



The impact of AI-based digital transformation on the development of service marketing strategies

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Abstract:

The study explores how AI technologies-such as machine learning, predictive analytics, chatbots, and recommendation systems-are reshaping the way services are marketed in various sectors. It also addresses key challenges, including ethical concerns, data privacy, and organizational resistance to change. Through a structured analysis, this paper aims to highlight the strategic value of AI in marketing transformation and offer practical suggestions for service-based businesses seeking to stay competitive in a digital-first economy. The findings suggest that AI-driven marketing strategies are not only more responsive and customer-centric but also essential for long-term success in the evolving service landscape.

Keywords : Artificial Intelligence; Digital Transformation; Strategies; Service Marketing.

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1. INTRODUCTION

In today's fast-evolving digital landscape, organizational transformation has become a strategic necessity, particularly in service industries operating within dynamic and customer-oriented environments (Lemon & Verhoef, 2016, PP.69-96). Within this context, Artificial Intelligence (AI) functions as a key driver of digital transformation, enabling data analysis, learning from interactions, and intelligent decision-making. As a result, AI is reshaping the way services are marketed, designed, and delivered, especially through applications such as chatbots, recommendation engines, and predictive analytics, which enhance real-time marketing effectiveness and interaction quality (Davenport et al., 2020, PP.24-42). These technologies contribute to improved targeting, higher customer satisfaction, and stronger loyalty outcomes. However, their adoption remains challenged by issues related to data privacy, ethical concerns, financial and technical costs, and organizational resistance. Despite these constraints, AI continues to demonstrate strong potential as a strategic enabler of more effective and customer-centered service marketing strategies.

1.1 Research problem:

In today's digital era, service businesses face increasing pressure to adapt to evolving customer expectations and rapid market changes. Traditional marketing methods are no longer sufficient for delivering real-time, personalized, and engaging customer experiences. In this context, Artificial Intelligence (AI) has emerged as a powerful enabler, providing tools for automation, data-driven insights, and predictive capabilities that support more responsive, efficient, and value-driven services.

Despite these opportunities, many businesses still struggle with the effective integration of AI into their marketing and service strategies. Key challenges include a lack of technical expertise, high implementation costs, data privacy and security concerns, as well as organizational resistance to change. Moreover, the overuse or poor application of AI technologies can lead to ethical issues, reduced transparency, and customer mistrust, particularly when automated systems replace meaningful human interaction. This creates a strategic dilemma for organizations adopting AI: the need to leverage intelligent technologies to enhance marketing performance while preserving the human touch, service quality, and customer trust.

The problem can be raised in the following question: How can service-based organizations strategically integrate AI into their digital transformation processes to modernize their marketing strategies while maintaining trust, personalization, and ethical standards?

1.2 Hypotheses:

Based on the research problem and existing literature, the following hypotheses are proposed to guide the investigation into the impact of AI-based digital transformation on service marketing strategies:

H1: Organizations that adopt AI-based marketing tools experience higher levels of customer engagement and satisfaction compared to those relying on traditional methods.

H2: The lack of technical expertise and organizational readiness negatively affects the successful implementation of AI-based marketing strategies in service industries.

H3: Ethical concerns and data privacy issues influence customer trust in AI-based service marketing.

1.3 Research Methodology:

Our study is based on the following previous studies:

- Sahut, J., & Laroche, M. (2025). Using artificial intelligence (AI) to enhance customer experience and to develop strategic marketing: An integrative synthesis: This study presents an integrative review on how AI enhances customer experience and supports strategic marketing. It synthesizes prior research showing that AI-driven personalization, predictive analytics, and automated decision systems improve customer engagement and real-time responsiveness. Their framework explains how AI capabilities translate into strategic value creation. The study concludes that AI strengthens marketing effectiveness when combined with human oversight to maintain trust. However, it remains conceptual and lacks empirical validation across diverse service sectors, which limits generalizability.

- Islam, M. A., et al. (2024). Artificial intelligence in digital marketing automation: Enhancing personalization, predictive analytics, and ethical integration: The study highlights that AI tools improve segmentation accuracy, targeted communication, and data-driven decision-making. It stresses the importance of transparency, privacy protection, and fairness to sustain customer trust. The authors argue that ethical governance should accompany AI adoption to avoid negative customer perceptions. Although insightful, the work is largely conceptual and calls for empirical testing in real organizational contexts.

- Acatrinei, C., et al.(2025). Artificial intelligence in digital marketing: Enhancing consumer engagement and supporting sustainable behavior through social and mobile networks: This study conducts an empirical study on AI-enabled personalization in social and mobile networks and its impact on consumer engagement and sustainable behavior. Using survey data and statistical modeling, the study finds that AI-mediated personalization increases engagement, satisfaction, and loyalty when users perceive AI as transparent and useful. Results also indicate that AI can encourage sustainable consumption behaviors. The study offers strong empirical evidence but remains focused on digital platforms, limiting applicability to offline or hybrid service environments.

- Kietzmann, J., et al. (2018). Artificial intelligence in marketing, consumer research, and service interactions: Opportunities, challenges, and research directions: This study provides a critical review of AI adoption in marketing, consumer research, and service interactions. It identifies major opportunities such as personalization, efficiency, and predictive capability, alongside key risks including privacy concerns, algorithmic bias, and trust challenges. The authors emphasize the need for governance frameworks and human–AI complementarity. While the paper is conceptual, it offers a comprehensive research agenda and valuable strategic and ethical insights for future empirical studies.

This study extends prior literature by conceptualizing Artificial Intelligence as a strategic driver of AI-based digital transformation in service organizations, rather than as a collection of discrete marketing applications. Adopting an integrative and strategy-oriented perspective, the study examines how AI reshapes the development of service marketing strategies, while simultaneously addressing core challenges related to trust, ethics, organizational readiness, and customer acceptance. By linking AI capabilities to competitiveness, value creation, and service innovation, the study offers a focused yet comprehensive contribution to understanding the strategic role of AI in the contemporary service marketing landscape

2. Definitions

2.1 Artificial Intelligence (AI):

A branch of computer science that focuses on building systems capable of performing tasks that typically require human intelligence. These tasks include learning, reasoning, problem-solving, and natural language processing. In the context of marketing, AI is used to analyze customer data, automate interactions, and personalize

experiences.

2.2 Digital Transformation:

The process of leveraging digital technologies to fundamentally change how organizations operate, deliver value to customers, and adapt to market demands. It involves integrating tools like AI, cloud computing, big data, and automation into all aspects of business operations.

2.3 Service Marketing:

A branch of marketing focused on promoting and selling intangible services rather than physical products. It emphasizes customer relationships, trust, satisfaction, and long-term engagement. Service marketing is especially relevant in industries such as healthcare, education, finance, and hospitality.

2.4 Personalization:

The process of tailoring content, offers, or services to individual users based on their preferences, behaviors, and past interactions. AI plays a critical role in enabling real-time personalization at scale through data analysis and predictive modeling.

2.5 Customer Engagement:

The emotional and behavioral connection between a customer and a brand. High engagement levels often result from positive, relevant, and consistent interactions across various digital touchpoints.

2.6 Predictive Analytics:

A subset of data analytics that uses historical data, statistical algorithms, and machine learning techniques to forecast future outcomes. In marketing, it helps predict customer behavior, buying patterns, and campaign performance.

3. The Role of AI in Service Marketing

Artificial Intelligence is transforming service marketing by enabling smarter, faster, and more personalized customer engagement (Huang & Rust, 2021, PP. 30–50). It replaces traditional, generalized marketing with real-time, data-driven strategies tailored to individual needs.(Davenport et al., 2020, PP.24-42).

AI analyzes large volumes of structured and unstructured data, such as purchases and online behavior. By identifying patterns and predicting actions, it helps marketers deliver timely and relevant messages.(Juan Barraza, 2021)

3.1 AI-Powered Chatbots and Virtual Assistants:

One of the most common applications of AI in service marketing is the use of chatbots and virtual assistants. These tools leverage natural language processing (NLP) to engage with customers,

answer questions, solve problems, and guide them through service processes (Hillebrand, 2025. PP.343-375). For example, banks use AI assistants to help customers check balances, transfer funds, or even recommend financial products. Notably, Bank of America's Erica and other AI-based systems have shown the potential of conversational agents in improving service accessibility and personalization (Davenport et al., op cit). Unlike human agents, chatbots can operate 24/7 and serve multiple users simultaneously, ensuring consistent service quality and availability (Huang & Rust, 2021, PP. 30–41).

3.2 Personalized Content and Recommendations:

Recommendation systems, powered by machine learning algorithms, are another vital AI application. These systems analyze user data to suggest services or content that align with the user's preferences (Juan Barraza, op cit). For instance, streaming platforms like Netflix and Spotify use AI to recommend shows or playlists based on a user's past viewing or listening behavior (Netflix Technology Blog, 2016; University of South Carolina, 2024). Similarly, in online education services, AI can recommend learning materials based on a student's performance and interests, improving engagement and learning outcomes (Hillebrand, op cit).

3.3 Predictive Customer Behavior:

AI allows marketers to anticipate customer actions, such as the likelihood of churn, product interest, or purchase timing. Predictive analytics enables service providers to take proactive measures - such as offering special promotions, personalized emails, or loyalty rewards- to retain customers or encourage conversion (Davenport et al., op cit; Hillebrand, op cit). This level of foresight is particularly valuable in sectors like telecommunications, insurance, and e-commerce, where understanding customer behavior in advance can significantly improve retention and profitability (Juan Barraza, op cit).

3.4 Automated Campaign Management:

AI can also streamline and optimize marketing campaign execution. Platforms powered by AI can automatically segment audiences, A/B test content, allocate budgets, and optimize ad placements in real time (Juan Barraza, op cit). This automation not only saves time and reduces costs but also increases marketing effectiveness by delivering the right message to the right person at the right moment (Davenport et al., op cit; Hillebrand, op cit). As a result, marketers can make data-driven decisions faster and with greater

precision, enhancing both the efficiency and impact of their campaigns.

3.5 Voice and Image Recognition in Services:

In advanced applications, AI is used to enhance service marketing through voice and image recognition. For example, hospitality apps may use facial recognition to personalize guest experiences, offering tailored services based on visual identification (IBM, 2016). Similarly, voice assistants like Amazon Alexa and Google Assistant enable voice-based service bookings or information inquiries—creating a more seamless and natural user experience by allowing customers to interact with services hands-free and in real time (Huang & Rust, op cit; Davenport et al., op cit). These technologies not only improve convenience but also open new channels for engaging customers in increasingly intuitive ways.

3.6 Customer Sentiment Analysis:

AI can analyze customer sentiment from reviews, feedback, and social media posts to assess satisfaction and brand perception. Sentiment analysis tools allow companies to understand how customers feel about their services and respond quickly to negative feedback, improving brand reputation and service quality (Huang & Rust, op cit; Hillebrand, op cit). These tools leverage natural language processing (NLP) and machine learning algorithms to detect emotional tone and intent, enabling service providers to proactively address concerns and enhance the overall customer experience (Davenport et al., op cit).

4. Strategic Benefits of AI in Service Marketing

Artificial Intelligence offers a wide array of strategic advantages that are reshaping the service marketing landscape. Beyond simple automation, AI provides deeper customer understanding, faster decision-making, and the ability to deliver highly personalized and adaptive services (Juan Barraza, op cit; Hillebrand, op cit). These benefits not only improve operational performance but also enhance the overall customer experience—an essential factor in service industries where personalization and responsiveness are critical to success (Huang & Rust, 2021, 30- 41; Lemon & Verhoef, 2016, PP.69–96).

4.1 Personalization at Scale:

AI enables organizations to personalize services for large audiences by analyzing customer data in real time. Unlike manual segmentation, which groups customers into broad categories, AI allows micro-segmentation and individualized targeting (Juan Barraza,

op cit). This results in tailored offers, messages, and experiences that reflect each customer's preferences, behavior, and purchasing history (Davenport et al., op cit; Hillebrand, op cit). For example, AI-based email marketing platforms can automatically customize subject lines, content, and sending times based on user interaction history—leading to significantly higher open and conversion rates (Juan Barraza, op cit). In the travel industry, companies can recommend specific destinations or activities based on a traveler's past bookings or online searches, creating a more engaging and relevant experience (Pushpakumara et al., 2025, pp. 2516–2530).

4.2 Enhanced Customer Experience:

By anticipating customer needs and responding instantly, AI enhances satisfaction and loyalty (Huang & Rust, op cit). Virtual assistants, recommendation engines, and intelligent routing systems help deliver quick and efficient solutions, improving service speed and quality. In banking, for example, AI helps customers manage accounts, detect fraud, and get financial advice—all within one seamless app interface (Davenport et al., op cit; Hillebrand, op cit).

Moreover, AI helps reduce friction in customer journeys by identifying pain points and optimizing service touchpoints (Lemon & Verhoef, op cit). This contributes to greater convenience, stronger brand perception, and increased trust—key drivers of customer retention in service industries (Juan Barraza, op cit).

4.3 Improved Marketing Efficiency:

AI automates many repetitive tasks—such as audience segmentation, content scheduling, and ad placement—freeing up marketers to focus on strategy and creativity (Hillebrand, op cit; Juan Barraza, op cit). AI also assists in campaign optimization by analyzing performance data in real time and adjusting campaigns for better ROI (Davenport et al., op cit).

In digital advertising, AI algorithms determine the best channels, formats, and timing for ads, maximizing engagement and minimizing wasted spend. For example, programmatic advertising platforms use AI to target ads with precision, ensuring that the right messages reach the right users at the right moment (Pushpakumara et al., op cit).

4.4 Data-Driven Decision Making:

AI transforms marketing from intuition-based to insight-driven. Predictive analytics and data visualization tools help marketers understand what works, what doesn't, and why, enabling more accurate and confident decision-making (Davenport et al., op cit; Juan Barraza, op cit). This reduces the risk of failed campaigns and allows for quicker adaptation to market changes.

For instance, AI can forecast customer churn and suggest preventive strategies such as targeted retention offers or personalized outreach (Hillebrand, op cit). In subscription-based services like streaming or SaaS platforms, this can drastically reduce customer attrition and improve long-term profitability (Pushpakumara et al., op cit).

4.5 Competitive Advantage:

Early adopters of AI gain a competitive edge by responding to market trends more quickly, delivering superior experiences, and achieving higher marketing performance (Davenport et al., op cit; Juan Barraza, op cit). AI empowers businesses to launch smarter campaigns, experiment with new formats—such as voice-based interactions or augmented reality (AR) marketing—and adapt to consumer feedback more rapidly than competitors relying on traditional tools (Huang & Rust, op cit).

In industries like online education, where the demand for scalable, interactive platforms is growing, AI-based recommendation and adaptive learning systems offer a key advantage over less personalized alternatives (Hillebrand, op cit; Pushpakumara et al., op cit).

4.6 Cost Reduction:

Although AI implementation may require an initial investment, it often leads to long-term cost savings by reducing the need for manual labor and minimizing inefficiencies (Hillebrand, op cit; Juan Barraza, op cit). For instance, AI can handle thousands of customer queries through chatbots, reducing the burden on human support teams and ensuring round-the-clock service at a lower operational cost (Huang & Rust, op cit). It can also detect ineffective marketing strategies in real time and redirect budgets toward more impactful actions, improving overall return on investment (Davenport et al., op cit).

5. Challenges and Risks of AI in Service Marketing

While the integration of Artificial Intelligence into service marketing offers numerous advantages, it also presents a range of challenges and risks that organizations must address. These concerns span ethical, technical, financial, and organizational domains (Pushpakumara et al., op cit; Hillebrand, op cit). Ignoring or underestimating these risks can hinder successful AI adoption and potentially damage customer trust, operational stability, and brand reputation (Huang & Rust, op cit; Davenport et al., op cit).

5.1 Data Privacy and Security Concerns:

AI systems depend heavily on the collection and analysis of vast amounts of personal data to function effectively. However, improper data handling can lead to serious breaches of privacy and security.

Misuse or unauthorized access to customer data may violate regulations such as the GDPR (General Data Protection Regulation) or CCPA (California Consumer Privacy Act), exposing companies to legal penalties and public backlash (Pushpakumara et al., op cit; Hillebrand, op cit).

Moreover, many consumers are wary of how their data is being used. A lack of transparency about AI processes—often referred to as the "black box" problem—can erode trust, especially when decisions (such as pricing or recommendations) seem biased or unfair (Huang & Rust, op cit; Davenport et al., op cit).

5.2 High Implementation and Maintenance Costs:

While AI can ultimately reduce operational costs, the initial setup is often expensive. Developing or integrating AI tools requires substantial investment in software, hardware, and skilled personnel (Hillebrand, op cit). For small and medium-sized service providers, these costs can be prohibitive, creating barriers to entry and widening the digital gap between large and small organizations (Pushpakumara et al., op cit).

Additionally, maintaining and updating AI models to ensure accuracy, relevance, and fairness over time requires continuous effort and expertise, increasing the total cost of ownership and operational complexity (Huang & Rust, op cit).

5.3 Lack of Technical Expertise and Talent:

One of the most significant barriers to AI adoption is the shortage of skilled professionals who can design, implement, and manage AI systems (Pushpakumara et al., op cit; Hillebrand, op cit). Many organizations lack the in-house capabilities to effectively integrate AI into their existing marketing processes, resulting in a reliance on external vendors or underdeveloped strategies.

This skills gap not only slows down transformation but can also result in poorly implemented solutions that fail to deliver on expected outcomes or introduce technical vulnerabilities that compromise system effectiveness and trustworthiness (Huang & Rust, op cit; Davenport et al., op cit).

5.4 Ethical and Bias Issues:

AI systems learn from data, and if that data contains biases—intentional or not—the AI may replicate and even amplify them (Huang & Rust, op cit; Davenport et al., op cit). For example, an AI system trained on biased historical customer interactions might deliver discriminatory service recommendations or pricing models, undermining fairness and inclusivity.

These ethical risks are particularly critical in services that directly affect individuals' well-being, such as healthcare, finance, or education. Organizations must ensure fairness, transparency, and accountability in AI-based decisions to avoid discrimination and public distrust (Pushpakumara et al., op cit; Hillebrand, op cit).

5.5 Customer Resistance and Trust Issues:

Not all customers are comfortable interacting with AI-based systems. Some prefer human interaction, especially for complex or emotionally sensitive services such as healthcare, financial advising, or counseling (Huang & Rust, op cit). Over-reliance on automation can lead to impersonal experiences that alienate customers and weaken emotional connection with the brand (Davenport et al., op cit). Additionally, if AI-based communication appears too invasive or "creepy"-for example, using too much personal detail or predictive behavior-it may cause discomfort and reduce engagement, even if technically effective (Pushpakumara et al., op cit; Juan Barraza, op cit).

5.6 Integration Challenges:

Integrating AI systems with legacy platforms, customer databases, and other tools can be technically complex. Incompatibility or lack of data standardization often leads to inefficiencies, poor performance, or data silos that hinder full AI potential (Pushpakumara et al., op cit; Hillebrand, op cit).

For organizations undergoing digital transformation, this integration challenge can delay implementation and reduce return on investment, especially when IT infrastructure is outdated or fragmented across departments (Davenport et al., op cit; Huang & Rust, op cit).

6. Case Examples and Industry Applications

The integration of Artificial Intelligence into service marketing is not a theoretical concept—it is being actively applied across a range of industries with measurable results (Davenport et al., op cit; Juan Barraza, op cit). From banking and healthcare to education and hospitality, AI is driving innovation, improving operational efficiency, and enhancing customer engagement through practical, data-driven solutions (Huang & Rust, op cit; Pushpakumara et al., op cit). This section presents real-world examples and applications from key service sectors where AI technologies are reshaping marketing strategies and customer experiences.

6.1 Banking and Financial Services:

The integration of artificial intelligence in banking is frequently framed as a strategic mechanism for enhancing operational efficiency and improving customer experience, particularly through virtual

assistants, fraud-detection systems, and predictive analytics. However, the progressive automation of advisory and service interactions raises critical concerns regarding the erosion of human-centered banking relationships and the potential weakening of institutional trust (OECD, 2023). Moreover, recent studies indicate that fraud-detection and credit-scoring models trained on historically imbalanced datasets may unintentionally reproduce algorithmic bias, thereby affecting equitable access to loans and financial services (Kellogg et al., 2022, pp.357-368).

While predictive marketing systems demonstrably increase conversion rates and product alignment, they also introduce ethical tensions related to intensive behavioral tracking and the subtle steering of consumer decision-making through quasi-deterministic recommendations (Bank for International Settlements, 2022). Consequently, the positive economic value of AI in the banking sector remains contingent upon transparent data-governance frameworks, algorithmic accountability, and strong privacy protections.

6.2 Healthcare and Telemedicine:

AI-enabled telemedicine platforms are widely recognized for their capacity to expand access to essential health services and reduce clinical workload through automated triage tools and predictive risk models (World Health Organization, 2022). Nevertheless, excessive reliance on algorithmic indicators in medical decision-making may contribute to the “commodification” of care and a diminished sense of professional responsibility, particularly when recommendations are delivered outside continuous clinical supervision (Topol, 2019, PP.44–56).

The literature further highlights disparities in benefit distribution arising from digital-access inequalities, whereby individuals with higher income and digital literacy gain more from AI-mediated care than socially vulnerable groups (United Nations Development Programme, 2023). Although personalization tools and medication-reminder systems may enhance adherence and patient engagement, the legitimacy of AI-enabled healthcare ultimately depends on robust safeguards for confidentiality, health-data security, and patient autonomy.

6.3 Hospitality and Tourism:

Within the hospitality and tourism sector, AI systems support greater personalization of guest experiences and enhance digital reputation management through large-scale sentiment analysis of reviews and social-media content (World Travel & Tourism Council, 2023). Yet the translation of individualized experiences into

quantitative satisfaction metrics may reduce the complexity of guest interactions to performance scores, encouraging managerial practices that privilege more profitable customer segments over equitable service provision (Zuboff, 2019, pp. 70–90).

At the same time, the pervasive tracking of behavioral and locational data prompts significant questions regarding privacy, informed consent, and cross-platform data sharing — particularly when such data flows operate across jurisdictions with heterogeneous regulatory protections.

6.4 E-Learning and Online Education:

Adaptive learning platforms are frequently associated with improved learning trajectories through the alignment of content difficulty, sequencing, and feedback with learner performance patterns (Means et al., op cit). However, the conversion of learning processes into quantifiable performance indicators risks narrowing education to measurable outputs while weakening dialogic, reflective, and critical dimensions of pedagogy (Selwyn, 2020, pp. 1–14).

Furthermore, the transfer of substantial tutoring responsibilities to conversational agents may widen disparities between learners with complex cognitive needs and those capable of autonomous study. Accordingly, transparency in algorithmic design, pedagogical evaluation standards, and oversight mechanisms becomes essential to ensuring fairness and educational quality in AI-mediated learning environments.

6.5 E-Commerce and On-Demand Services:

Recommendation engines and dynamic-pricing algorithms have generated significant gains in digital-market efficiency by optimizing personalization and predicting purchasing behavior (OECD, 2022). However, regulatory reports caution that such mechanisms may evolve into forms of invisible price discrimination, disproportionately affecting certain consumer groups or geographic areas without their awareness (Australian Competition and Consumer Commission, 2023).

In addition, interface designs grounded in behavioral-nudging strategies may steer users toward economically sub-optimal decisions, reinforcing the need for transparency in recommendation logic, consumer-rights protection, and oversight of persuasive design practices in digital marketplaces.

7. CONCLUSION

The integration of Artificial Intelligence into service marketing represents one of the most significant advancements in the digital transformation era. AI technologies have redefined how service providers understand, attract, and engage with customers—enabling personalization at scale, real-time decision-making, and deeper customer insights. From AI-based chatbots and recommendation systems to predictive analytics and sentiment analysis, these tools have not only enhanced marketing effectiveness but also elevated the overall quality of the service experience.

However, as this study highlights, the implementation of AI in service marketing is not without its challenges. Issues related to data privacy, ethical bias, customer trust, high implementation costs, and the need for skilled personnel must be addressed carefully. The success of AI-based service strategies depends not only on technological advancement but also on responsible design, transparent communication, and a deep understanding of consumer behavior.

Looking ahead, the prospects for AI in service marketing are vast. As AI systems become more sophisticated, we can expect more predictive, conversational, and immersive service environments. Yet, achieving this potential requires continuous research, sector-specific innovation, and a commitment to ethical and inclusive practices.

In summary, Artificial Intelligence is not just a tool for automating service marketing—it is a strategic enabler of smarter, more human-centered service delivery. By harnessing its capabilities wisely, organizations can unlock new levels of efficiency, creativity, and customer satisfaction in the digital age.

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