The Impact of New Retail Transformation on Financial Performance: A Case Study of IKEA

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Abstract. With the rapid advancement of the internet and digital technologies, the new retail model has become a key direction for the transformation and upgrading of the traditional retail industry. This paper uses IKEA, a global home furnishing retailer, as a case study to explore the impacts of its new retail business model on financial performance. The research examines IKEA's financial performance from 2016 to 2021, a critical period of transformation. Through trend analysis and comparison with industry peers, the study evaluates IKEA's financial indicators in three key areas: profitability, operational capability, and growth potential. The findings show that, in the initial phase, the new retail model significantly boosted IKEA's revenue and brand influence, driven by the rapid growth of online channels and enhanced experiential marketing. However, the deeper transformation also led to challenges, such as a structural rise in operational costs and slower accounts receivable turnover. External factors, such as the global pandemic and supply chain disruptions, further increased pressure on its net profit growth. Based on these results, the paper offers strategic recommendations for IKEA and other traditional retailers undergoing digital transformation, focusing on business model optimization, financial management improvements, and organizational restructuring.

Keywords: New Retail, Business Model, Financial Performance, IKEA, Digital Transformation.

1. Introduction

In recent years, global consumption patterns have evolved, and digital technologies have become widely adopted, significantly altering the competitive landscape of the retail industry. Traditional retail models are showing signs of fatigue due to the rise of e-commerce, while pure online platforms are encountering challenges such as diminishing traffic growth and a limited user experience.[1] In response, the concept of "New Retail," introduced by Jack Ma, founder of Alibaba Group, in 2016, has quickly gained attention from both the industry and academia. At its core, New Retail seeks to dismantle the boundaries between online and offline operations, integrating online services, offline experiences, and modern logistics.[2] This approach aims to create a seamless, consumer-centric, and data-driven shopping experience, offering a new strategic direction for retailers facing growth challenges.

IKEA, the Swedish home furnishing giant, has experienced tremendous success with its flat-packaging, self-service shopping, and showroom model. However, as digitalization and shifting consumer behaviors disrupt the retail landscape, IKEA has adapted by embracing change. Since 2018, IKEA has implemented its New Retail transformation on a global scale, with a particular focus on the Chinese market. This transformation involves a comprehensive overhaul of digital marketing, omni-channel sales, and supply chain optimization. Given its strategic importance and complexity, IKEA's transformation provides a valuable case study in the New Retail movement.

Despite significant discussion of the New Retail concept in the industry, there is a notable research gap in understanding how these business model changes impact long-term corporate financial performance. Most existing studies either focus on theoretical discussions or examine the effects of online channels in isolation, without fully exploring the dynamic shifts and conflicts across different financial dimensions during the transformation. This study, therefore, uses a case study approach to analyze IKEA's New Retail journey, aiming to provide empirical insights into the financial implications of New Retail at the micro-enterprise level.

For traditional retailers facing similar digital transformation pressures as IKEA, understanding key questions such as “Can the transformation truly enhance corporate value?” and “What are the main financial risks involved?” is critical. By examining IKEA’s transformation as a typical case, this research aims to offer practical insights and decision-making support for retailers navigating uncertainty and change.

2. Theoretical Framework and Research Design

2.1. Core Theoretical Foundations

This study is based on three key theoretical perspectives, which form the foundation for the analysis. These perspectives are interconnected and provide the core framework for understanding the case.

2.1.1. The Wheel of New Retail Theory

The Wheel of New Retail theory is an evolution of the traditional “Wheel of Retailing” theory in the digital age. It argues that continuous technological innovation drives the phased evolution of retail formats. The theory introduces the concept of the “technological frontier,” which represents the optimal combination of price and service for a retail format at a given technology level. When competition in existing formats becomes saturated and the technological frontier stabilizes, new technologies—such as big data, artificial intelligence, and the Internet of Things—push the frontier outward. This allows new retail formats to offer higher service at lower costs or attract consumers with better service combinations. The theory explains why IKEA must adopt technology-driven retail innovations: without them, it risks falling behind competitors.

2.1.2. Stakeholder Theory

Stakeholder Theory critiques the traditional shareholder primacy model, suggesting that a company’s success depends on its ability to manage relationships with all stakeholders, including customers, employees, suppliers, communities, and governments.[3] This theory argues that business decisions should consider and balance the interests of these groups to create long-term, sustainable value. In the context of New Retail transformation, this theory highlights that IKEA’s restructuring should not only focus on improving shareholder returns but also consider the effects on customer experience, employee skills, supplier relations, and the broader social environment. The company’s long-term financial performance will depend on its ability to balance these factors.

2.1.3. Omni-channel Retailing Theory

Omni-channel Retailing Theory offers a practical framework for guiding New Retail practices. It highlights that businesses must integrate multiple channels—such as physical stores, websites, mobile apps, and social media—to provide a consistent and personalized shopping experience for consumers.[4] The key idea of this theory is to shift from a channel-centric to a consumer-centric model, breaking down barriers between channels and integrating products, memberships, services, and data.[5] This theory defines the specific direction of IKEA’s New Retail transformation: meeting consumer shopping needs anytime, anywhere, and through their preferred method by deeply integrating online and offline channels. This goal requires significant changes to the company’s IT systems, supply chain, organizational structure, and performance measurement metrics.

2.2. Construction of the Financial Performance Analytical Framework

To assess the overall impact of the New Retail transformation on IKEA’s financial performance, this study follows established corporate financial analysis and valuation methods. A multi-dimensional analytical framework is created, focusing on three core competency dimensions. Nine key financial indicators are selected for measurement.

2.2.1. Profitability Dimension

Profitability is a key factor for a company's survival and growth. It shows how efficiently a company turns its strategic investments into economic returns. This dimension uses the following indicators:

1) Gross Profit Margin: Shows the product's pricing power and the effectiveness of direct cost control.

2) Operating Profit Margin: Measures the profit from the company's core operations over a period, excluding non-recurring items.

3) Cost-to-Income Ratio: Indicates the return generated from all costs and expenses, reflecting internal management efficiency and cost control.

2.2.2. Operational Efficiency Dimension

Operational efficiency measures how well a company manages its assets and how quickly it can turn over capital. It is a key indicator of the effectiveness of operational optimization under the New Retail model. This dimension includes the following indicators:

1) Inventory Turnover Ratio: Indicates how efficiently inventory is managed. A higher ratio suggests better sales performance and lower inventory holding costs.

2) Accounts Receivable Turnover Ratio: Measures how efficiently the company collects credit sales, affecting capital utilization and the risk of bad debts.

3) Fixed Asset Turnover Ratio: Assesses how effectively fixed assets are used to generate revenue. This ratio is particularly relevant for companies with asset-light strategies.

2.2.3. Growth Capability Dimension

Growth capability focuses on a company's future growth potential and its ability to expand in the market. It is a key indicator for assessing whether the transformation has provided the company with sustainable momentum for growth. This dimension includes the following indicators:

1) Revenue Growth Rate: Measures the company's ability to expand in the market and the overall pace of business growth.

2) Operating Profit Growth Rate: Reflects the growth trend of corporate profits, offering a more meaningful measure of growth quality than revenue growth alone.

3) Capital Accumulation Rate: Indicates the company's inherent growth capacity, highlighting its long-term development potential and ability to withstand risks.

The design of this financial framework aims to provide a comprehensive view of the financial outcomes from the New Retail transformation. It does so by analyzing static performance, dynamic efficiency, and long-term potential, thereby avoiding the bias of relying on a single metric.

3. Case Description of IKEA's New Retail Transformation

3.1. Company Profile and Development History

IKEA, founded in 1943 by Ingvar Kamprad in Sweden, has grown over nearly eight decades into a global leader in the furniture and home furnishings retail industry. Its core philosophy, "to create a better everyday life for the many people," is achieved through offering home furnishings that are well-designed, functional, and affordable. IKEA's business model is built on several key elements: in-house design, flat-pack packaging to reduce transportation and storage costs, a global sourcing system, self-service shopping in large suburban stores, and a strong brand culture.

By 2022, IKEA operated in numerous countries and regions, with hundreds of stores worldwide and annual sales exceeding €40 billion [6]. In China, IKEA has become a well-known and preferred home furnishings brand since opening its first store in Shanghai in 1998. However, as China's e-commerce market matured and consumer habits became increasingly digital, IKEA's traditional business model, reliant on large suburban stores, began facing significant challenges. This prompted the company's strategic shift towards a New Retail transformation.

3.2. Drivers of the New Retail Transformation

The drivers of IKEA's transformation are multifaceted, shaped by both external pressures and internal development needs.

3.2.1. Macro-Environmental Drivers

First, global economic growth and consumption upgrading have raised consumer expectations for both the shopping experience and product quality in the home furnishings sector. Second, advances in digital technologies, including the growth of mobile internet, big data, and artificial intelligence, have enabled the technical feasibility of New Retail. Additionally, the COVID-19 pandemic, which began in 2020, acted as a major catalyst. It changed consumer shopping behaviors, leading to a sharp decline in offline foot traffic and making online shopping and contactless delivery essential. As a result, IKEA was forced to speed up the expansion of its online channels and enhance its digital services.

3.2.2. Industry Competition Drivers

Competition in the home furnishings retail industry has increased. Online-native brands, such as Wayfair, and large e-commerce platforms, like Tmall and JD.com, continue to capture market share by leveraging their traffic advantages and convenience. At the same time, traditional competitors are adopting digital strategies. This competitive environment requires IKEA to develop omni-channel capabilities to prevent customer loss and market share decline.

3.2.3. Internal Corporate Drivers

Internally, IKEA's original business model proved inefficient in adapting to the rapidly changing market. Large suburban stores require substantial investment and have long payback periods, which makes it difficult to quickly expand into urban centers. At the same time, relying solely on offline channels could no longer meet consumers' demand for anytime, anywhere shopping. The company's focus on business growth, operational efficiency, and risk diversification is the key internal driver for its transformation.

3.3. Core Strategic Components of the New Retail Transformation

IKEA's New Retail transformation is not a series of isolated tactical changes, but a coordinated set of strategies that fully reflect the core principles of omni-channel retailing. Its key components can be summarized in the following three main strategies.

3.3.1. Comprehensive Digital Transformation

IKEA has made digitalization a core driver in its comprehensive transformation, integrating it into the entire marketing, sales, and service processes.[7] By using big data analytics to analyze consumers' online behavior and offline purchasing patterns, the company creates detailed user profiles. This allows for targeted advertising and personalized product recommendations, significantly improving marketing efficiency.

Regarding the shopping experience, IKEA has integrated Augmented Reality (AR) and Virtual Reality (VR) technologies. For instance, through apps like "IKEA Place," customers can use their smartphone cameras to project virtual furniture into their homes, enabling them to visualize how products will look in their space. This approach reduces purchase uncertainty and increases interactivity, reflecting IKEA's strategy of enhancing customer value through technology.

In operations and management, IKEA improves its warehouse and logistics systems by adopting automated equipment and Internet of Things (IoT) technologies. The company also uses artificial intelligence to create a 24/7 online customer service system, consistently enhancing operational efficiency and service quality.

3.3.2. Restructuring the Omni-channel Sales Network

IKEA aimed to transform its previous single-channel model, which relied on large suburban stores, by creating an integrated online-to-offline (O2O) omni-channel sales network. For online channels, the company developed its own e-commerce platform while also establishing a presence on popular third-party platforms like Tmall to reach a wider consumer base. This effort was supported by both centralized and smaller-scale logistics centers. By optimizing “last-mile” delivery, partly through partnerships with specialized third-party logistics providers, IKEA improved its distribution efficiency and coverage [8].

For offline channels, IKEA restructured its physical store network, shifting focus from large suburban stores to opening new-format urban locations, including smaller city-center outlets and planning studios. These new venues prioritize product displays, experiential consulting, and fulfilling online orders, rather than traditional warehousing functions. The goal is to bring the stores closer to consumers and provide convenient offline touchpoints.

The core of this omni-channel strategy is the integration of scenarios like “Buy Online, Pick Up/Return In-Store” and “Experience Offline, Purchase Online.” This strategy aims to optimize the structure and efficiency of the retail network, offering better coverage for diverse customer segments and improving overall asset efficiency. The effects of this transformation can be seen in changes to the fixed asset turnover ratio.

3.3.3. Deepening Experiential Marketing

IKEA has strengthened its core strength in experiential marketing, elevating it to a new strategic level. In terms of showroom settings, the company continues to refine its signature display model, focusing more on lifestyle interpretation and catering to local needs. Designers carefully combine and arrange products based on the specific needs of different customer segments (e.g. small apartments, multi-generational households), creating authentic home atmospheres that stimulate emotional connections and increase the desire to purchase.

At the same time, IKEA expands cross-sector collaborations and scenario extensions. For example, partnerships with hotel and apartment brands such as Huazhu and Ziroom allow products to be integrated into real living environments. This approach lets consumers experience the products in everyday contexts. The “try before you buy” model builds brand trust.[9]

Additionally, by integrating online and offline consumption data through a comprehensive membership program, IKEA offers exclusive benefits, design inspiration, and event invitations to its members. The creation of consumer communities enhances user loyalty, promoting repeat purchases and word-of-mouth recommendations.[10] This strategy of fostering emotional connections and delivering an exceptional customer experience is a key way to build a sustainable competitive advantage, supported by strategic marketing research.

4. Impact Analysis of the New Retail Transformation on IKEA’s Financial Performance

This chapter analyzes the impact of the New Retail transformation on IKEA's financial performance, focusing on three areas: profitability, operational capability, and growth capability. The analysis is based on IKEA’s financial data from 2016 to 2021, using the established financial performance framework.

Note: In 2016, IKEA changed its fiscal year-end from December 31st to August 31st to better align with its business cycle. As a result, the 2016 financial statements cover the period from January 1, 2016, to August 31, 2016, lasting eight months. All references to IKEA’s 2016 data in the analysis are based on this eight-month period.

4.1. Impact on Profitability

Profitability represents the core of corporate value. The New Retail transformation has affected IKEA's profit performance through dual channels: revenue enhancement and changes in the cost structure.

4.1.1. Gross Profit Margin Analysis

The gross profit margin reflects the pricing power of a company's products and its direct cost control capabilities. Data indicates that IKEA's gross profit margin remained relatively stable between 2016 and 2021, fluctuating narrowly within the range of 16% to 19%. This suggests that the New Retail transformation did not significantly enhance the direct premium pricing capability of its products in the short term. While the expansion of online channels contributed incremental revenue, the intense competition in the online space may have limited distinct pricing advantages. Concurrently, volatility in global raw material prices and rising supply chain costs likely offset potential improvements in production efficiency. Overall, the direct impact of the transformation on the gross profit margin appears neutral, maintaining the existing profit margin but failing to expand it effectively. The stability of this margin over the study period is clearly depicted in Fig.1.[12]

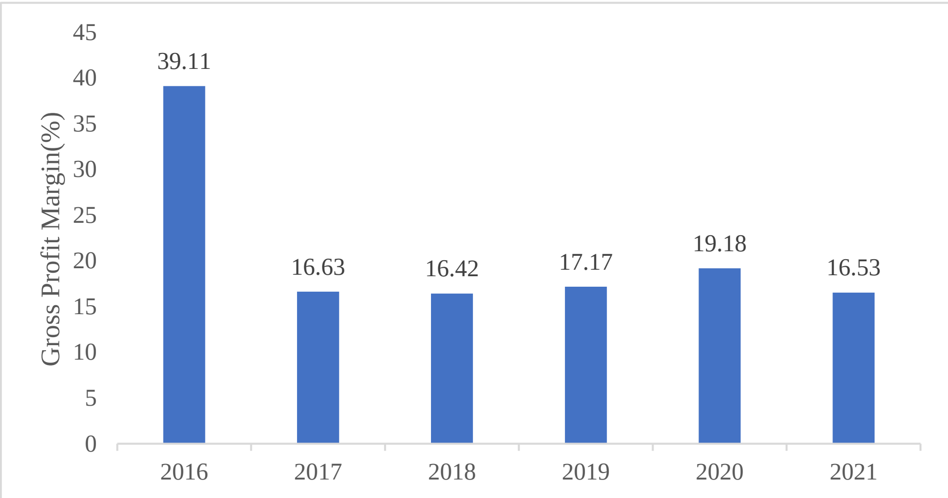

Figure 1. Gross Profit Margin Analysis

4.1.2. Operating Profit Margin Analysis

The operating profit margin provides a clearer picture of the profitability of a company's core business operations. IKEA's operating profit margin remained stable during the initial phase of its transformation (2018-2019), followed by a slight peak in 2020. This peak was linked to a significant increase in online sales and temporary reductions in the operational costs of physical stores during the pandemic, such as rent, utilities, and labor. The deeper focus on experiential marketing also contributed to the profit growth by improving conversion rates and average transaction value.

However, the operating profit margin declined in 2021. This decline was primarily driven by two factors. First, the ongoing costs of supporting digital transformation and omni-channel operations—including technology R&D, system maintenance, and logistics expenses—became more apparent, leading to a structural rise in operating expenses. This reflects the common trend of IT investments aimed at building long-term competitiveness during digital transformation. Second, global supply chain disruptions and rising raw material prices further reduced profit margins. This pattern indicates that while revenue growth driven by the transformation initially helped offset the new costs, maintaining cost control over the long term is a significant challenge. The fluctuation in operating profitability throughout the transformation phase are captured in Fig.2.[12]

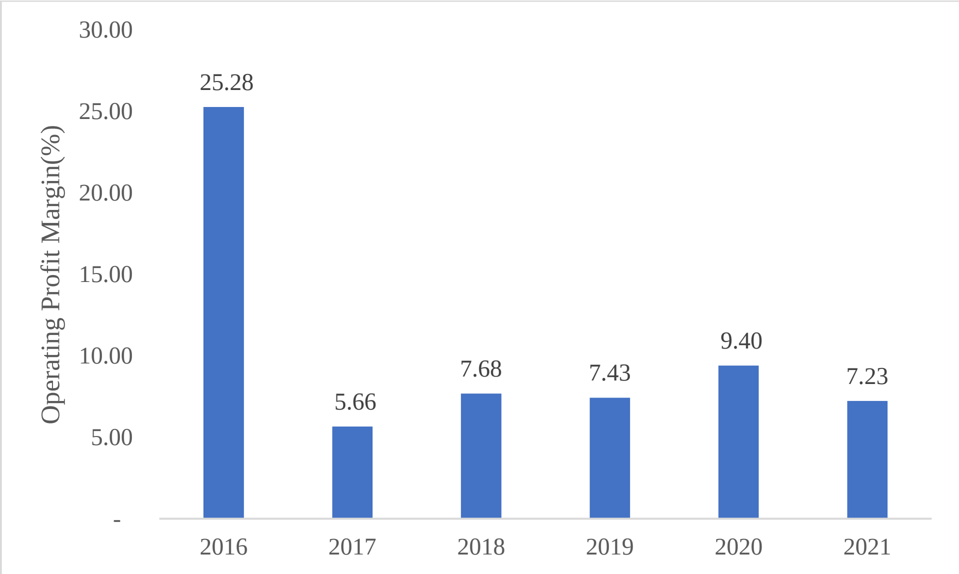

Figure 2. Operating Profit Margin Analysis

4.1.3. Cost-to-Income Ratio Analysis

The Cost-to-Income Ratio reflects the total cost an enterprise incurs to generate profits. IKEA's ratio showed a steady increase from 2017 to 2020 but declined sharply in 2021. This pattern closely mirrors changes in net profit. The improvement between 2019 and 2020 was partly due to the New Retail model, which directed online traffic to offline stores, reducing customer acquisition costs to some extent. At the same time, organizational optimization and position adjustments at the end of 2018 also led to a temporary reduction in administrative expenses.

However, the sharp drop in net profit in 2021 directly caused the deterioration of this ratio. When compared to peers like The Home Depot, IKEA's Cost-to-Income Ratio has consistently been lower, suggesting that its operational costs—including those related to its store network, global supply chain, and ongoing transformation—are relatively high. While the New Retail model reduced costs and improved efficiency in some areas, it has not yet reversed the overall disadvantage in cost control. This indicates that although the strategic investments in transformation are essential for long-term competitiveness, they place significant pressure on short-to-medium-term profitability. The trajectory of this ratio, particularly its sharp decline in 2021, is illustrated in Fig.3.[12]

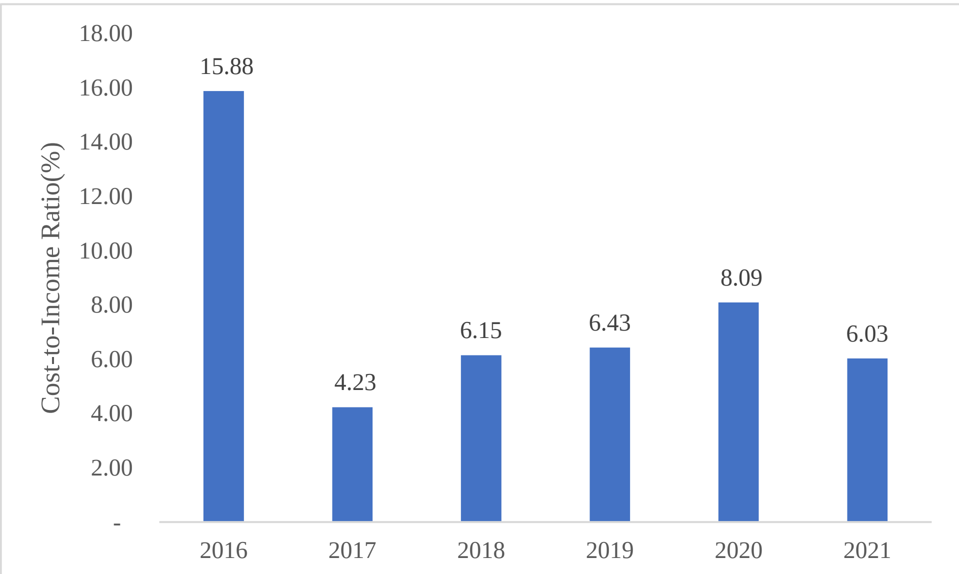

Figure 3. Cost-to-Income Ratio Analysis

4.2. Impact on Operational Capability

Operational capability is an essential factor for evaluating the effectiveness of operational optimization under the New Retail model.

4.2.1. Inventory Turnover Ratio Analysis

The Inventory Turnover Ratio is a key metric for assessing supply chain responsiveness and inventory management efficiency. Over time, IKEA's Inventory Turnover Ratio showed an initial decline, followed by recovery and then fluctuation after implementing its New Retail transformation. The decline in 2019 may be linked to stockpiling for the newly launched online platform and poor supply chain coordination during the early transformation stages. From 2020 to 2021, as big data forecasting and intelligent warehousing systems were gradually adopted, the ratio began to recover, showing the positive effects of digital transformation on inventory management.

However, in late 2021, the ratio declined again, mainly due to global supply chain disruptions caused by the pandemic, shipping inefficiencies, and production plan interruptions. Compared to competitors known for efficient supply chains, such as The Home Depot, IKEA's Inventory Turnover Ratio remains significantly lower. This indicates there is considerable potential for improvement in developing a data-driven supply chain system that can achieve accurate forecasting and quick responses. The volatile trend of the inventory turnover ratio can be observed in Fig.4.[12]

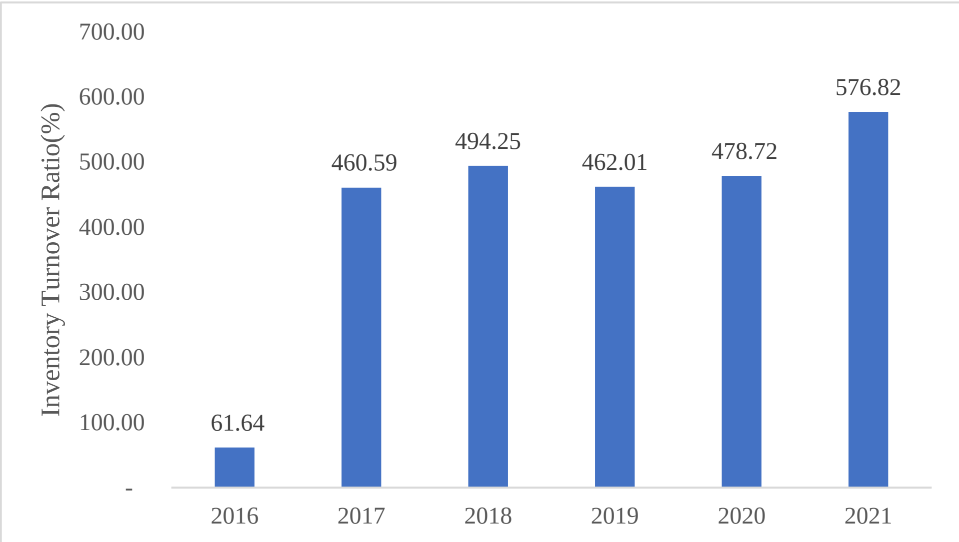

Figure 4. Inventory Turnover Ratio Analysis

4.2.2. Accounts Receivable Turnover Ratio Analysis

The Accounts Receivable Turnover Ratio measures the efficiency of a company's fund recovery and the risk associated with its credit policy. During IKEA's transformation, a concerning trend emerged: its accounts receivable balance increased, while the turnover ratio significantly declined. This suggests that, amid intense omni-channel competition, IKEA likely relaxed its credit policies and adopted more aggressive sales tactics on credit to boost sales and market share. Although big data analytics expanded sales channels, the accompanying risk management and collection efforts for accounts receivable lagged behind. As a result, substantial capital was tied up, and collection speed slowed. Compared to industry benchmarks, IKEA's Accounts Receivable Turnover Ratio shows a significant gap. This issue goes beyond operational efficiency and points to a potential financial risk, requiring increased managerial attention. A visual representation of this declining efficiency in receivables collection is provided in Fig.5.[12]

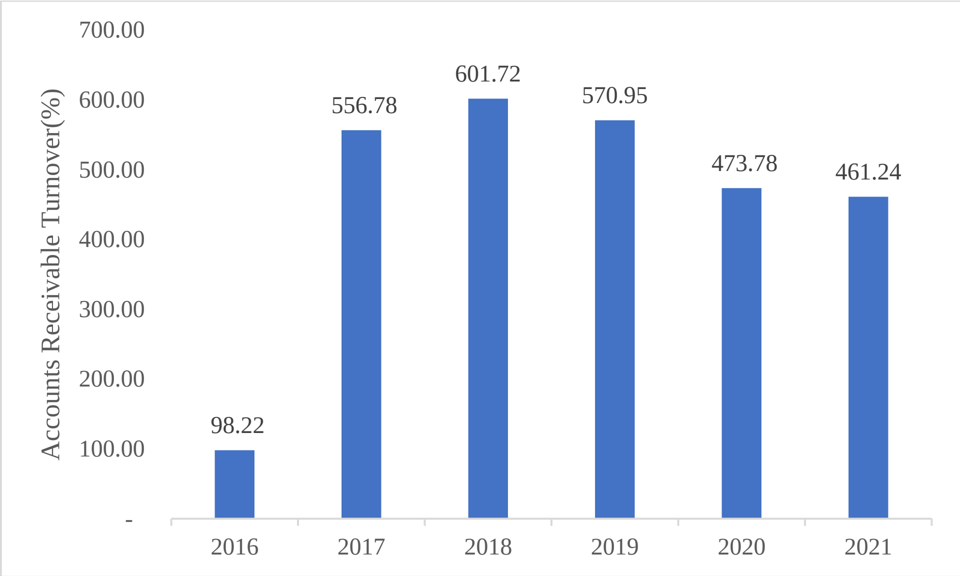

Figure 5. Accounts Receivable Turnover Analysis

4.2.3. Fixed Asset Turnover Ratio Analysis

The Fixed Asset Turnover Ratio measures the efficiency of using long-term assets to generate revenue. IKEA's ratio remained high, around 200%, throughout the observation period and showed improvement in the later stages of its New Retail transformation. This performance can be mainly attributed to its "asset-light" strategy. Notably, the company chose to lease (instead of purchase) properties for smaller city-center stores and planning studios, reducing capital expenditure for new store expansion. At the same time, retrofitting large-format stores to serve as fulfillment centers for online orders also increased the efficiency of fixed asset utilization. This shows that IKEA's asset allocation strategy during its transition to an omni-channel model has been effective, leading to better asset operational efficiency. The consistently high and improving performance in this area is shown in Fig.6.[12]

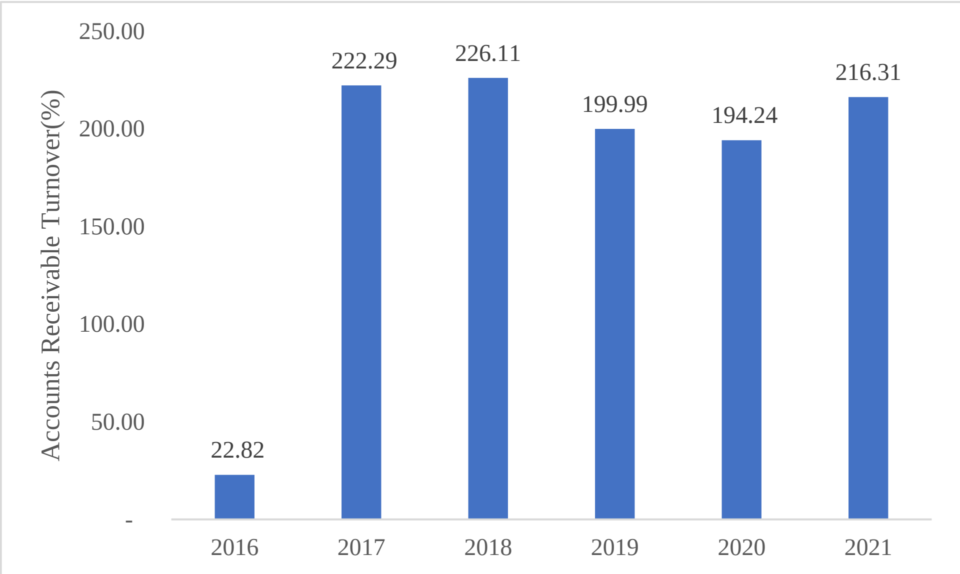

Figure 6. Accounts Receivable Turnover Analysis

4.3. Impact on Growth Capability

Growth capability refers to a company's potential for future growth and sustainability.

4.3.1. Revenue Growth Rate Analysis

The Revenue Growth Rate reflects a company's market expansion ability. IKEA's Revenue Growth Rate peaked in 2018, during the early phase of its transformation, driven by the launch of its omni-channel strategy and the boost from enhanced experiential marketing. However, the growth rate later slowed and turned negative in 2019 and 2020. This shows that the growth benefits from the early stages of the transformation were short-lived. The decline in growth can be attributed to the impact of global pandemic-related store closures, as offline revenue still made up 71% of total revenue. Additionally, it suggests that the New Retail model has not yet built a sufficiently strong competitive advantage to sustain high growth. In contrast to some online-native brands that have grown rapidly through digitalization, IKEA's transformation and growth trajectory, as a traditional company, appear more gradual and volatile. The trend of revenue growth rate, including its peak and subsequent decline, is presented in Fig.7.[12]

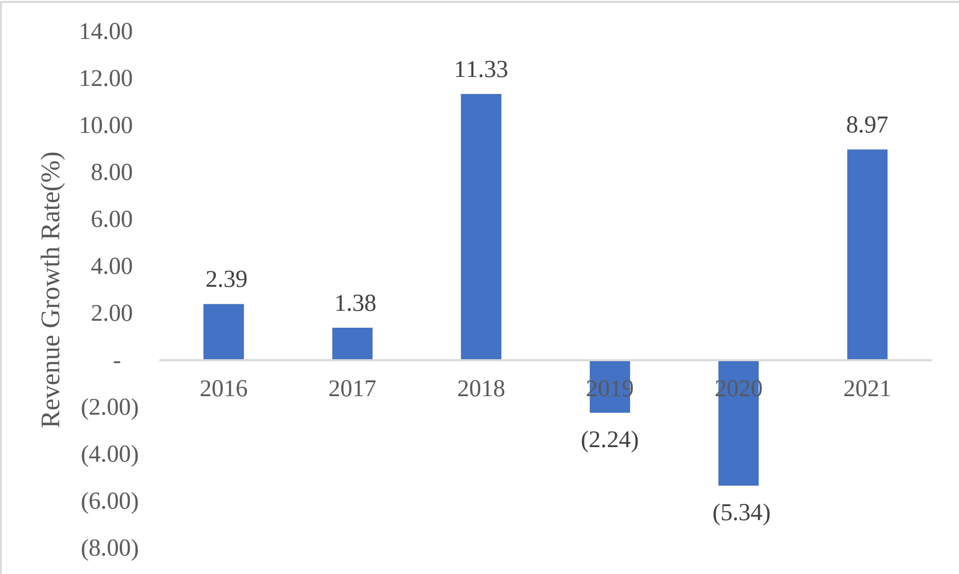

Figure 7. Revenue Growth Rate Analysis

4.3.2. Operating Profit Growth Rate Analysis

Operating Profit Growth Rate is the ratio of the increase in a company's operating profit in the current year to the total operating profit of the previous year. This metric reflects the change in operating profit. A higher growth rate indicates that the company has generated more profit from product sales, suggesting an improvement in operational efficiency. Therefore, the operating profit growth rate is an important indicator for evaluating a company's profitability and operational performance.

It peaked in 2018, reflecting early efficiency gains from the transformation, but declined sharply in the following years, even turning negative in 2019 and 2021. This fluctuating trend highlights the resource allocation trade-offs and profitability challenges associated with building and utilizing "dynamic capabilities" during a significant strategic shift.[11] On one hand, substantial investments are needed to develop new digital capabilities; on the other hand, external disruptions constantly undermine the profit base of the existing business. The combined effect of these internal and external pressures led to highly unstable growth in operating profit, emphasizing the considerable short-term financial costs of the transformation. This high volatility is clearly demonstrated by the data in Fig.8.[12]

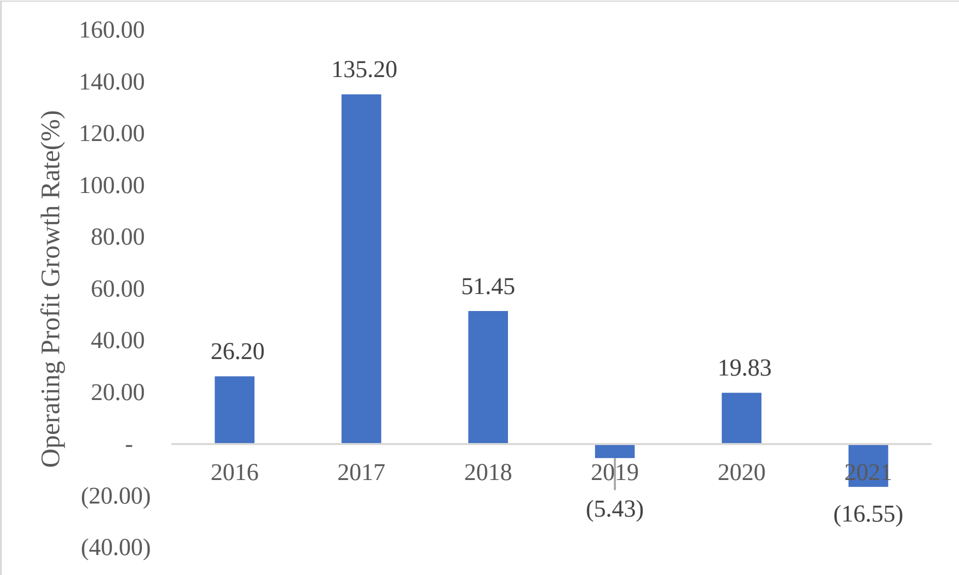

Figure 8. Operating Profit Growth Rate Analysis

4.3.3. Capital Accumulation Rate Analysis

The Capital Accumulation Rate measures a company's ability to expand its capital and accumulate resources, reflecting its risk resilience and growth potential. IKEA's Capital Accumulation Rate peaked in 2018, coinciding with the start of its transformation. This was directly related to the significant operating profit growth during that period. Afterward, the ratio steadily declined, reaching a low point by 2021. This trend suggests that ongoing transformation investments and profit declines from external shocks have reduced the company's capital reserves, limiting the growth of its internal capital. Sufficient capital accumulation is essential for long-term technological innovation. If this trend continues, it may limit IKEA's ability to reinvest and build capabilities in the future. The declining trend of the capital accumulation rate is revealed in Fig.9.[12]

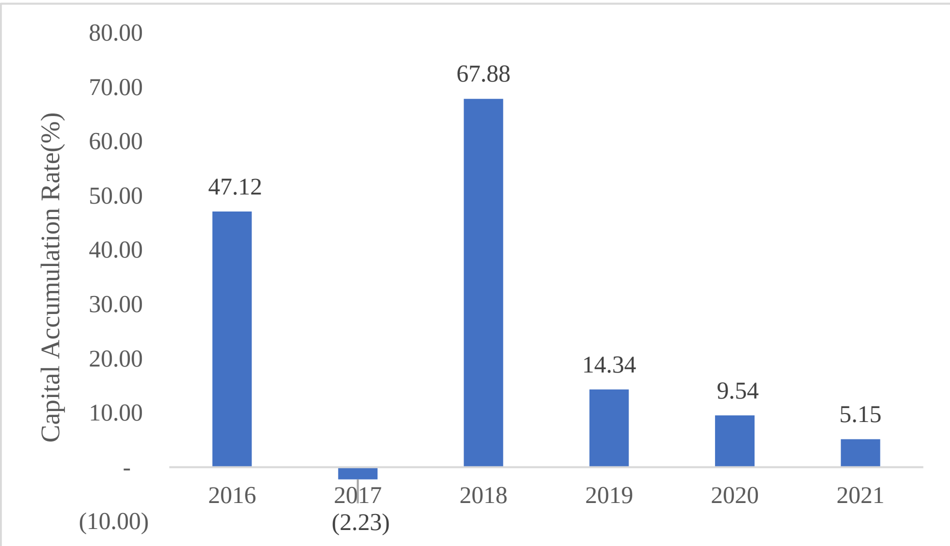

Figure 9. Capital Accumulation Rate Analysis

In conclusion, the impact of the New Retail transformation on IKEA's financial performance is both complex and multifaceted. It has led to improvements in asset efficiency and the exploration of new revenue streams. However, it has also exposed weaknesses in cost control, working capital management, and resilience to external shocks. This "dual nature" of the impact clearly illustrates the financial challenges faced by a traditional retailer undergoing self-reinvention in a disruptive environment.

5. Summary

Based on a case study of IKEA's New Retail transformation from 2016 to 2021, this paper presents three main conclusions. First, the New Retail transformation is essential for IKEA to address challenges in the digital era. Its digital transformation, omni-channel restructuring, and enhanced experiential marketing have improved market responsiveness and diversified revenue. However, the process also reveals a dual impact on financial performance: while online growth and brand strengthening offer opportunities, technology investments, credit sales policies, and supply chain vulnerabilities contribute to rising costs, increased financial pressure, and profit instability. Second, from the perspective of long-term dynamic capabilities, IKEA's transformation is still in the "investment phase" and facing "growing pains".This highlights the difficulty of achieving comprehensive digital reinvention for traditional retail giants. Based on these findings, the study recommends several strategies: in business models, a shift from "scale-oriented" to "lean and agile" operations is necessary, with a focus on enhancing value through deeper experiential economy, optimized technology returns, and a more resilient supply chain; in financial management, strengthening working capital control, implementing strategic cost optimization, and establishing a dynamic performance monitoring system are key; at the organizational level, flatter structures, the introduction of digital talent, and incentive mechanism reforms are needed to revitalize the organization. Finally, as a single-case study, this research has limitations in terms of generalizability. Future studies could explore the theory and practice of New Retail transformation through multi-case comparisons, long-term tracking, and big data methodologies.

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