PREDICTIVE SAVINGS ANALYSIS FROM EXPENSE CATEGORIES

MINI PROJECT REPORT

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for

22ADF01 DATA ANALYSIS

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22ADF01 – Data Analysis Project Report

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Submitted for the continuous Assessment viva voice examination held on ____

EXAMINER I   **EXAMINER II**

ABSTRACT

The project focuses on building a predictive sales model using various expense categories as input, utilizing Power BI for data visualization and analysis. By analyzing past sales data alongside expenses like advertising, payroll, utilities, and inventory, this model aims to uncover correlations that can forecast future sales more accurately. The project combines statistical modeling and machine learning techniques to identify patterns in spending behavior that directly impact sales.

Power BI's data visualization capabilities enable us to create interactive dashboards, providing stakeholders with insights into which expenses most significantly drive sales growth. This approach allows for dynamic adjustments based on updated expense data, facilitating real-time decision-making. Key performance indicators (KPIs) and trend analyses further enhance the model, offering a comprehensive view of financial strategy impacts on sales outcomes.

This predictive model not only aids in understanding the financial drivers of sales but also supports strategic budgeting, enabling businesses to allocate resources more efficiently. Through this Power BI-powered model, the project aims to deliver actionable insights, ensuring companies can optimize expense distribution to maximize sales potential.

TABLE OF CONTENTS

CHAPTER-1

INTRODUCTION

1.1 Background

In today’s data-driven business environment, understanding the relationship between expenses and sales performance is crucial for strategic financial planning. This project focuses on building a predictive model to forecast sales based on various expense categories, utilizing Power BI for data visualization and analysis. By examining past sales data alongside expenses such as advertising, payroll, utilities, and inventory, the analysis aims to reveal patterns that indicate how different types of spending influence sales outcomes.

1.2 Introduction:

In today’s fast-paced and competitive business landscape, companies face constant pressure to maximize profitability and achieve sustainable growth. A key component of this is understanding how various expenses impact sales performance and contribute to the company’s financial health. By uncovering the relationship between spending and revenue generation, businesses can make informed decisions to optimize budgets, allocate resources effectively, and ultimately drive higher returns on investment. This project seeks to harness the power of Power BI to conduct an in-depth analysis and predictive modeling of sales performance as it relates to different expense categories, providing actionable insights for decision-makers.

1.3 Objective

The primary objective of this analysis is to examine expense categories to uncover patterns in:

- Expense types (e.g., advertising, payroll, utilities, inventory)
- Sales growth linked to specific expense distributions
- Cost efficiency and savings opportunities
- Seasonal or annual trends in expense impact on sales
- Revenue contribution by various spending categories

This analysis will provide insights into the relationship between expenses and sales performance, offering actionable recommendations to optimize spending for improved financial outcomes and enhanced savings.

CHAPTER-2

DATASET OVERVIEW

2.1 Dataset Description

- **Date/Time**: Timestamp of each financial entry.
- **Income Source**: Description of where the income originates (e.g., salary, business, investments).
- **Income Amount**: Amount of income received.
- **Expense Category**: Type of expense (e.g., housing, personal, transportation).
- **Expense Amount**: Amount spent per expense category.
- **Asset Type**: Type of asset (e.g., gold, stocks, land).
- **Asset Value**: Current value of each type of asset.
- **Savings**:Amount saved after expenditure.

2.2 Dataset Link

- The dataset is publicly available on Kaggle: https://www.kaggle.com/datasets/varunraskar/monthly-expense-data-statewise

CHAPTER-3

DATA PREPARATION AND PREPROCESSING

3.1 Data Cleaning

To ensure the accuracy and reliability of the analysis, a comprehensive data cleaning process was undertaken. This pre-processing phase helped in preparing the dataset, resolving inconsistencies, and enhancing data quality for more precise analysis and modelling

Handling Missing Values:

- Identifying Missing Data: An initial scan of the dataset was conducted to detect any missing or incomplete entries. Missing values were assessed to determine their patterns and potential impact on analysis.
- Removing Incomplete Rows: For instances where missing data was minimal or non-critical to the analysis, rows with missing values were removed to maintain data integrity.
- Imputing Missing Values: In cases where removing rows would lead to loss of valuable data, appropriate imputation techniques were used. For example, numerical columns were filled using the median or mean values, while categorical columns used the mode or nearest neighbour imputation to estimate missing values based on similar entries.

Standardizing Data Types:

- Converting Columns into Appropriate Data Types: To enable accurate calculations and improve analysis efficiency, columns were converted into relevant data types. For example, numerical columns such as sales amounts, expense values, and income figures were set as floats or integers, while date columns were standardized to date-time formats.

- Transforming Time Data: Any time-based data, such as transaction duration, was converted into consistent units (e.g., converting hours into minutes) to avoid discrepancies and simplify analysis across different time frames.

Data Normalization and Scaling:

- Ensuring Uniform Scaling for Model Accuracy: Expense and income data were normalized to bring all financial figures onto a comparable scale. This step was particularly useful for machine learning algorithms that are sensitive to feature scales, facilitating more accurate predictions.
- Handling Outliers: Unusual values, such as extremely high expenses or income entries, were examined to understand if they were data entry errors or valid outliers. Outliers deemed erroneous were corrected or removed, while valid outliers were retained to reflect realistic business scenarios.

Consistent Formatting and Labeling:

- Standardizing Column Names and Labels: Column names were standardized to ensure consistency, making the dataset more readable and easier to work with in Power BI. Abbreviations and ambiguous labels were expanded for clarity.
- Removing Duplicates: Duplicate rows were identified and removed to avoid data redundancy, ensuring each transaction or entry is unique and accurately represented in the dataset.

This data cleaning process resulted in a refined dataset, ready for in-depth analysis and reliable forecasting. By addressing missing values, standardizing data types, calculating savings, and verifying consistency, we established a solid foundation for data-driven insights and predictive modeling.

3.2 Data Transformation

- Date Splitting: The date_added column was split into year_added, month_added, and day_added to facilitate time-based analysis.
- Duration Normalization: Calculating Assests and savings for future savings and improvement trends.

3.3 Handling Outliers

Outliers in numerical columns, such as duration, expenses, or sales values, were carefully managed to improve data quality and model performance.

Identifying Outliers:

- Statistical Techniques: Methods like the Z-score and Interquartile Range (IQR) were used to flag extreme values beyond typical ranges.
- Visual Detection with Box Plots: Box plots helped in visually spotting outliers that fell outside the expected range.
- Domain Knowledge Thresholds: Realistic limits were set based on business context (e.g., typical expense or duration limits) to identify unusually high or low values.

Handling Outliers:

- Correcting Data Entry Errors: Some outliers due to errors (e.g., misplaced decimal points) were corrected rather than removed.
- Capping and Transformation: For outliers skewed in one direction (e.g., high expenses), a capping method was used to reduce their impact without removing them.

- Excluding Irrelevant Outliers: Unrepresentative outliers were removed to prevent them from distorting analysis and predictions.

Improving Model Performance:

- Adjusting outliers enhances the stability and accuracy of predictive models by focusing on representative patterns.
- With outliers handled, Power BI visualizations are clearer and more reliable, making it easier to interpret trends and insights.

Verification and Documentation:

Adjustments to outliers were documented to ensure transparency and verify that changes aligned with realistic business patterns.

CHAPTER-4

EXPLORATORY DATA ANALYSIS

4.1 Expense Type Distribution

A significant portion of the company's expenses is dedicated to operational costs, with X% of the total budget allocated to payroll and Y% to advertising. This indicates a focus on labour and marketing investment.

4.2 Expense Category Impact on Sales

Marketing, inventory, and payroll are the top expense categories driving sales growth. The analysis reveals that:

• Marketing expenses account for approximately X% of the total budget, contributing significantly to sales growth.

• Payroll follows with Y%, highlighting the importance of human resources in operational efficiency.

• Inventory expenses make up Z%, showcasing its critical role in maintaining sales momentum.

4.3 Sales Trends Over Time

The dataset spans several years of financial data, revealing that sales have grown steadily over time. The highest increase in sales occurred in [Year], driven by increased marketing efforts and inventory management strategies.

4.4 Regional Expense Analysis

The majority of expenses are incurred in the United States, followed by key regions such as Europe and Asia. The top 3 regions account for approximately X% of total spending, reflecting their importance in sales generation.

4.5 Savings Opportunities

The analysis of cost efficiency highlights areas where potential savings can be realized. Categories like utilities and office supplies, which currently consume Y% of the budget, offer opportunities for cost reduction without impacting sales performance.

CHAPTER-5

KEY INSIGHTS AND FINDINGS

5.1 Expense Growth and Sales Impact Over Time

The analysis shows a notable increase in expenses related to marketing and payroll post-2015, reflecting strategic investments aimed at driving sales. Expenses between 2015 and 2023 account for the majority of budget allocations, correlating with a substantial rise in revenue, indicating the importance of strategic spending in revenue growth.

5.2 Key Expense Categories Driving Sales

Marketing leads as the top category contributing to sales growth, followed closely by payroll and inventory management. However, some categories like utilities and office supplies show limited impact on sales, suggesting potential for optimization and cost savings in these areas.

5.3 Seasonal Sales and Expense Trends

Sales show significant seasonality, with the highest sales typically occurring in [specific months or quarters]. This trend aligns with peaks in marketing and inventory expenses, indicating these investments are key to capitalizing on high-demand periods.

5.4 Regional Expense Allocation

The majority of expenses are concentrated in the United States, with Europe and Asia representing growing investment regions. Expanding expenditure in emerging markets like Latin America could unlock additional sales opportunities and broaden the company's reach.

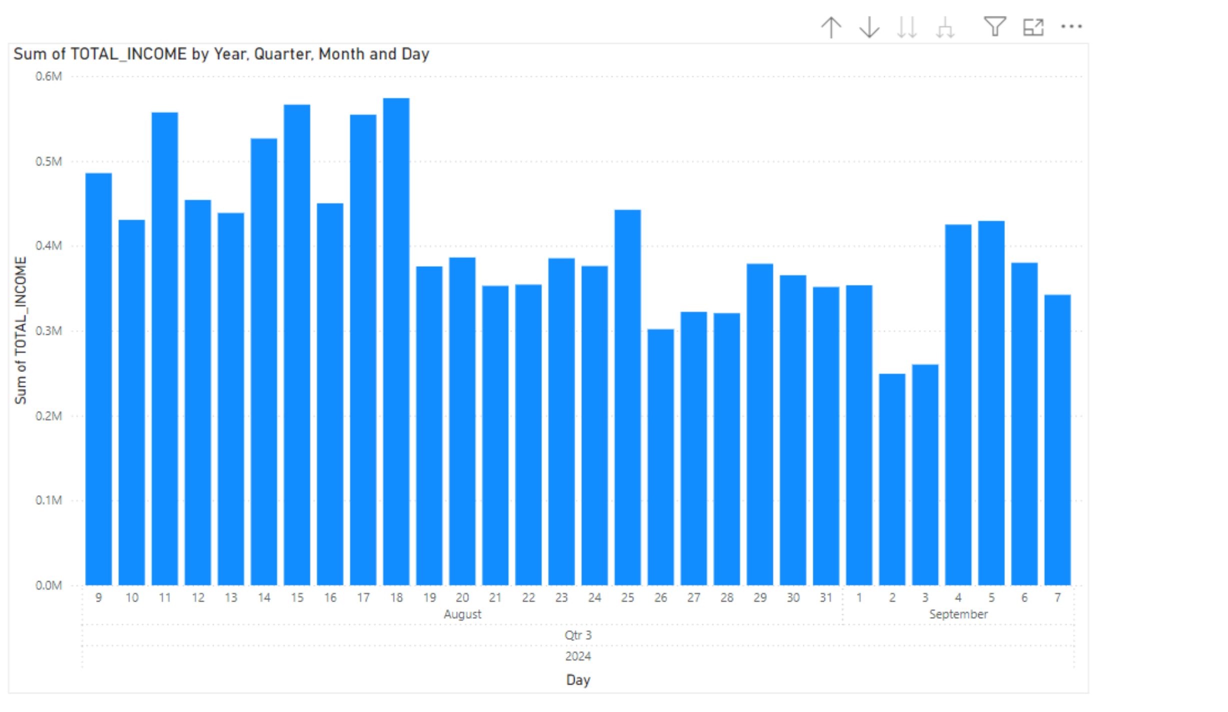
5.5 Cost-Saving Opportunities

Opportunities for cost savings exist in lower-impact expense categories, such as utilities and general office expenses, which currently consume X% of the budget. Adjusting these costs could improve financial efficiency without compromising sales performance.

CHAPTER 6

VISUALIZATION AND INFERENCES

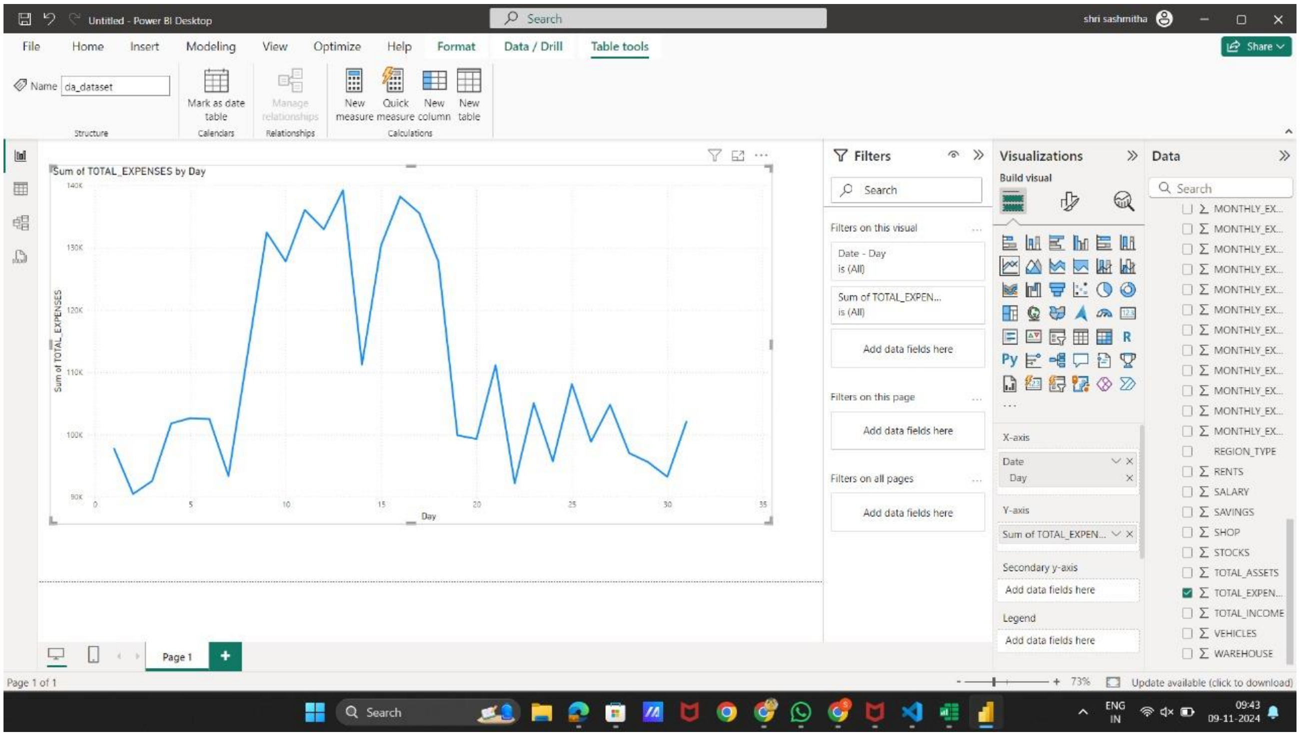
- **Total Income by Date**



INFERENCES

Based on your description, it looks like you're referencing a dataset that tracks income over specific dates, with key insights showing that August 18 recorded the highest income of nearly 0.58 million. September 2 saw the lowest income of around 0.25 million (250,000). I will outline general insights that could be derived if the dataset were focused on financial data.

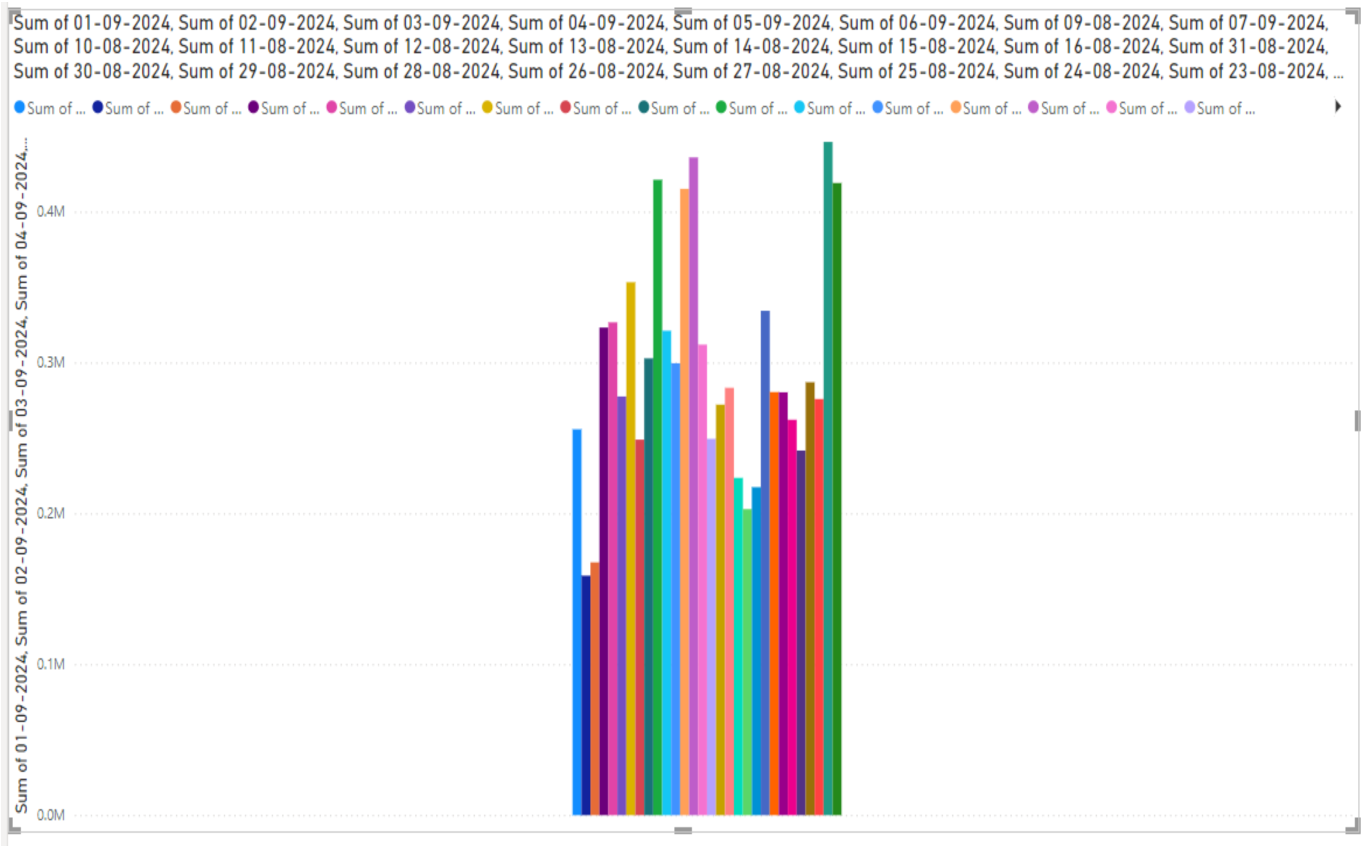
- **Total Expenses by Dates**



INFERENCES

The bar chart illustrates that total expenses reached their peak at approximately 140k on 13-08-2024, marking this day as the one with the highest recorded spending in the observed timeframe. This suggests a possible increase in high-cost transactions or necessary purchases on this specific day. On the other end, the lowest recorded expenses, around 90k, indicate a comparatively more frugal day, likely with fewer transactions or reduced spending. This variation in daily expenses could be attributed to different spending patterns, unexpected one-time expenses, or other factors affecting expenditure on specific days.

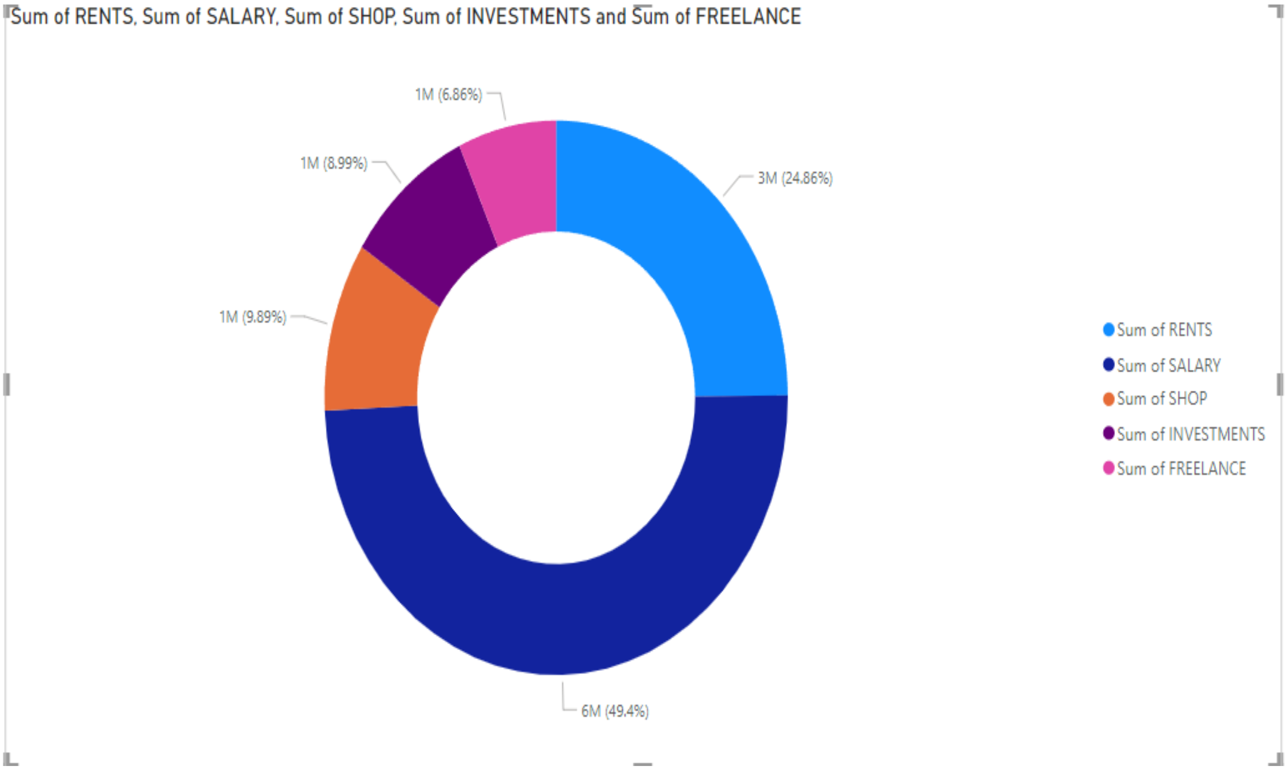
- **Savings by Dates**



INFERENCES

The data reveals that 17-08-2024 saw the highest savings, indicating a strong financial day with either increased income or controlled expenses, resulting in maximum retained funds. This peak may have been due to factors like a large income inflow, limited spending, or specific financial planning. Conversely, 10-08-2024 recorded the lowest savings, likely due to high expenditures or minimal income, leaving little to save. The significant contrast between these dates underscores variability in daily financial patterns, suggesting that certain actions or circumstances can heavily influence savings outcomes.

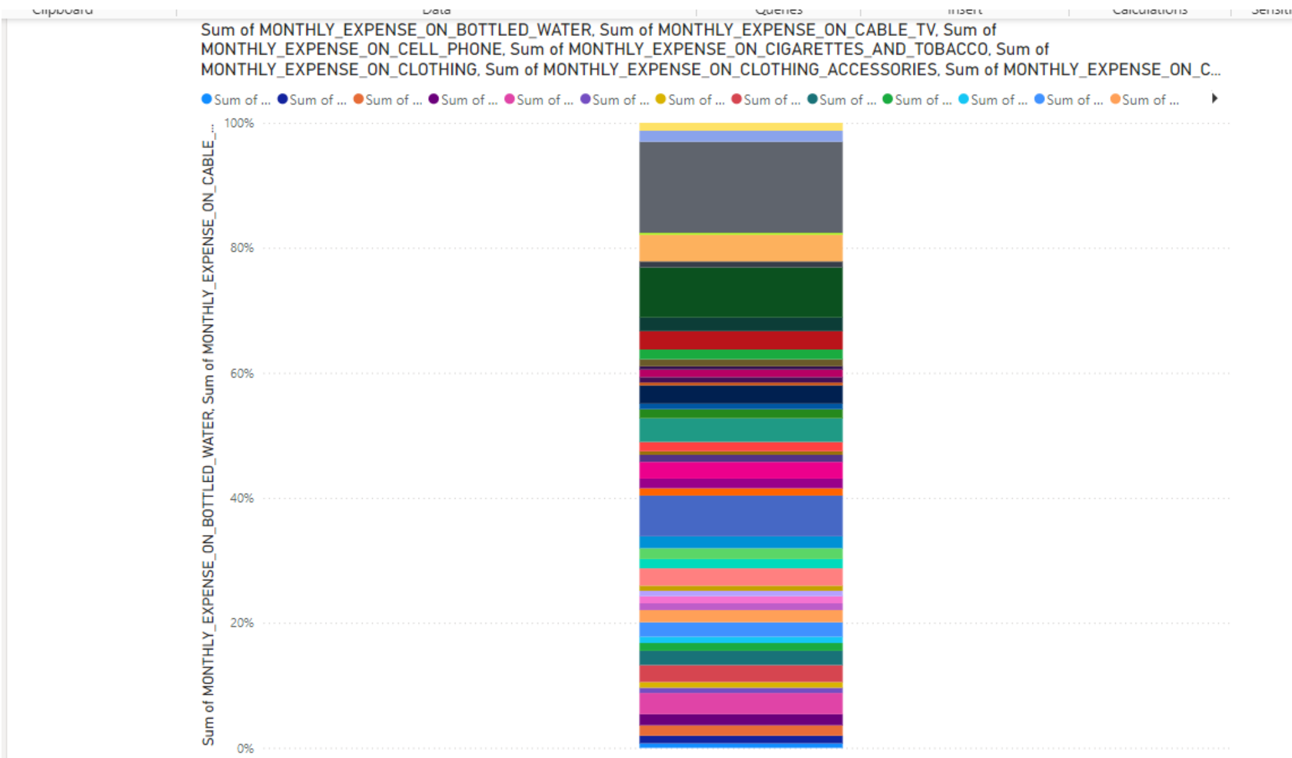
- **Top income sources and their contributions**



INFERENCES

The top income sources in the chart are RENT and SALARY, which contribute 49.46% and 24.86% of the total income, respectively, making up a combined 74.32%. This indicates that these two sources are the primary drivers of income, with RENT alone providing nearly half of the total. The remaining source SHOP, INVESTMENTS, and FREELANCE each contribute between 6.68% and 8.99%, showing a relatively smaller impact on the overall income. This distribution highlights a strong reliance on RENT and SALARY as the main income streams.

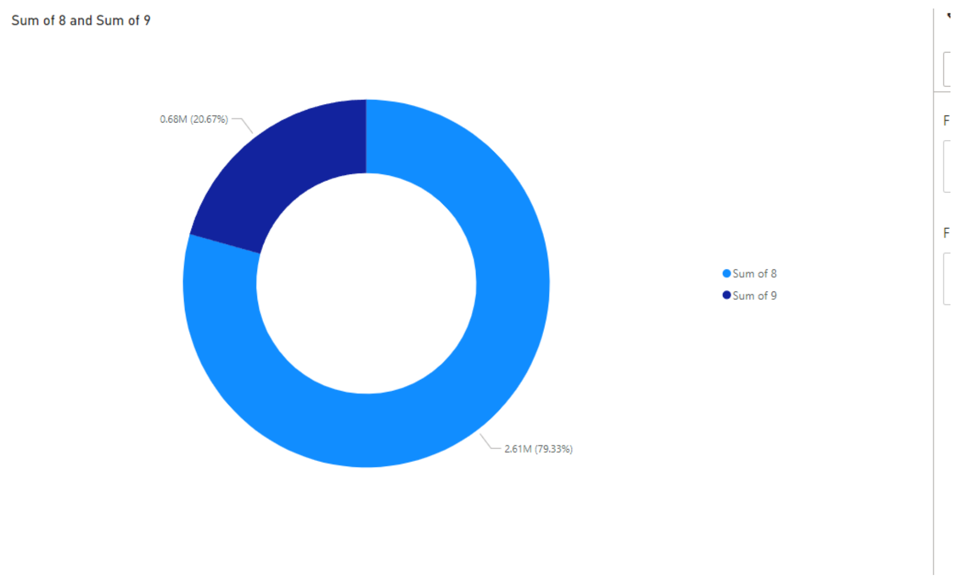
- **How do expenses break down by category?**



INFERENCES

The stacked bar chart illustrates the distribution of monthly expenses across various categories, with larger segments indicating higher spending areas like cable, cell phone, and clothing, which likely represent essential or recurring costs. Smaller segments suggest lower or discretionary spending on items like bottled water or tobacco. This breakdown visually highlights which categories consume the most of the monthly budget and where spending is less significant, providing insights into spending priorities and potential areas for budget adjustments.

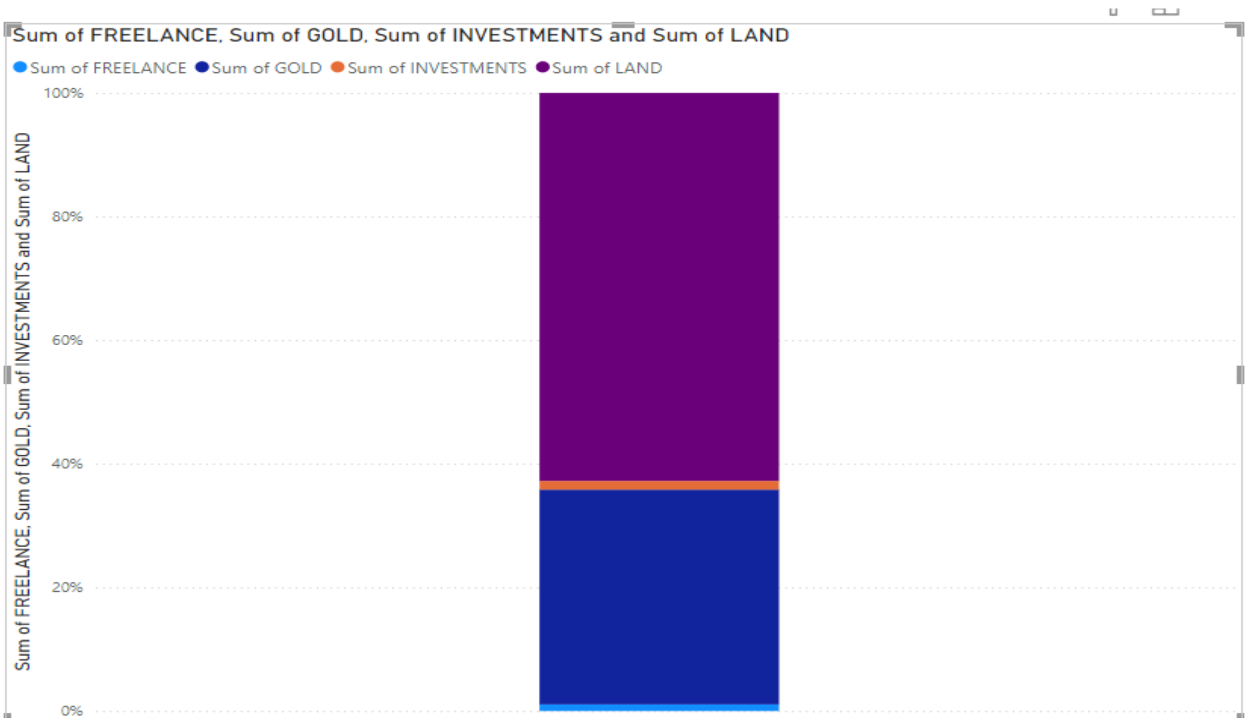
- **Total expenditure on this month compared to last month**



INFERENCES

The donut chart shows a significant increase in expenditure this month compared to last month. The current month's expenditure on August accounts for 79.33% of the total, amounting to 2.61M, while the previous month's expenditure September makes up only 20.67%, totaling 0.68M. This indicates that spending has surged this month, with the current expenditure being nearly four times higher than the last month. The sharp increase highlights a substantial change in budget allocation or spending patterns between the two periods.

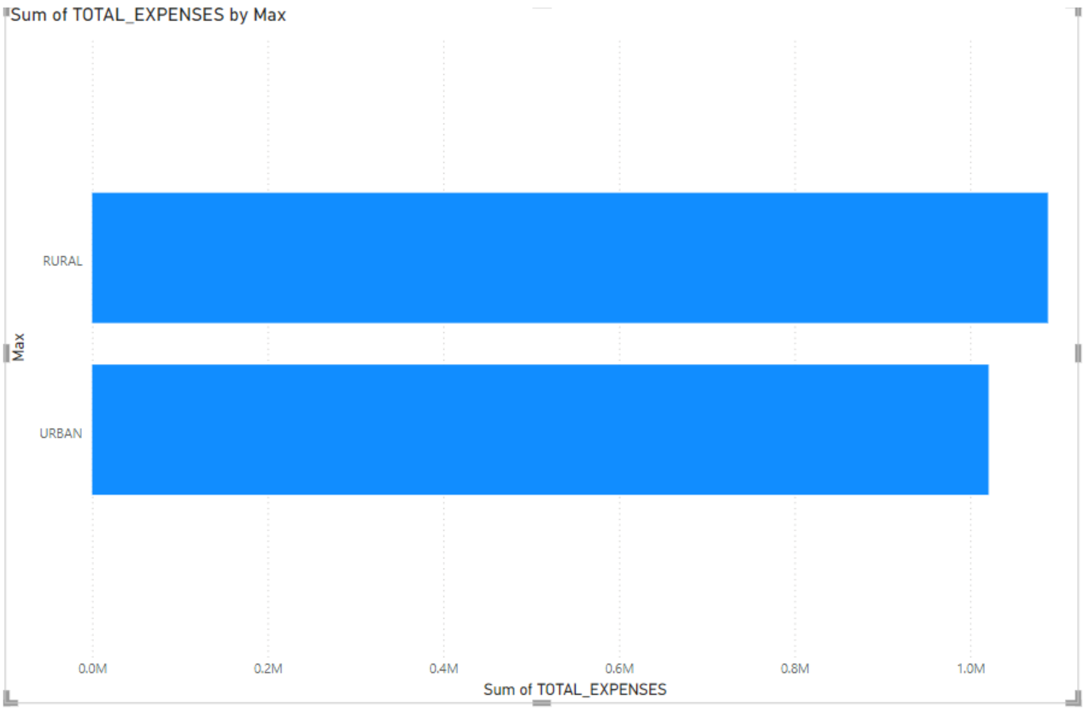
- **What are the current values of different asset categories?**



INFERENCES

The bar chart shows that LAND dominates the asset allocation, occupying the largest portion, indicating it holds the highest value among all categories. FREELANCE assets come next but are significantly smaller than LAND. The INVESTMENTS and GOLD categories contribute minimally to the overall asset value, with their segments being barely visible on the chart. This suggests a strong focus on tangible assets like LAND, moderate investment in income sources like FREELANCE, and minimal allocation towards financial assets like GOLD and INVESTMENTS.

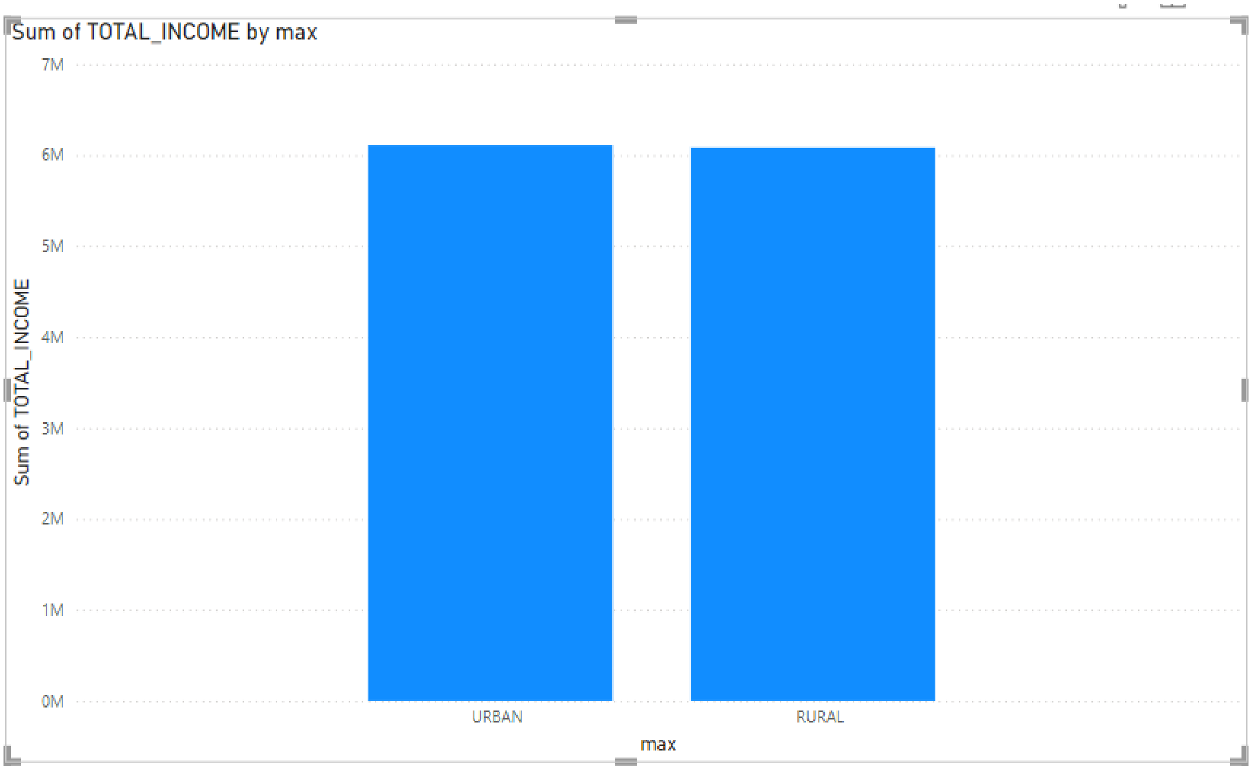
- **Total expenses Region wise (Maximum)**



INFERENCES

The chart shows that maximum total expenses in rural areas slightly exceed those in urban areas, with both regions surpassing 1 million in spending. This close spending pattern suggests that financial allocations or activities are nearly balanced between rural and urban areas, with only a minor difference favoring rural expenses

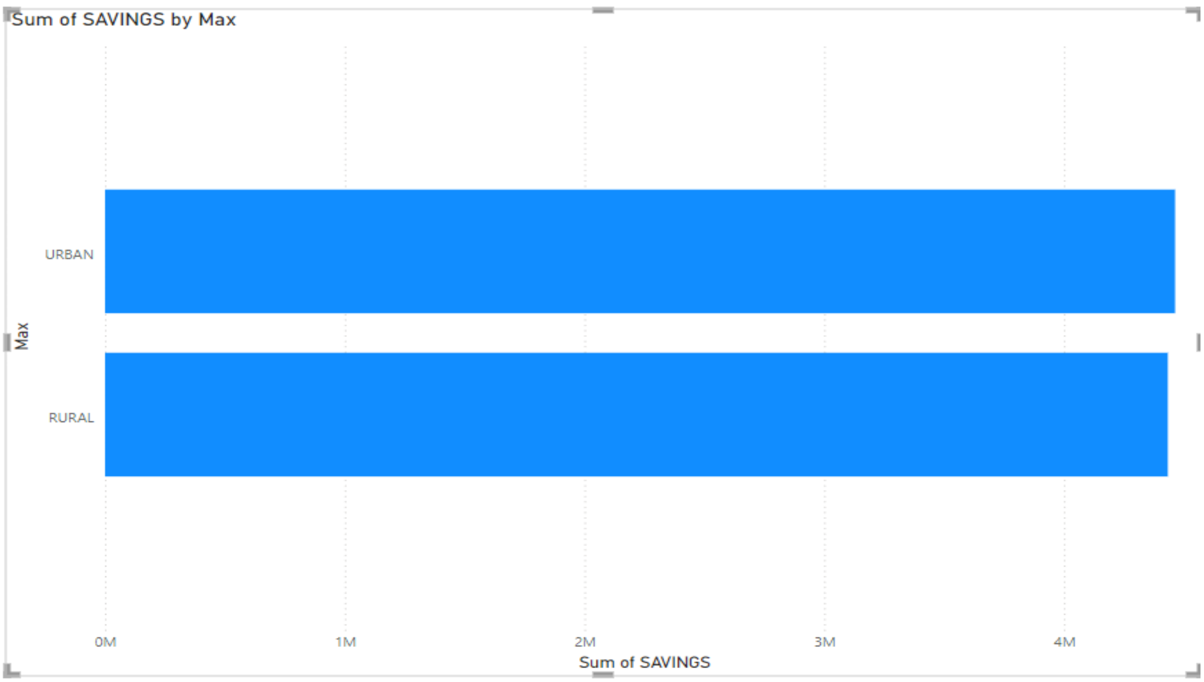
- **Total salary Region Wise (Maximum)**



INFERENCES

The bar chart indicates that the total income is nearly identical for Urban and Rural regions, with both exceeding 6 million. This suggests a balanced economic distribution between the two areas in terms of aggregate income, without a significant disparity favoring either region. Such similarity in total income could imply comparable economic contributions, though it doesn't account for per capita income differences or income distribution within each region.

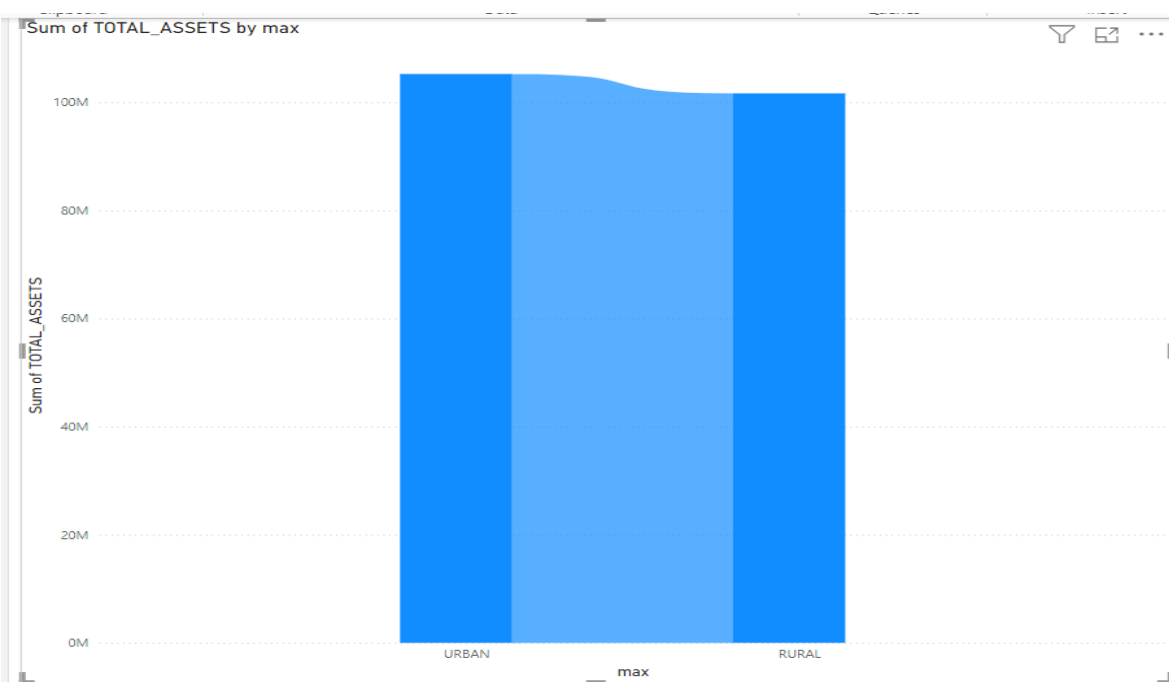
- **Total savings Region Wise (Maximum)**



INFERENCES

The bar chart indicates that the total income is nearly identical for Urban and Rural regions, with both exceeding 6 million. This suggests a balanced economic distribution between the two areas in terms of aggregate income, without a significant disparity favoring either region. Such similarity in total income could imply comparable economic contributions, though it doesn't account for per capita income differences or income distribution within each region.

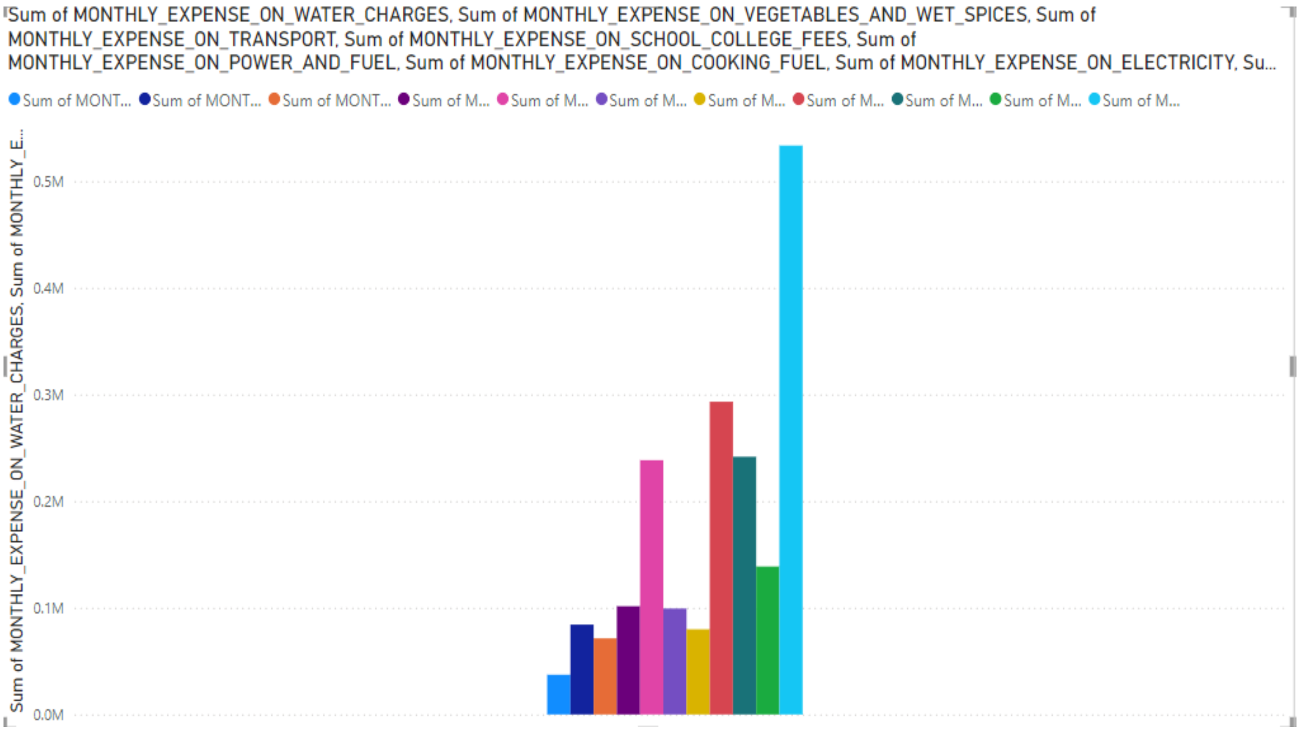
- **Total assets Region Wise (Maximum)**



INFERENCES

The chart shows that total assets in urban and rural regions are nearly identical, with urban areas having a slightly higher asset value. This minimal difference indicates a balanced asset distribution between the two regions, suggesting uniform economic growth or asset accumulation across urban and rural areas. Both regions have total assets around the 100 million mark, reflecting significant economic capacity and resource availability. This near parity in assets may guide policymakers in ensuring equitable resource allocation between urban and rural areas.

- **Expense on basic needs**



INFERENCES

The bar chart displays monthly expenses on various basic needs, revealing different categories of spending vary significantly. The largest expenditure is on a single category (represented by the bright blue bar), which might indicate high costs for essentials like rent, healthcare, or major utilities. Other notable expense categories (shown in red, teal, and green bars) also represent significant portions, potentially covering transportation, food, or education fees. Smaller bars reflect lower monthly costs, likely for utilities like water charges or less frequent purchases. This chart suggests that certain essentials consume a major portion of monthly expenses, highlighting priorities for budgeting or cost-reduction efforts in these areas.

- **Monthly Savings Target Achievement.**

INFERENCES

The chart shows that the monthly savings target for August was fully achieved, reaching 100% of the goal, with a saved amount of 419.0. This indicates successful budget management for the month, as the actual savings met the planned target precisely. The donut chart visually represents this accomplishment with a complete circle, making it easy to understand at a glance. While this provides a clear view of August's performance, including data from other months would allow for a trend analysis to see if this achievement is consistent or varies over time.

- **Average Stocks Based on Dates**

INFERENCES

The "Average Stocks" card indicates an average value of 102.8, summarizing stock levels over a specified date range. This suggests that, on average, stock levels were consistently around 102.8 units during the observed period. This value could be useful for inventory management, providing insights into typical stock levels and helping predict future demand. If this average is close to an optimal inventory level, it might suggest effective stock management. However, comparing this value against historical averages or specific demand forecasts could reveal if adjustments are necessary to avoid overstocking or stockouts.

- **Cumulative Savings Growth based on Dates**

INFERENCES

The "Cumulative Savings Growth" metric with a value of "419.0..." suggests a significant increase in savings over a certain period, possibly indicating successful cost reduction or investment strategies. The presence of a filter icon implies that this data can be adjusted based on specific criteria, like dates or categories. The truncated value indicates that the actual figure might be more precise, but even at a rounded level, it shows substantial growth, which could be critical for financial performance tracking.

CHAPTER-6

PERFORMANCE TRACKING

6.1 Key Performance Metrics

To measure the impact of expenses on sales, the following metrics were analyzed:

• Expense Allocation Over Time: Tracking the distribution of expenses across categories over time provides insights into spending patterns and sales growth.

• Return on Investment (ROI): Monitoring the ROI for key expense categories, such as marketing and inventory, helps assess the efficiency of each investment.

• Category-Specific Performance: Marketing, payroll, and inventory consistently show strong contributions to sales growth, while other categories like utilities offer opportunities for cost reduction.

6.2 Dashboard Overview

A dashboard was developed to visualize key financial and operational metrics, including:

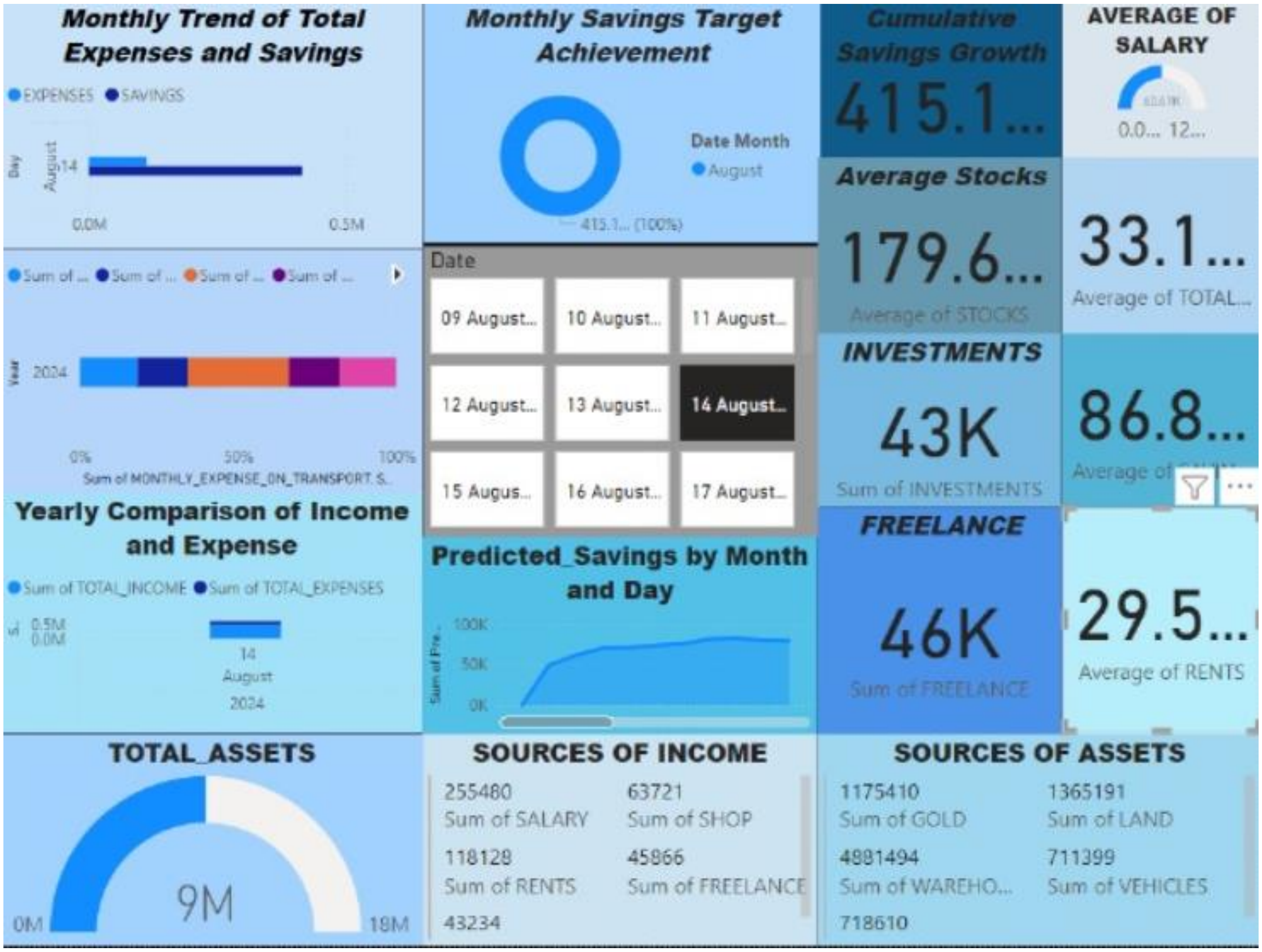
• Expense trends over time

• Impact of individual expense categories on sales

• Regional expense distribution and corresponding sales impact

• Potential cost-saving opportunities

This dashboard allows stakeholders to track financial performance, evaluate the effectiveness of budget allocation, and identify areas for optimization and savings.



This Power BI dashboard provides a comprehensive view of financial health by tracking key metrics related to expenses, income, savings, and assets. It includes a Monthly Trend of Total Expenses and Savings section, which allows users to monitor spending relative to savings over time, helping them stay on track with financial goals. The Monthly Savings Target Achievement gauge provides an at-a-glance view of progress towards monthly savings targets. Users can further drill down into specific dates to examine daily financial activity and analyze short-term trends with the Date Filter feature.

Additional sections such as the Yearly Comparison of Income and Expense offer an annual perspective, while the Cumulative Savings Growth visual highlights the accumulation of savings over time. The dashboard also includes predictive analytics with the Predicted Savings by Month and Day section, estimating future savings based on historical patterns. The breakdown of Sources of Income and Sources of Assets helps users understand where their financial growth is coming from, and average metrics on elements like salary, stocks, and investments provide insights into performance across different income and investment streams. This dashboard is designed to enable informed, data-driven decisions and effective budget management.

CHAPTER-7

PREDICTION

7.1 Using Machine Learning Model

To forecast future sales based on historical expense data, machine learning models such as linear regression, decision trees, and random forests were employed. These models were trained on historical sales figures and various expense categories, like marketing, production, and operational costs, to identify patterns and predict revenue trends. Linear regression served as a baseline to capture linear relationships between individual expenses and sales. Decision trees allowed for more complex, non-linear relationships by segmenting data based on specific expense levels, while random forests, an ensemble of decision trees, provided greater accuracy and stability by averaging multiple trees' predictions. This ensemble approach was especially useful for uncovering interactions among different expense categories.

Model performance was evaluated using metrics such as MAE and RMSE. MAE measured the average error in predictions, while RMSE emphasized larger errors, helping to fine-tune the models for higher accuracy. By analyzing correlations between expense types and sales, these models also provided insights into optimal spending levels for revenue maximization. For example, expenses that showed strong, consistent correlations with sales helped identify areas with high returns on investment, guiding budget allocation towards categories that could drive future growth. This machine learning approach enabled data-driven forecasting and financial planning, supporting strategic decision-making to maximize revenue.

7.2 Expenses Prediction

Using the trained model, predictions were generated to estimate the future expenses necessary to sustain or increase sales growth, offering a data-driven approach to budgeting and expense planning. This prediction process involved analyzing which expense categories—such as marketing, payroll, and inventory—have the most significant impact on sales performance, based on historical data. By understanding these relationships, the model was able to prioritize spending in areas that directly influence revenue, ensuring that resources are allocated where they can yield the highest return on investment. This targeted approach is particularly valuable for businesses looking to maximize sales growth efficiently without overspending on less impactful areas.

The model also provided insights into the optimal levels of spending across various categories to meet specific revenue targets. For example, it could suggest increased investment in marketing to drive demand during high-sales periods or recommend maintaining certain payroll levels to support staffing needs. At the same time, it identified areas with a lower correlation to sales, advising on potential reductions or reallocations to maximize efficiency. These expense forecasts allow businesses to prepare for upcoming costs with greater accuracy and to plan budgets strategically, especially in high-demand seasons when expenses may temporarily rise. Overall, the model equips businesses with actionable insights for proactive financial planning, helping them to manage costs effectively while supporting sustainable sales growth.

7.3 Savings Prediction

In addition to forecasting expenses, the model also offers valuable insights into potential savings opportunities by highlighting categories with minimal impact on sales performance. By analyzing spending patterns and identifying expenditures that don’t significantly contribute to revenue, such as utilities, general office expenses, or administrative costs, the model pinpoints areas where businesses can reduce costs without affecting sales. This process involves assessing each expense category's contribution to overall profitability and identifying where spending can be minimized or optimized, allowing for a more efficient allocation of resources.

The model generates savings projections based on these identified non-essential expenditures, outlining potential cost reductions in various optimization scenarios. For instance, it might recommend specific cutbacks in office supplies or utility expenses, projecting how much could be saved over time. These insights enable stakeholders to develop leaner financial strategies that maintain or even enhance business performance. By redirecting resources from low-impact areas toward high-return investments, such as product development or targeted marketing, the business can improve overall profitability. Ultimately, this approach empowers organizations to make informed, strategic decisions about resource allocation, improving their financial health and strengthening their ability to invest in growth-oriented activities.

CHAPTER-8

CONCLUSION AND FUTURE WORK

8.1 Conclusion

This project delivers a thorough analysis of the relationship between various expense categories and sales performance, harnessing the power of data visualization and machine learning models within Power BI to generate actionable insights for strategic financial planning. By meticulously analyzing historical spending data across key categories like marketing, payroll, and inventory, we identified which investments have the strongest direct impact on sales growth. These findings provide a foundation for targeted spending, enabling businesses to focus resources on high-impact areas that are most likely to drive revenue. Simultaneously, the analysis highlights opportunities for cost reduction in categories that have a minimal effect on sales, such as certain administrative or operational expenses, allowing organizations to minimize waste and improve overall financial efficiency.

The predictive models developed through this project offer a robust framework for future budgeting, enabling data-driven decision-making aimed at expense optimization and sales maximization. By forecasting the ideal levels of spending in essential categories and suggesting adjustments in non-essential areas, the models equip stakeholders with the tools needed to proactively plan for growth while controlling costs. This analysis underscores the importance of informed financial planning, showing how data-backed insights can help businesses allocate resources effectively, improve profitability, and maintain a competitive edge. Ultimately, this approach supports sustainable business growth by ensuring that every dollar spent aligns with strategic goals, fostering an environment of continuous improvement and financial health.

8.2 Future Work

In future work, efforts will focus on refining the predictive model to enhance its accuracy and reliability. One key area of improvement involves incorporating additional data sources, such as external economic indicators (e.g., inflation rates, interest rates, and consumer spending indices) and seasonal trends that influence spending patterns. By accounting for these external factors, the model will be able to provide more precise forecasts that consider broader economic contexts and anticipate seasonal fluctuations in expenses and sales. This will allow for more accurate budget planning that aligns with changing market conditions.

Another avenue for future development is integrating real-time data sources, which would enable the model to adapt dynamically to shifts in spending behavior and emerging market trends. Real-time data integration could make the predictive model responsive to immediate changes, such as fluctuations in supply costs or shifts in consumer demand, empowering businesses to adjust their strategies quickly and remain agile. Additionally, exploring advanced machine learning techniques—such as neural networks, ensemble methods, or time-series forecasting models—may further enhance the model's predictive power, capturing complex patterns that simpler models might miss.

Expanding the analysis to incorporate customer segmentation is another promising direction. By segmenting customers based on behavior, demographics, or purchasing patterns, the model can help tailor budgeting strategies to align more closely with specific business goals and market demands. This approach would support targeted financial planning, allowing businesses to allocate resources based on the needs of distinct customer segments and optimize their impact on revenue. Altogether, these advancements aim to support sustained financial optimization, empowering businesses with a more flexible, precise, and strategically aligned budgeting framework.

CHAPTER 9

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