Regional Food Hubs and Food Value Chains:

Improving Market Access for Local Producers Through Innovative Distribution

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Presentation Overview

Regional Food Hubs

- USDA's "Know Your Farmer, Know Your Food" (KYF2) Initiative
- Food Hub Definition & Example
- NGFN Food Hub Collaboration
- Summary of Findings to Date
- Deeper Dive into Survey Findings
- Food Value Chains and Case Studies
- Lessons Learned
- Food Systems Resources

USDA's "Know Your Farmer, Know Your Food" Initiative

- Launched September 2009
- Designed to spur a **"national conversation"** on how to develop viable local and regional food systems and stimulate new economic opportunities
- Deputy Secretary Kathleen Merrigan oversees a "KYF2" task force with representatives from every USDA agency, which meets every 2 weeks. Designed to:
  - Eliminate organizational "silos" between existing USDA programs to support KYF2 mission through enhanced collaboration
  - Align existing Departmental activities/resources and "break down structural barriers" that inhibit local food system development

Regional Food Hub Taskforce

- **In May 2010, USDA established an interagency taskforce to examine the role and potential of regional food hubs to improve farmer/rancher access to larger volume markets**

- **Includes representation from the following agencies:**
  - Agricultural Marketing Service, *lead agency*
  - Rural Development
  - Food and Nutrition Service
  - National Institute of Food and Agriculture
  - Economic Research Service
  - Agricultural Research Service
  - Food Safety and Inspection Service

- **Coordinating efforts with other Federal agencies, non-profit organizations, and the private sector**

Why Regional Food Hubs?

Demand

- Local food sales were estimated to be $4.8 billion in 2008, and are projected to climb to $7 billion in 2011 (USDA-ERS report)
- In 2011 National Grocers Association survey, 83 percent consumers said the presence of local food "very" or "somewhat important" in their choice of food store (up from 79 percent in 2009)
- 89 percent of fine dining restaurants surveyed by the National Restaurant Association in 2008 reported serving locally sourced items
- Seven of the top 10 food retail chains in US now promote local sourcing (USDA-ERS report)
- The number of farm to school programs totaled more than 2,000 in 2011, a five-fold increase since 2004 (National Farm to School Network estimates)

Why Regional Food Hubs?

Supply

- **Farmers continue to be challenged by the lack of distribution, processing and marketing infrastructure** that would give them wider market access to larger volume customers
- **Particularly acute for operators of mid-sized farms**, who are too large to rely on direct marketing channels as their sole market outlet, but too small to compete effectively in traditional wholesale supply chains independently

USDA believes ***regional food hubs can play an important role*** in supporting/retaining these "ag-of-the middle" farmers and encouraging smaller farmers to scale up their operations.

Regional Food Hub Definitions

Definitions vary from narrow market efficiency functions to those related to visions of building a more sustainable food system

Working Definition

A business or organization that actively manages the aggregation, distribution, and marketing of source-identified food products primarily from local and regional producers to strengthen their ability to satisfy wholesale, retail, and institutional demand.

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Regional Food Hubs

Producer Services	Operational Services	Community Services
✓ Actively linking producers to markets ✓ On-farm pick up ✓ Production and post-harvest handling training ✓ Business management services and guidance ✓ Value-added product development ✓ Food safety and GAP training ✓ Liability insurance	✓ Aggregation ✓ Distribution ✓ Brokering ✓ Branding and market development ✓ Packaging and repacking ✓ Light processing (trimming, cutting, freezing) ✓ Product Storage	✓ "Buy Local" campaigns ✓ Distributing to "food deserts" ✓ Food bank donations ✓ Health screenings, cooking demonstrations ✓ SNAP redemptions ✓ Educational programs ✓ Youth and community employment opportunities

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Regional Food Hub
- Defining Characteristics -

- ✓ Carries out or coordinates the aggregation, distribution, and marketing of primarily locally/regionally produced foods **from *multiple producers* to *multiple markets*.**
- ✓ ***Considers producers as valued business partners*** *instead of interchangeable suppliers and is* ***committed to buying from small to mid-sized producers whenever possible.***
- ✓ ***Uses product differentiation strategies*** (e.g. identity preservation, group branding, sustainable production practices, etc.) **to ensure that producers get a good price for their products.**
- ✓ ***Works closely with producers*** to ensure they can meet buyer requirements by either **providing direct technical assistance** or finding partners that can provide this technical assistance.
- ✓ ***Aims to be financially viable while also having positive economic, social, and/or environmental impacts within their communities***

Local Food Hub

- Charlottesville, VA -

- **Started in 2009** by two women entrepreneurs, one with a background in retail and distribution and the other in nonprofit work

- **Mission:** "Local Food Hub is a nonprofit organization working to strengthen and secure the future of a healthy regional food supply by providing small farmers with concrete services that support their economic vitality and promote stewardship of the land."

Local Food Hub

- Charlottesville, VA-

Non-profit food hub model with two major programs:

- **Local food distributor**
- **Educational farm with a variety of outreach programs**

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Local Food Hub

- Currently works with more than **75 small and mid-sized family farms** (annual sales under $2 million) within 100 miles from Charlottesville
- Produce farms from 1 to 30 acres and orchards from 20 to 500 acres
- Offers fresh produce, meat, eggs, and value-added products to **more than 150 customers**, which includes:
  - Schools
  - Restaurants
  - Grocery stores
  - Senior centers
  - College dining halls
  - Hospital (see video at http://vimeo.com/14964949)
  - Several distributors, processors, and caterers

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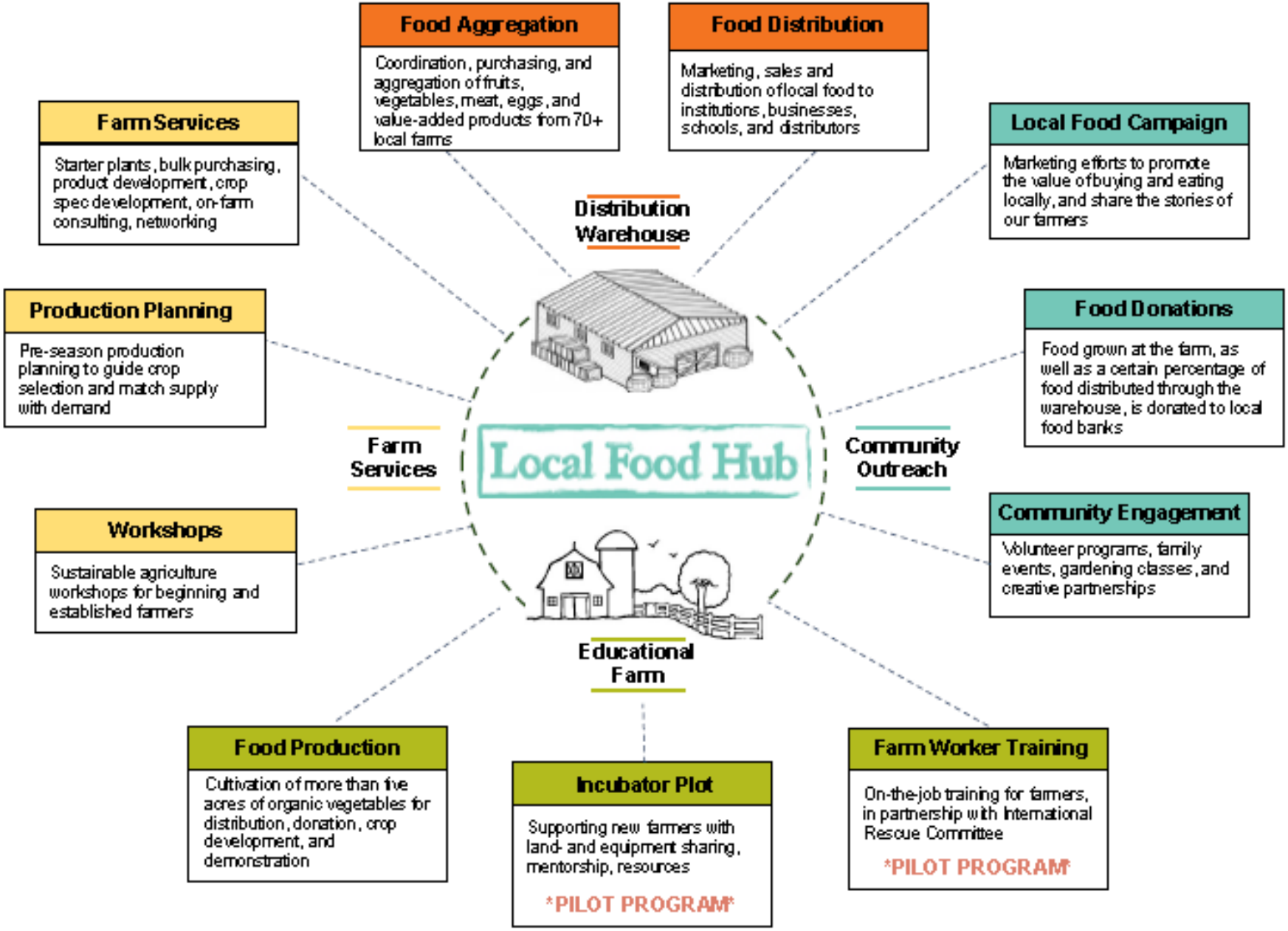
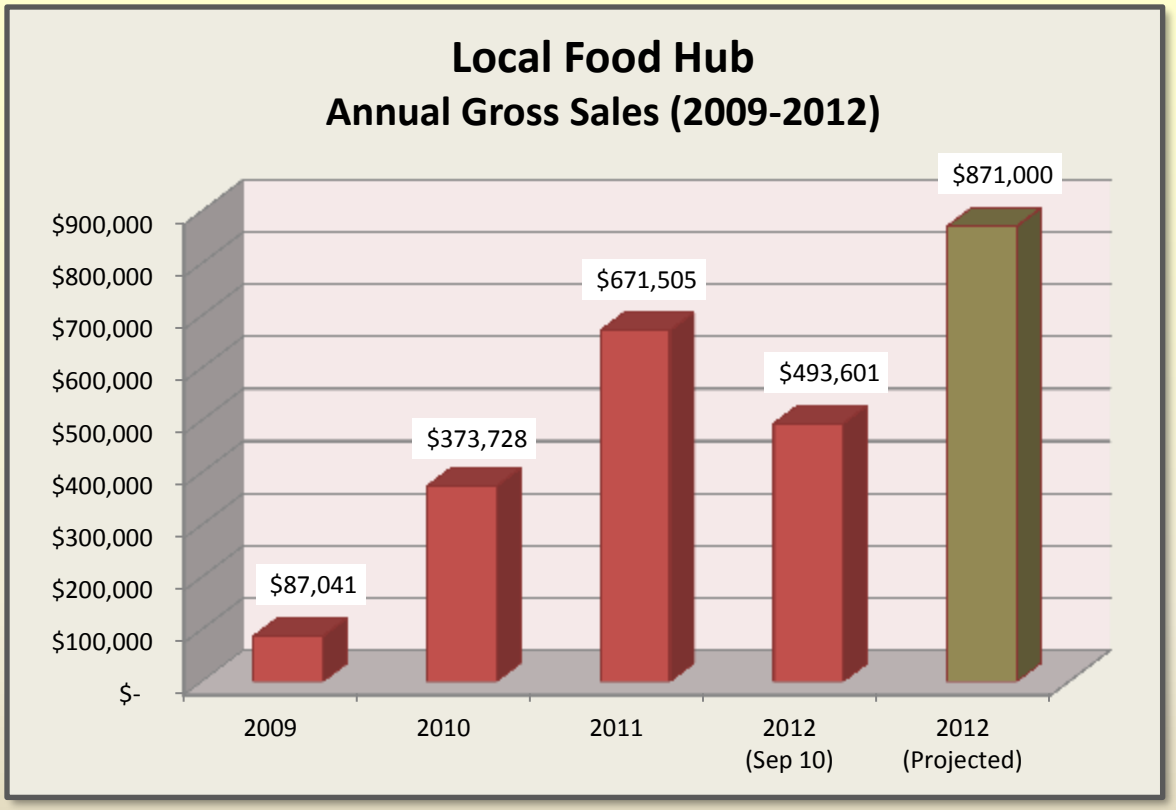

Food Aggregation
Coordination, purchasing, and aggregation of fruits, vegetables, meat, eggs, and value-added products from 70+ local farms
Food Distribution
Marketing, sales and distribution of local food to institutions, businesses, schools, and distributors
Farm Services
Starter plants, bulk purchasing, product development, crop spec development, on-farm consulting, networking
Local Food Campaign
Marketing efforts to promote the value of buying and eating locally, and share the stories of our farmers
Distribution Warehouse
Production Planning
Pre-season production planning to guide crop selection and match supply with demand
Food Donations
Food grown at the farm, as well as a certain percentage of food distributed through the warehouse, is donated to local food banks
Farm Services
Local Food Hub
Community Outreach
Workshops
Sustainable agriculture workshops for beginning and established farmers
Community Engagement
Volunteer programs, family events, gardening classes, and creative partnerships
Educational Farm
Food Production
Cultivation of more than five acres of organic vegetables for distribution, donation, crop development, and demonstration
Incubator Plot
Supporting new farmers with land- and equipment sharing, mentorship, resources
PILOT PROGRAM
Farm Worker Training
On-the-job training for farmers, in partnership with International Rescue Committee
PILOT PROGRAM

Local Food Hub

- Charlottesville, VA-



- **Annual Gross Sales for 2011: $671,505**
- **Projected Gross Sales for 2012: $871,000**

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Local Food Hub IMPACTS

- Charlottesville, VA-

PRODUCER IMPACTS

- Ensures that 80% of the sales price goes back to the producer
- 100% of their producers rated product pricing fair to excellent
- Producers have increased farm sales by an average of 25% since working with the hub
- 60% of their producers plan to increase production
- Provides numerous workshops for their producers in areas such as Integrated Pest Management, season extension, crop rotation, farm business planning, and food safety (GAP/GHP).

Local Food Hub provided a "good opportunity to open up a market that was not available to us otherwise, and as a result, we have expanded production of our crops considerably and hired more folks due to increased demand." – Whitney Critzer of Critzer Family Farm

Local Food Hub IMPACTS

- Charlottesville, VA-

ECONOMIC AND SOCIAL IMPACTS

- Reinvested over $1.3 million in the local farming community
- Created 15 paid jobs at their distribution and farm operations
- Hub services have helped to retain and support over 200 agriculture- related jobs
- The 120 active food hub buyers reported increasing their local food purchases by an average of 30%
- The hub's educational farm offers apprenticeships and high-school internships to budding farmers
- Donated more than 130,000 pounds of produce to hunger relief organizations, with 25% of the organic produce from their own 6 cultivated acres from educational farm donated to area food bank

NGFN Food Hub Collaboration

Collaboration between USDA, Wallace Center at Winrock International, and the National Good Food Network

Major Accomplishments to Date

- Carried out a national survey of regional food hubs
- National database of operating food hubs
- Published the *Regional Food Hub Resource Guide*
- Convened a national gathering of over 150 food hubs and their supporters to launch a *Food Hub Community of Practice*

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Preliminary Findings from Food Hub Survey*

Regional Food Hub Survey

- Online survey was sent to 72 food hubs in January 2011.
- Surveys completed by Feb. 7 were included in analysis.
- 45 food hubs completed the survey (63% response rate).
- Follow up phone interviews with 20 food hub operations

Food Hub Survey Key Findings

- **A nascent industry:** 60 percent had been in business for five years or fewer
- Average food hub sales were nearly **$1 million annually**
- **Private entrepreneurs** were largest single segment of food hub organizers at 40 percent of total
- Food hubs employed an average **7 full-time and 5 part-time employees** and relied on **5 regular volunteers on average**
- **Median number of suppliers to a food hub was 40**

Food Hub Survey Key Findings

- **Offer a wide range of food products**, with fresh produce being its major product category
- **Sell through multiple market channels**, with restaurants serving as an important entry market
- **Socially driven business enterprises with** strong emphases on both “good prices” for producers and “good food” for consumers. ***More than 40 percent operate in "food deserts"*** to increase access to fresh, local food products in underserved communities
- **Offer wide range of services** to both producers and consumers

Food Hub Findings

– Financial Viability of Food Hubs –

From follow-up phone interviews with 20 regional food hubs on their financial viability:

- **10 Food Hubs identified themselves as financially viable**, i.e., presently covering their operating costs (breaking even) or turning a profit
- **7 Food Hubs projected they will break even in the next 1 to 3 years**
- **All 10 financially viable food hubs have gross annual sales of $1 million or more**

Regional Food Hubs

Based on a working list of 200 regional food hubs identified by the NGFN Food Hub Collaboration

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Regional Food Hub Classifications

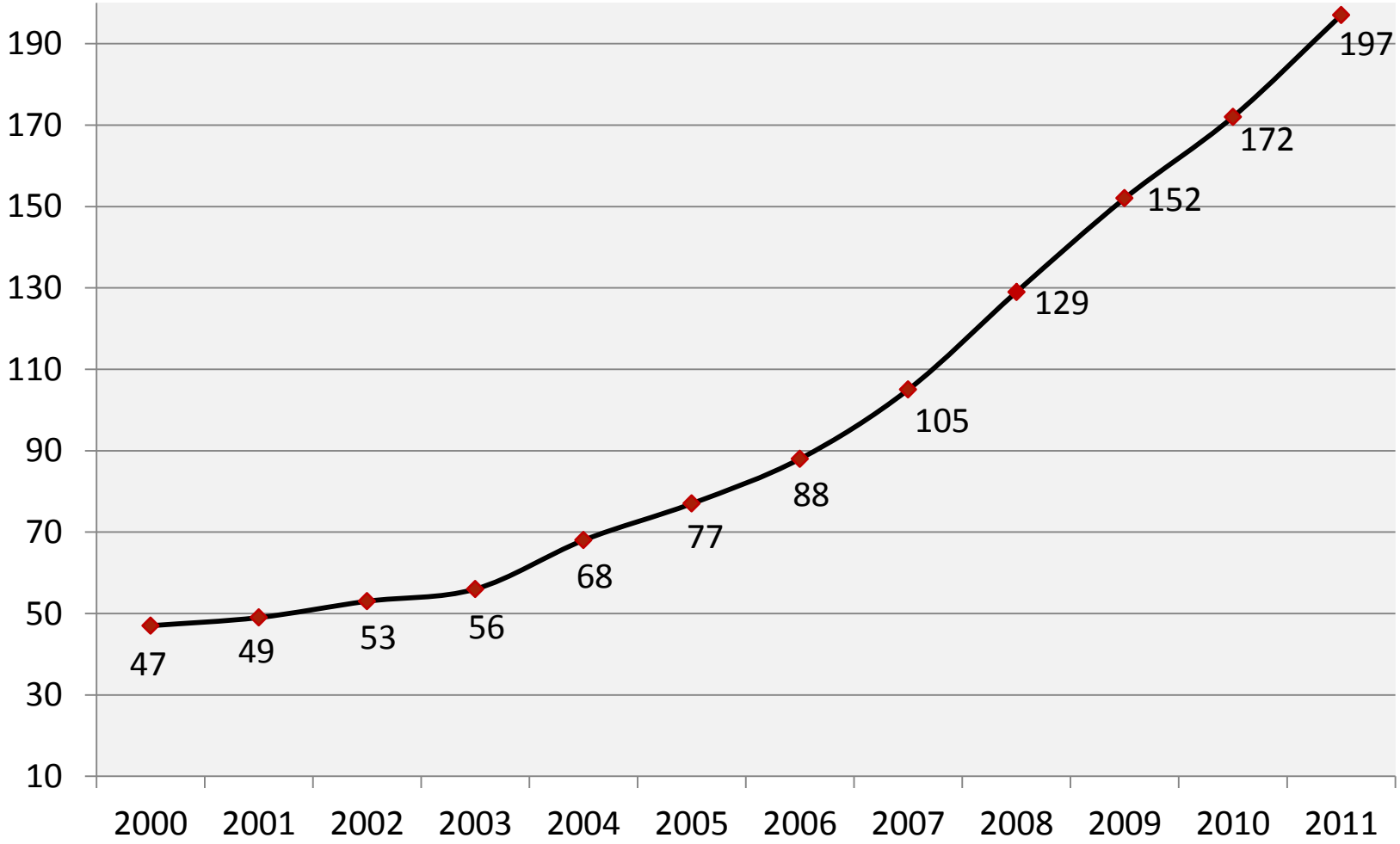
Breakdown of Regional Food Hubs*

Food Hub Legal Status	Number	Percentage
Privately Held	91	46%
Nonprofit	59	29%
Cooperative	39	20%
Publicly Held	8	4%
Informal	3	1%

Intermediated Market Model	Number	Percentage
Farm to Consumer (F2C)	78	39%
Farm to Business/Institution (F2B)	67	34%
Both F2B and F2C	55	27%

**Based on a working list of 200 food hubs identified by the NGFN Food Hub Collaboration (Aug. 6, 2012)*

Growth in the Number of Food Hubs (2001-2011)*



At least 68 food hubs have started in the past three years (2009-2011), with *at least* 25 food hubs established in 2011 alone

**Based on a working list of 200 food hubs identified by the NGFN Food Hub Collaboration (Aug. 6, 2012)*

Priority Needs of Food Hubs

- **In most cases, the physical and "virtual" infrastructure is already in place, with an unmet demand for locally and regionally grown products**

It's not about building new infrastructure, it's about taking underutilized assets and making them work better

- **What is needed?**
  - **Start-up capital** to renovate existing facilities for aggregation, storage, packing, light processing, and distribution
  - **Working capital** for business management systems to coordinate supply chain logistics (e.g., grower-buyer transactions, aggregation, distribution, and marketing)
  - **Enterprise development** training and technical assistance to increase grower capacity to meet buyer requirements (volume, quality, packaging, food safety, etc.)

The Big Picture…

- Regional Food Hubs and the Food System -

Regional food hubs are filling a market function not adequately addressed by the current distribution system: the aggregation and distribution of food products from small to mid-sized producers into local/regional wholesale market channels

Strong potential partnerships between regional food hubs and other distributors/wholesalers. Regional food hubs can:

- Serve as aggregation points for regional distributors/wholesalers
- Provide a reliable and ready supply of local/regional products
- Offer a broader and more diverse selection of source-identified and branded local products
- Increase supply of local/regional products by providing training/technical assistance to "grow" more producers

Exploration of organizational form and mission statement

Findings of a national survey of regional food hubs

Carolyn Dimitri, New York University & James Barham, USDA-AMS
Small Farm Conference, Memphis TN, Sept 20, 2012

Raising agricultural products

coffee beans, apples, cows

Entities involved: farms around the world

Potential policy targets: Environmental quality; farm worker wages/conditions; farmer income/farm viability/'agriculture of the middle'; animal welfare

Making & marketing food

roasted coffee beans, meat, apples

Packers, shippers, manufacturers, processors, ingredient suppliers, private labelers, wholesalers, brokers, distributors

Potential policy targets: Environmental quality (related to packaging, processing, transporting); healthfulness of food item; food system worker wages/conditions; upstream and downstream market power

Selling Food

Supermarkets & food retailers, restaurants, food service

Potential policy targets: Working conditions/wages paid to workers; prices paid to suppliers (including farmers); prices charged to consumers; types of food sold; product mix sold

Eating Food

People

Potential policy targets: Geographic availability of food; affordability; personal health; public health; labeling products with attibutes; culturally appropriate food

Food hubs versus terminal markets

Food distribution

Financial viability

Social contribution: economic, social, and environmental

Research questions

- Mission driven organizations
- Organizational form (profit motive?)
- Is there an intersection between mission and organizational form, and is it systematic?
- Anecdotal evidence: start as nonprofit

Food hub survey: goals

- Function
- Type/number of products handled
- Type/number of suppliers and buyers
- Organizational structure
- Mission

Food hub survey: methodology

- Conducted online in January 2011
- Two versions implemented
- Snowball methodology
- 108 firms identified
- 68 firms responded; 54 found to be food hubs (58% response rate)

Food hub mission statements

- "Building a resilient and socially just food system,"
- "…to connect consumers and farmers,"
- "…. to pay farmers for the food they produce and provide citizens with access to healthy food grown close to home

Classification of mission statements

Goals embedded in mission statements

Recoded into 10 categories:

local food, reshaping food system, support farmers, human health, food access, community development, environment, profits, increase consumer awareness, justice or equity

Assessment of mission statements

The number of goals included in each hub's statement:

ranges from [1,10]
mean & median: 3
st deviation of mean: 2

- 74% - target farmers
- 70% - local food

(higher than consumer & environment goals)
N = 47

Organizational form

- Cooperative – 25%
- For profit (LLC or C Corp) – 30%
- Not for profit – 28%
- Public – 17%

Note: N = 54

Missions and organizational form

	Food system	Local Food	Farmers	Food justice	Food access	Community Development
Cooperative	0	9	10	0	1	2
Non-profit	6	11	8	3	3	4
For profit	8	9	12	2	3	0

Socially responsible businesses?

- Survey supports trends in broader society and the food movement;
- “Beginning farmers” not alone;
- “beginning food businesses”

Benefits of the for-profit model

Annual value of products handled by food hubs

	Average	Median	N
	dollars		*Number of firms*
Cooperative	2,937,609	1,680,000	9
For profit	4,419,923	580,000	13
Nonprofit	1,873,083	529,500	12
Public sector	5,462,500	750,000	4
All food hubs	3,374,329	632,000	38

Source: Food Hub survey, Wallace Center.

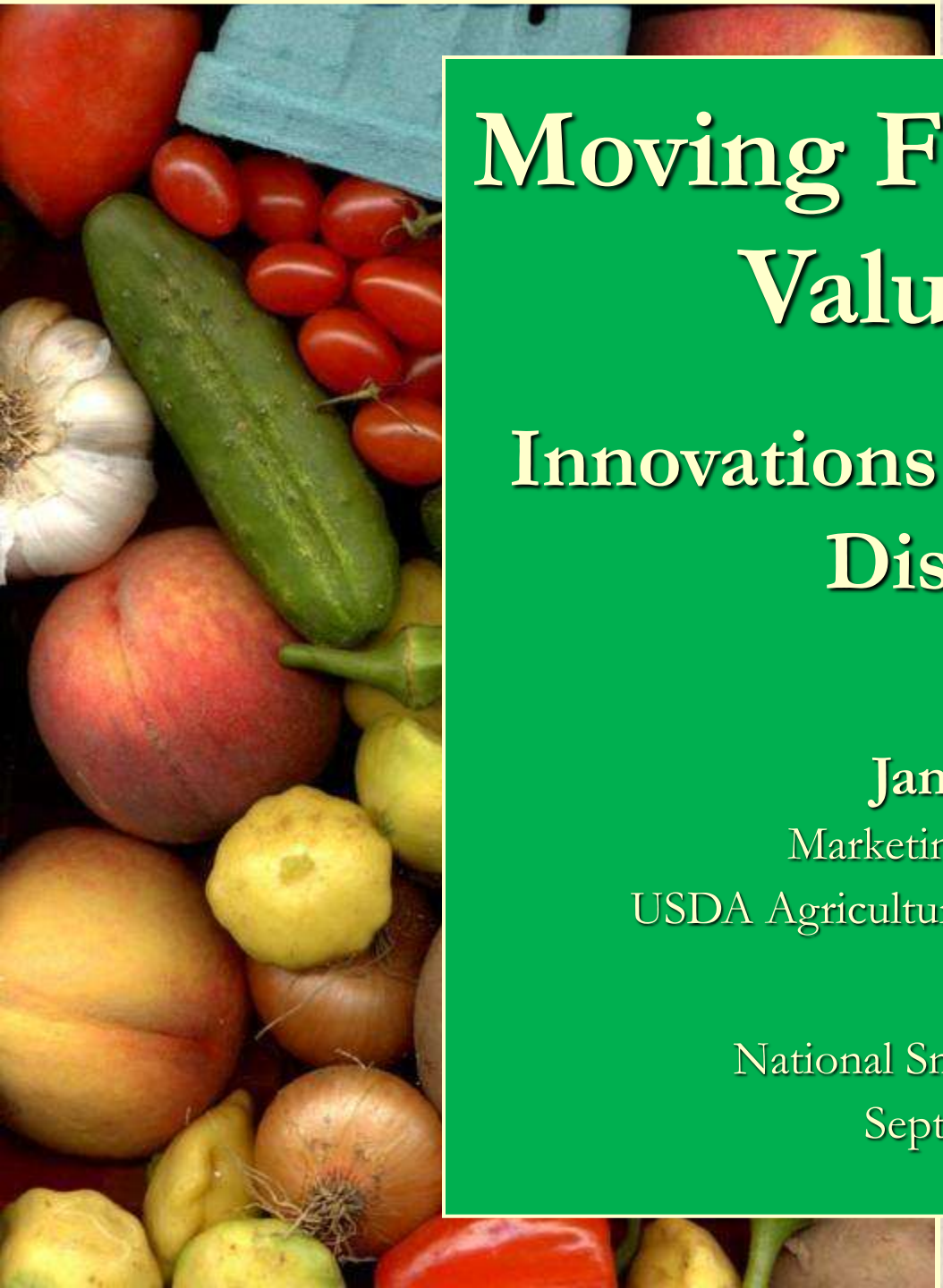
More on non-profit vs profit

- Hire more FT employees (14 vs 5)
- Handle more products (8.1 vs 4.6)
- Have more customers (8.9 vs 5.5)

Potential for impact

Looking ahead

- Tighten analysis
- Test for statistical robustness
- Tie in public markets and cooperatives



Moving Food Along the Value Chain:

Innovations in Regional Food Distribution

James Barham
Marketing Services Division
USDA Agricultural Marketing Service (AMS)

National Small Farms Conference
September 20, 2012

USDA Report on Distribution

Moving Food Along the Value Chain: Innovations in Regional Food Distribution

By Adam Diamond and James Barham

http://blogs.usda.gov/2012/03/16/the-best-food-distribution-models-for-small-and-mid-sized-farmers/

Study Objectives

- To find out how different regional food distribution models work and how effective they are in creating new market channels for small and mid-scale producers

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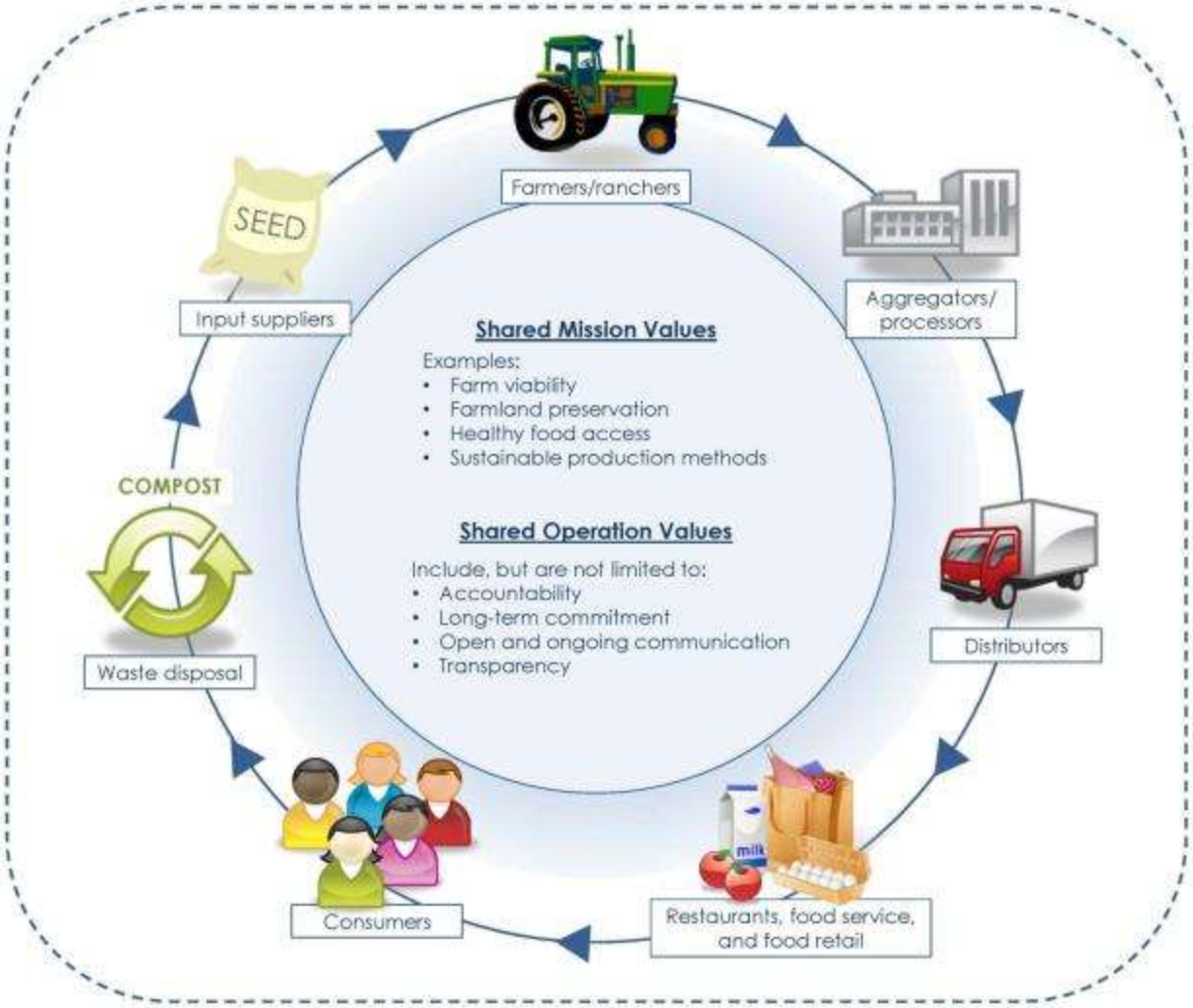
Research Methodology

- **Case study approach** - 3 year longitudinal study
- **Conceptually framed around value chains**
  Strategic business alliances formed between producers and their supply chain partners to distribute significant volumes of high-quality, differentiated food products and share the rewards equitably (see www.agofthemiddle.org).
- **Selection criteria for case studies**
  - Types of organizations
  - Stages of development
  - Geographic location
  - Agricultural products offered for sale
- **Semi-structured interviews with producers, distributors, buyers, and consumers**

Food Value Chain



Factors Influencing the Food Value Chain

Finance	Service Providers/Facilitators	Policy Environment
• Start-up capital • Working capital • Credit terms • Taxes • Insurance	• Agricultural extension • Consultants • Non-profits • Government agencies	• Food safety • Subsidies • Conservation programs • Labor regulation • Taxation

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Value Chain Distribution Models

Stages of Development / Distribution Model	Start-up/Nascent	Developing/Emerging	Mature/Developed
Retail Driven		*La Montanita, NM*	*The Wedge/Coop Partners, MN*
Non-profit Driven	*MFA/Big River Foods, MN*	*CAFF/Growers Collaborative, CA*	*Red Tomato, MA* *Appalachian Sustainable Development, VA*
Producer Driven			*New N. Florida Cooperative, FL*
Consumer Driven (e.g., Buying Clubs)		*Oklahoma Food Cooperative, OK*	

Crosscutting Themes

1. Infrastructure Investments
2. Product Differentiation
3. Coordination of Producers
4. Organizational Capacity

1. Infrastructure Investment

Infrastructure investment needs to match the organization's stage of development and marketing capacity – ***in other words, only buy wheels and warehouses when you really need them!***

Oklahoma Food Cooperative

- Internet-based statewide buying club – started in 2003.
- 200 farmers – 3,800 members – over 4,000 items available each month (OK products only)
- $864,000 in sales for 2010, a 23% increase over 2009.
- Low level of initial infrastructural investment by coop, with equipment purchased as needed and as operating revenues permit

2. Product Differentiation

Product differentiation, including identity preservation, is essential to establishing marketing claims and improving negotiating position with buyers ***– in other words, these businesses don't sell plain vanilla products!***

Red Tomato

- **Started in 1996** – Serves as broker between grower network and retail stores
- **Scope of Operations**: ~35 farmers; 35 crops, including 22 heirloom apple varieties; Trader Joes and Whole Foods stores throughout Northeast
- **Eco Apple** – apples grown using advanced integrated pest management methods subject to third party verification. All tote bags labeled with individual farms
- **Sales** (2010) $2.8 million – 500% growth since 2003. Eco Apples account for roughly half of their sales

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3. Coordination of Producers

Informal producer networks can be highly adaptable to the constantly shifting demands of diversified food markets ***– in other words, we love co-ops but there's more than one way to work with farmers!***

Appalachian Sustainable Development
- Appalachian Harvest -

- Non-profit established in 1995 – works with a network of organic farmers who collectively market and distribute produce under one identifiable, regional brand
- **Appalachian Harvest** – a network of roughly 60 farmers, selling organic produce and eggs to supermarket chains with more than 600 stores
- **Preseason planning:** The network meets in off-season to decide what to grow, how much, when and who will grow it

- **Over $1 million in sales (2011)**

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4. Organizational Capacity

Building strategic partnerships can offset organizational limitations and strengthen value chain relationships **– *in other words, find out what you're good at, find out what you're not so good at, and then get the right people to help you!***

CAFF's Growers Collaborative

- Established by Community Alliance with Family Farms (CAFF) in 2005 to offer aggregation, distribution, market promotion, and education services to a network of more than 70 farmers, selling primarily to institutional markets

- In 2009 CAFF stopped being a full–service distribution company, transferring distribution and marketing services to independent aggregators and distributors

- Playing more of matchmaker role, connecting farmers to distributors institutional food service operators, and focusing its efforts on providing support services through market promotion and education to local supply chain actors.

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Nonprofit Roles in Food Value Chains

Matchmaker	Connect key stakeholders through short-term or one-off engagement. As public interest brokers, nonprofits can bring unlikely partners together to create value chain collaborations.
Facilitator	Be actively involved in building longer term relationships among food value chain actors by helping to establish effective communication channels, ensuring values are articulated and shared, and fostering a trusting environment.
Third-party Certification	Establish a program whereby producers receive independent verification of their adherence to a certain set of standards. Such programs help to differentiate products and build demand in the marketplace.
Educator	Provide marketing and educational support, such as branding that reinforces the values and "tells the story." Education can raise consumer awareness and ultimately drive sales for food value chain products.
Catalyst / Innovator	Test out innovative business models. Through grants and donations, nonprofits can take financial risks that would be more challenging for a for-profit business.
Resource Prospector	Identify and pursue resources, such as grants, loans, and service providers, to support value chain collaborators as they develop their enterprise(s).

Other Lessons
- Five Keys to Successful Marketing for Food Hubs -

- ✓ **Don't sell commodities**
  - Product differentiation is key (unique product attributes, source identified, production practices, social equity), telling a compelling story, branding, certifications.
- ✓ **Be there all year for your customers**
  - Must sustain operations year round to cover costs and keep customer communication constant. Be pragmatic about your approach in terms of sourcing "locally."
- ✓ **Get buyer commitment**
  - Be clear with buyers about volume order expectations and use a combination of specials, incentives, rewards, public recognition for "committed" buyers.
- ✓ **Think farmers first**
  - Ensure good prices for producers and find ways to build their capacity to grow and be successful.
- ✓ **Sweat the small stuff**
  - To tell an authentic and compelling story, all staff need to know every detail of the production and handling practices of the product sold under the brand (even the truck drivers!).

NGFN Food Hub Collaboration

Study Hubs

- Work closely with ~ 8 hubs
- Provide TA
- Capture and share learning

Community of Practice

- Food hub "professional network"
- National & regional networking opportunities
- Peer to peer learning tools
- Goal: Accelerate innovation and increase commerce

NGFN Food Hub Collaboration

Technical Assistance Network

- Leverage National Good Food Network

Research

- Help to coordinate research across country
- Annual survey

Outreach & Communications

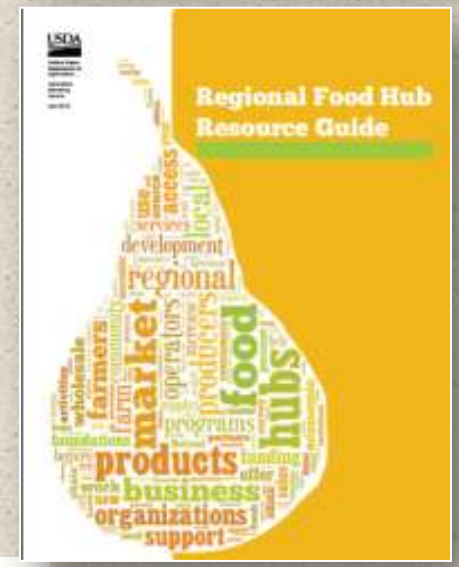
- Case studies
- Webinars
- Links to financial and knowledge resources
- www.FoodHub.info
- www.ams.usda.gov/FoodHubs

USDA Food Hub Resources

USDA's Food Hub Portal

www.ams.usda.gov/FoodHubs

A catalogue of USDA's findings, resources, and support for food hubs



Regional Food Hub Resource Guide:

Food hub impacts on regional food systems, and the resources available to support their growth and development

A collaboration between USDA and the Wallace Center

USDA Food Systems Resources

USDA Agricultural Marketing Service – Marketing Services Division

http://www.ams.usda.gov/WholesaleFarmersMarkets

Includes National Farmers Market Directory, grant programs, and research/resources to assist producers improve their market opportunities

USDA Food Systems Resources

Start2Farm – For New and Beginning Farmers and Ranchers

www.start2farm.gov

Start2Farm serves as a one-stop reference for anyone looking for programs and resources to start farming and to be successful in their first years as a farmer or rancher.

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KNOW YOUR FARMER
KNOW YOUR FOOD

USDA KYF Compass

"Know Your Farmer, Know Your Food" Compass 2.0

www.usda.gov/kyfcompass

An online multi-media narrative with stories, pictures and video about USDA's support for local and regional food systems

Includes an interactive map of USDA-supported local and regional food activities in all 50 states

2.0 version displays a great deal of local food infrastructure, including food hubs.

3.0 version coming soon!

USDA's "Know Your Farmer, Know Your Food" Initiative
www.usda.gov/knowyourfarmer

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