key sources that prove to be efficient and effective towards saving cost.

It is clear that stock sourcing has a major influence on SMEs growth since its level of influence is positive and commands up to 75% of growth of SMEs variable in the study. These results mean that, the stock sourcing, management and utilization determine the nature of growth witnessed in SMEs. If the sources are unreliable, retarded growth of SMEs is going to be witnessed while the

reverse will be true. IMF (2018) supports the idea of SMEs sourcing for reliable stocks providers. This is because reliable stocks sourcing has a direct impact on how Africa would compete with other major global economies in economic integration. In a more local perspective, Osano (2019) shares the same idea, that, for Kenyan SMEs to get a position in global market, they have to begin with emphasis on reliable stock sourcing.

Regression coefficients

The study also analyzed regression coefficients of stock sourcing and growth of SMEs. It was noted that stock sourcing had a $\beta=.178$, $P=0.466$. The results are shown in Table 5.

Table 5

Regression coefficients of stock sourcing and growth of selected small and medium-sized enterprises in Imenti North Sub-county Meru County, Kenya.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	9.084	2.100		2.930	.524
Stock sourcing	.204	.278	.178	.733	.466

a. Dependent Variable: growth

The overall model of the study indicated that $Growth = Constant + \beta v \text{ Stock sourcing} + \text{error}$. When equated with the coefficients, the model was: $Growth = 9.084 + 0.178 \text{ stock sourcing}$. This shows that developing one unit of stock sourcing increased growth of SMEs by $9.084 + 0.178$. This means that procurement sourcing was statistically a significant predictor of growth of SMEs. These results are similar to Okong’o and Muturi (2017) who observed that stock sourcing was a key factor in ascertaining procurement performance in public institutions in Kisii County. In agreement with their views, Thuraniira (2017), while considering women-owned

SMEs in Meru County, identified determinants of performance which included procurement practices like sourcing, negotiations, bidding, inventory control, among other factors.

4.0 Conclusion

The study concluded that stock sourcing positively and significantly influenced the growth of small and medium-sized enterprises in Imenti North sub-county Meru County, Kenya. In addition, there is low innovation undertakings in SMEs to a point that most SMEs have not fully incorporated the most recent procurement practice such as

online sourcing, hence incurring unnecessary costs of tracing different suppliers. This could partly be attributed to conservatism nature of the management. Apart from that, frequent training and update of current developments in sourcing is scarce in most SMEs.

5.0 Recommendations

SMEs need to develop customized techniques for attaining more stocks in their sourcing ventures. Procurement oversight authority in Kenya should develop policies to

ensure that various suppliers are vetted and the information availed to SMEs owners for making stock sourcing decisions. This will help the SMEs to overcome the challenge of failed supply. SMEs should protect themselves from any abrupt price risks through forwards and future contracts. Forward contracts should be customized between an SME and a supplier, whereby the SME approves to buy an underlying asset at a pre-determined price at the time of purchase from the supplier, but the delivery of the asset is done at a future date.

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