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9B18A001

DMart: Disrupting Food Retailing[[1]](#endnote-1)

Rakhi Thakur wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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Avenue Supermarts Limited, the company that operated hypermarket and supermarket retail chain DMart, was the first Indian retailer to cross the billion-dollar mark profitably.[[2]](#endnote-2) With revenue of ₹86 billion in fiscal year 2016–17,[[3]](#endnote-3) DMart was the second-largest grocery retailer in the country.[[4]](#endnote-4) The company went public by offering 10 per cent of its equity stake in March 2017. The initial public offering created a buzz in the Indian market and was oversubscribed 105 times.[[5]](#endnote-5) The stocks were listed at 102 per cent premium over the issue price.[[6]](#endnote-6) Overnight, the founder and promoter of the company, Radhakishan K. Damani, was among the richest people in the country with a net worth of ₹340 billion.[[7]](#endnote-7) The company stocks continued to appreciate in the market and by April 10, 2017, the stocks were trading at approximately ₹780 per share—up 161 per cent from the offer price, making it the world’s most expensive retail stock.[[8]](#endnote-8) The company had a market capitalization of approximately ₹4 trillion, which was higher than that of several large Indian companies, including Tata Motors Limited and Idea Cellular.

The stellar performance of the company to that point had resulted from conservative operations, following a limited number of formats and in restricted geographies. The company had been operating a limited number of stores in only the western and southern parts of the country.[[9]](#endnote-9) As a listed company, DMart might face pressure to expand into newer geographies and to adopt modern formats such as an online format. Would the company be able to meet the challenges that came with exploring these dimensions? What strategies would the company need to adopt as it considered newer formats and unexplored geographies?

Retailing in India

India was the second most populous country in the world. The retail sector was one of the largest sectors of India’s economy, having grown at a compound rate of approximately 12 per cent from 2010 to 2016. The Indian retail industry grew from ₹22 trillion in fiscal year (FY) 2010–11 to ₹39 trillion in FY2015–16,[[10]](#endnote-10) and was expected to reach ₹97 trillion by FY2021–22 (see Exhibit 1).[[11]](#endnote-11) Studies have shown that retail in India accounted for about 10 per cent of the country’s gross domestic product and 8 per cent of employment.[[12]](#endnote-12) However, the industry was fragmented, with a large unorganized sector comprising “mom-and-pop” stores.[[13]](#endnote-13) Organized retail, which included corporate-owned department stores, shopping malls, supermarkets, and hypermarkets, was concentrated in urban areas, where approximately 30 per cent of India’s 1.21 billion people lived. Although organized retail accounted for 70 per cent of India’s gross domestic product, it formed only 8.3 per cent of the country’s total retail business in FY2015–16; it was forecasted to grow to 12 per cent of the overall retail marketby FY2020–21.[[14]](#endnote-14) The growth of this sector was driven by growth in the Indian economy, a rising middle class, increases in disposable income, evolving consumer trends, changing lifestyles, and increasing levels of urbanization.

The Indian retail industry was attractive to investors, and government regulations were gradually being liberalized for global retailers. Under its foreign direct investment policy, the government approved foreign direct investment of up to 51 per cent in multi-brand retail and up to 100 per cent in single-brand retail in 2012. Local sourcing norms were also being relaxed, making entry into the Indian market more attractive for global players.[[15]](#endnote-15) Several global retailers, including Walmart, Tesco PLC (Tesco), Metro Inc., and Marks and Spencer PLC, had already entered the Indian retail space by fostering partnerships with local partners.

Food Retailing in India

The food and grocery vertical included the retailing of fresh fruits and vegetables, dairy products, poultry and seafood, staples, cereals, processed foods, ready-to-eat meals, spices, and other edible products. The Indian food retailing sector was worth approximately ₹22 trillion in FY2016–17 and was growing at a compound annual growth rate of 10 per cent.12 Despite its large size, this sector was dominated by unorganized entities including mom-and-pop stores, cart vendors, paanshops, and wet markets. Unorganized players had lower overhead (as they were either self-owned or self-managed) and thus competed fiercely with organized players by offering customers conveniences such as home delivery, credit, and favourable locations. The organized food and grocery segment, also called modern trade, accounted for less than 3 per cent of total food and grocery retail market size in India, with unorganized players or general trade dominating the market.[[16]](#endnote-16) Although organized retail in the food and grocery segment was gradually increasing, it was mainly confined to metropolitan areas, mini-metropolitan areas, and Tier 1 cities. The segment, however, was forecasted to grow by 25 per cent in a year in FY2017–18, driven by new store additions by leading players in Tier 2 and Tier 3 cities.[[17]](#endnote-17)

The dominance of unorganized players in Indian food retailing was driven by the shopping and consumption practices of Indian customers, who had a strong preference for fresh produce, leading to frequent food purchases. On average, fresh produce purchases were made three times per week from cart vendors. Convenience of location was an important consideration for consumers—staple items were often purchased from nearby stores that offered home delivery. Less than 10 per cent of the population owned a vehicle, so very few drove to do their shopping. Approximately 95 per cent of customers visited a store within a 3- to 5-kilometre radius of their homes.15 Shopping for household requirements was done on a weekly rather than a monthly basis, which made the neighbourhood mom-and-pop store a preferred shopping choice.

India was often referred to as a subcontinent, and not just a country, which was strongly reflected in the nation’s food preferences, with each of the country’s 29 states having its own cuisine. In fact, even within a state, wide variations were found in tastes, eating habits, and use of cooking ingredients. Most food brands were, therefore, regional rather than national.14 To meet the diverse needs of customers, grocery stores across the country offered a varied merchandise mix, which made local stores and local chains more successful than national chains. Despite these differences, Indian customers, like customers in other parts of the world, were strongly inclined toward the concept of value for money, which prevailed across all demographics and all income segments, and served as a benchmark of customer satisfaction.[[18]](#endnote-18)

Modern trade or organized retail, however, was quickly gaining acceptance among customers in urban areas. This growth was driven mainly by the increasing number of metropolitan consumers who wanted to shop for all of their grocery requirements under one roof. These customers were also inclined toward modern trade, due to the large assortment of merchandise offered, including global merchandise.[[19]](#endnote-19) As customers in India had a strong preference for fresh produce, many organized retailers tried to meet this desire by procuring directly from farms, thereby shortening the supply chain. Many retailers offered value-added products such as cut vegetables and freshly made batter to attract busy, health-conscious customers. As customers preferred stores located close to their homes, players Reliance Retail Limited (Reliance Retail) and Aditya Birla Retail Limited (Aditya Birla Retail) had started neighbourhood store formats under the names “Reliance Fresh” and “more,” respectively, to meet customers’ needs for location convenience. Some of the large retailers, such as Star Hyper and Godrej’s Nature Basket, had started home delivery service at select locations to address the challenge of transportation.

Many modern trade retailers had introduced private labels (brands owned and sold by retailers exclusively at their stores) that were priced lower (by 5–15 per cent) than the existing national brands in the same category.[[20]](#endnote-20) Some retailers had also introduced exclusive private-label products in categories where national brands did not have a strong offering. These private labels were able to offer higher profitability and distinction than the brands offered by the competition. While the phenomenon of private labels in the food and grocery segment was prominent in developed countries, it was a relatively novel concept in India.

Key Organized Players

The Indian food and grocery retail market had several players, some of which were owned by large corporate houses that had diverse interests. Some of the key players in this space included Aditya Birla Retail, DMart, Future Retail Limited (Future Retail), Reliance Retail, and Spencer’s Retail Limited (Spencer’s Retail) (see Exhibit 2). Shoppers Stop Limited (Shoppers Stop) and Trent Hypermarkets (Trent), which had established department store chains in the country, had also forayed into the grocery retail segment.

Aditya Birla Retail[[21]](#endnote-21)

Aditya Birla Retail was the retail arm of the $41 billion Aditya Birla Group that operated across manufacturing, financial services, information technology, telecommunications, and fashion and lifestyle brands.[[22]](#endnote-22) The company ventured into food and grocery retail in 2007 through the acquisition of Trinethra Super Retail and subsequently expanded its presence nationally across supermarkets and hypermarkets under the brand “more.” Approximately 500 supermarkets operated under the “more” brand name, and 20 hypermarkets under, “More Megastore.” While supermarkets offered fresh fruits and vegetables, groceries, personal care, home care, and general merchandise, hypermarkets sold a large range of products including apparel, consumer durables, and information technology goods.

Future Retail Limited[[23]](#endnote-23)

Future Retail was the retail arm of Future Group.[[24]](#endnote-24) The company started its operations as Manz Wear Pvt. Ltd. in the 1990s, dealing in manufacturing and trading fabric for men’s clothing. By 2016, the company had operations in several retail formats, including department stores, hypermarkets, supermarkets, and specialty stores for electronics and home furnishings and decor. The company operated several national chains including Big Bazaar (hypermarkets), Easyday (supermarkets), Hometown Furniture Co. Inc. (home furnishing and decor), Ezone Electronics, fbb (supermarkets), and Foodhall (premium supermarkets) stores. Future Retail had developed some of these chains, while others had come into the company portfolio through inorganic growth. Food and grocery retailing was the focus area for the company, and to strengthen its position in that space it had acquired regional food chains Heritage Foods Limited and Nilgiris in 2016.[[25]](#endnote-25)

Reliance Retail Limited[[26]](#endnote-26)

Reliance Retail was a subsidiary of leading Indian corporation Reliance Industries, which operated in petrochemicals, retailing, and telecommunications.[[27]](#endnote-27) Reliance Retail started its operations in 2006 and had several retail chains across different categories. In 2016, Reliance Retail had 500 supermarkets across 80 cities under the brand name Reliance Fresh, selling fresh fruits and vegetables, dairy products, groceries, and fast-moving consumer goods. The company also operated a chain of cash-and-carry (wholesale) stores under the brand name Reliance Market, which catered to the requirements of hotels, restaurants, and caterers with 40 stores across the country.

Spencer’s Retail Limited[[28]](#endnote-28)

Spencer’s Retail was one of the earliest entrants to the retail space in India, launching the first hypermarket in India in Hyderabad in 2000.[[29]](#endnote-29) The company operated stores under two brand names—Spencer’s Retail (supermarkets) and Spencer’s Hyper Store (hypermarkets). In 2016, the company operated 120 stores in the country, including 37 hypermarkets across 35 cities. Spencer’s Retail sold food, groceries, fast-moving consumer goods, and fresh produce, while Spencer’s Hyper Store offered a wider assortment of products including electronics, home and office essentials, apparel and fashion accessories, and toys. Large Spencer’s Retail stores had speciality sections that included gourmet food, an in-store bakery, and wine and liquor counters.

Shoppers Stop limited[[30]](#endnote-30)

Shoppers Stop was part of real estate company K Raheja Group, which forayed into the retail business in 1991 by opening Shoppers Stop, a leading department store in Mumbai.[[31]](#endnote-31) The company entered the food and grocery segment by establishing its hypermarket, HyperCITY, in 2006. HyperCITY offered a range of products across such categories as food and grocery, fashion, electronics, home furnishings, sports, toys, and stationery. HyperCITY was positioned as an upscale hypermarket to provide an international shopping experience in a large, modern, and exciting environment. It sourced its merchandise from both local and international markets. HyperCITY had an exclusive supply agreement with Waitrose, a top supermarket chain in the United Kingdom, for sourcing global merchandise. By 2016, the company had 17 stores across nine cities in India.

Trent Hypermarkets[[32]](#endnote-32)

Trent was part of the Tata Group, an Indian business conglomerate with revenues of $103.51 billion in 2016.[[33]](#endnote-33) The Tata Group entered retailing in 1998 by setting up Trent through the acquisition of the Indian operations of U.K.-based Littlewoods department store. Trent ventured into the hypermarket segment in 2004 with Star Bazaar. Starting with its first store in 2004 in Ahmedabad, by 2016, the Star brand had 26 stores under the banners Star Daily, Star Market, and Star Hyper. Star Bazaar differentiated itself from other food retailers by offering fresh foods sourced directly from farmers, wheat grinding, an in-store bakery, and by launching store brands in popular categories such as food staples. Star Bazaar opened stores only in urban centres in Western and Southern India. In 2008, Trent entered into an exclusive franchise relationship with British giant Tesco, the world’s third-largest retailer. This relationship gave it access to the retail and technical expertise of Tesco to provide customers with a world class shopping experience.[[34]](#endnote-34)

DMart

DMart, the chain of hypermarkets owned by Avenue Supermarkets Limited, started its journey in 2002 by opening a small supermarket in Powai (a middle-class suburb in Mumbai).[[35]](#endnote-35) The store’s operational strategies were built from the ground up, based on observations of shoppers at local supermarkets and co-operative stores. These insights helped the company gain an in-depth understanding of what shoppers did and did not buy, and ultimately led to DMart’s guiding philosophy to “Give them what they want.”

DMart observed that Indian customers who shopped at air-conditioned stores did not have a tight budget for meeting their family’s grocery needs. However, mass-affluent customers shopping at supermarkets also wanted to save money. DMart therefore focused solely on how much the customer saved. DMart’s pricing was designed for customers to save more across every category they shopped. The company believed that if shoppers saved well, they would overlook other flaws in the offering. DMart offered its shoppers the best prices with the conviction that customers would buy more if they saved more and would tell others about DMart—and, therefore, according to Damani, “the company will not need any marketing!”[[36]](#endnote-36) Accordingly, the company’s limited advertising focused only on the savings and value delivered to its customers.

The company worked with low-cost, daily-need products, selling them at prices slightly below the maximum retail price. DMart’s sales mix included food and groceries with some home, apparel, and personal care products sold at competitive prices. The company did not sell premium product categories such as high-end electronics, jewellery, and watches—products that made up to 25 per cent of revenues for the competition.[[37]](#endnote-37) The company also avoided creating private labels or store brands, which were gaining popularity among other retailers, but helped the company keep its operating costs low. DMart worked with limited assortments (i.e., the variety of brands in its stores was limited compared with the variety offered by the competition). This approach enabled fast sell-through at the stores, leading to a good inventory turnover ratio. The quick inventory turnover helped the company to negotiate better prices with wholesalers and brand manufacturers, further enabling it to offer low prices to customers. Most food and grocery products at DMart were sold at prices 6–12 per cent lower than the competition.[[38]](#endnote-38)

DMart worked closely with its suppliers to ensure good relationships, good prices, and timely deliveries. The company often dealt with brand manufacturers directly, thereby attaining better margins.[[39]](#endnote-39) Small assortments ensured higher quantities per stock-keeping unit, which enabled the company to negotiate better prices with suppliers.[[40]](#endnote-40) Quick inventory turnover at the store allowed it to pay suppliers faster, thereby helping the company build better relationships with its suppliers. Relationships with suppliers were important enough for Damani to personally visit wholesalers to develop long-term relationships with them. He often travelled to China to source products at good prices and to build networks.[[41]](#endnote-41)

Shopper research had shown that a well-designed store layout with smart adjacencies and category flows, polite staff, and proper communication led to a better customer experience. However, DMart stores had no frills, were often cheerless, and had a warehouse-like setting. DMart concentrated diligently on the self-service philosophy. Its stores were staffed by simple, hardworking people who ensured fully stocked shelves, clear price communication, efficient checkouts, and not much more in terms of customer service. The simplicity of the shop floor associates, however, was offset by state-of-the-art, global-standard store equipment. The company deployed best-in-class hardware in the stores, including the flooring, shelves, trolleys, and scanners, to improve the store efficiency and offer convenience for shoppers.

From its inception, DMart remained in the supermarket/hypermarket format. While several other retailers in India opened outlets in rapidly growing malls, where consumer spending was highest, DMart never opened a store in a shopping mall. While other retailers experimented with a wide range of formats and geographic locations, DMart stuck to one of two store formats with sizes based on location and shopper density. The chief executive officer of Avenue Supermarts Limited, Neville Noronha, said, “The guiding philosophy was that we will do just this and nothing else right from the beginning. We have stayed committed to it. There is so much opportunity in just doing this.”

Although the business was successful from its inception, it expanded slowly, taking the necessary time to understand its customers, build operational efficiencies, and form relationships with its suppliers. The company cautiously chose new locations for expansion. Until 2014, it had stores in only four Indian states. Despite market capital comparable with that of large consumer goods companies such as Britannia and Marico, DMart remained a regional company with operations concentrated in Western and Southern India.[[42]](#endnote-42) DMart followed a principle of opening 75 per cent of its new stores in states or markets that had existing DMart stores to keep the risks associated with new market dynamics low. This strategy helped the company to maintain both control of its costs and its connection with customers. With such a focused approach to locations, product assortments, and value proposition around savings, DMart’s financial performance was far superior to that of its competitors (see Exhibit 4). In its 15 years of operations, the company never closed a store or moved a store. In contrast, competing retailers expanded too quickly across the country and experienced losses as a result of high real estate prices, different customer choices, and heterogeneous market dynamics.

DMart followed a store-ownership model, which allowed it to save on rental costs. By 2017, the company had spent more than ₹23 billion acquiring land and buildings, and it either owned its stores or had them on a 30-year lease. While its largest competitor, Future Retail, spent around 8 per cent on rentals, DMart’s rental costs represented only 0.2 per cent of total expenses (see Exhibit 3). Also, most DMart stores were located in the suburbs of the metropolitan areas and in Tier 2 and Tier 3 cities, which helped the company to keep its operational costs low. The company not only owned and managed its stores but also operated its own distribution centres and packing centres. The stores were opened in close proximity to distribution centres, following a cluster approach, thereby building operational efficiencies. Further, the company invested in employing an efficient logistics and distribution system for its operations.

DMart’s success had stemmed from its regimented approach toward product categories, its operational model, and its geographic locations. However, now being a publicly traded firm, the company would likely face pressure from investors to expand. With expansion, DMart would need to grapple with the heterogeneous market in a country where food tastes, preferences, and buying behaviour changed every 100 kilometres—in that way, India was more like a subcontinent than a country. Globally, in most large markets, the biggest retailer was the discount supermarket; however, in many cases, it was a local player and not a multinational. This situation was recognized as an important success factor by DMart’s competitor, the Future Group, which had accordingly acquired key regional chains, including Easyday, Nilgiris, and Heritage Retail, in different parts of the country. These acquisitions had given the Future Group a strong local presence and deep connections with customers.[[43]](#endnote-43) Other brick-and-mortar players such as HyperCITY, Trent, and Aditya Birla Group were also looking at aggressively expanding into new markets. Online retailers such as Bigbasket.com and Grofers.com were quickly making inroads into the market by offering large assortments and convenience to customers. International e-commerce player Amazon.com was also taking on the grocery segment very aggressively.

DMart’s chief executive officer, Noronha, said the company succeeded because it did “small things repeatedly and consistently.” In time, however, shareholders would pressure the company to expand. With increasing competition, would the company be able to maintain its profitability by keeping the same business model? How would the company handle its expansion as it moved from being a regional player to a national player? How would it handle the threat posed by competition from regional players? How would it deal with customers’ increasing preference for online players who were eyeing a larger share of the retail pie?

EXHIBIT 1: RETAIL INDUSTRY MARKET SIZE in india, 2011–12 to 2012–2022

(in ₹ trillions)

Note: P = projected; ₹ = INR = Indian rupee; ₹1 = US$0.02 on March 31, 2016

Source: Adapted by the case author from CRISIL Research, “Indian Retail Industry to Gain Momentum in 2017–18,” May 5, 2017, accessed June 1, 2017, https://www.crisilresearch.com/.

EXHIBIT 2: KEY PLAYERS IN FOOD RETAIL IN INDIA, 2013–2016

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Number of Outlets** | | | | |
| **Retailer** | **2013** | **2014** | **2015** | **2016** |
| More (Aditya Birla Group) | 528 | 505 | 500 | 508 |
| Reliance (Reliance Retail) | 526 | 576 | 480 | 450 |
| Big Bazaar (Future Retail) | 171 | 210 | 269 | 220 |
| Spencer’s (Spencer’s Retail) | 161 | 133 | 136 | 129 |
| DMart (Avenue Supermarts) | 65 | 76 | 91 | 110 |
|  |  |  |  |  |
| **Selling Space ('000 square metres)** | | | | |
| **Retailer** | **2013** | **2014** | **2015** | **2016** |
| Big Bazaar (Future Retail) | 817 | 1,003 | 1,285 | 1,051 |
| DMart (Avenue Supermarts) | 211 | 247 | 296 | 358 |
| More (Aditya Birla Group) | 208 | 203 | 207 | 226 |
| Reliance (Reliance Retail) | 380 | 399 | 370 | 146 |
| Spencer’s (Spencer’s Retail) | 94 | 101 | 108 | 88 |

Source: Adapted by case author from Euromonitor International, “Grocery Retailers in India,” February 2017, accessed April 1, 2017, www.euromonitor.com/grocery-retailers-in-india/report.

EXHIBIT 3: RENTAL EXPENDITUREs as a percentage of total expenses IN India’s FOOD RETAIL INDUSTRY

Source: Adapted by case author from Soumeet Sarkar, “How D-Mart Stacks Up Against Peers,” Bloomberg Quint, February 15, 2017, accessed April 18, 2017, <https://www.bloombergquint.com/markets/2017/02/15/how-d-mart-stacks-up-against-peers>.

EXHIBIT 4: REVENUES, PROFITS, AND MARGINS OF FOOD RETAILERS IN INDIA

|  |  |  |  |
| --- | --- | --- | --- |
| **Retailer** | **Revenue per Square Foot (**₹**)** | **Profit per Square Foot (**₹**)** | **Operating Margin (%)** |
| Future Group | 12,914 | 252 | 3.2 |
| HyperCITY | 13,497 | – | – |
| Spencer’s | 18,107 | – | – |
| Reliance Retail | 13,901 | 232 | 5.0 |
| DMart | 25,844 | 965 | 7.9 |

Note: ₹ = INR = Indian rupee; ₹1 = US$0.02 on March 31, 2016

Source: Adapted by the case author from Soumeet Sarkar, “How D-Mart Stacks Up Against Peers,” Bloomberg Quint, February 15, 2017, accessed April 18, 2017, <https://www.bloombergquint.com/markets/2017/02/15/how-d-mart-stacks-up-against-peers>.

EXHIBIT 5: Walmart

Walmart was the world’s largest retailer, with over 6,500 stores across the world. Walmart operated in various categories, including food and grocery, apparel, appliances, housewares, and electronics, and it was known for its “everyday low prices.” The company operated several chains, including Walmart Super Centers (discount stores), Sam’s Club (membership-only warehouse stores), and Neighborhood Markets (small grocery stores).

Walmart Supercenters were large stores—on average, around 185,000 square feet in size—offering over 100,000 items, and usually located in rural areas. These stores stocked around 30,000 grocery products, and many of them contained specialty stores including vision centres, tire corners, restaurants, photo centres, hair salons, and banks. Neighborhood Markets were smaller, with an average size of around 45,000 square feet, were usually located in urban areas, and offered a limited assortment of grocery products and drugs.

Everyday low pricing was truly at the heart of everything Walmart did. Walmart stores had a warehouse-type layout with well-planned displays and signage, were supported by a limited number of store staff, and had very efficient checkouts. The stores had a large proportion (over 50 per cent) of private-label merchandise, which added to Walmart’s profitability. With its huge investments in technology and supply- side efficiencies, Walmart managed global sourcing very efficiently. Due to high purchase volumes, Walmart had high bargaining power with suppliers, leading to better sourcing costs.

Source: Walmart, accessed November 29, 2017, <https://www.walmart.com>; Mary M. Crossan, *Wal-Mart Stores, Inc*. (London, ON: Ivey Publishing, 2006). Available from Ivey Publishing, product no. 9B06M068; Michael E. Porter and Jorge Ramirez-Vallejo, *Walmart: Navigating a Changing Retail Landscape* (London, ON: Ivey Publishing, 2017). Available from Ivey Publishing, product no. 717474; P. Fraser Johnson and Ken Mark, *Supply Chain Management at Wal-Mart* (London, ON: Ivey Publishing, 2007). Available from Ivey Publishing, product no. 9B07D001.

endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of DMart or any of its employees. [↑](#endnote-ref-1)
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3. ₹ = INR = Indian rupee; all currency amounts are in ₹ unless otherwise specified; ₹1 = US$0.02 on March 31, 2016. [↑](#endnote-ref-3)
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