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# Exploring the Use of Cluster Analysis in Market Segmentation for Targeted Advertising

Muhammad Farras Nur<sup>1</sup>, Amora Siregar<sup>2</sup>

Department of Information System, Bina Nusantara University<sup>1</sup>  
Department of Information System, Ain Shams University<sup>2</sup>  
Indonesia<sup>1</sup>, Egypt<sup>2</sup>

e-mail: [farras.nurmuh@gmail.com](mailto:farras.nurmuh@gmail.com), [siregaramoraa@gmail.com](mailto:siregaramoraa@gmail.com)

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## Abstract

*In the rapidly evolving field of digital marketing, precise targeting and segmentation have become essential for optimizing advertising efforts, yet traditional methods often struggle to adequately address the dynamic nature of consumer behaviors. This study delves into the efficacy of cluster analysis as a robust tool in market segmentation, particularly aimed at enhancing the precision of targeted advertising campaigns. By employing a case study approach, the research meticulously analyzes real-world advertising campaigns across various industries, utilizing cluster analysis to segment the market and employing qualitative data analysis to evaluate the outcomes in terms of engagement and conversion improvements. The results indicate that cluster analysis not only facilitates a deeper understanding of market segments but also leads to more tailored and effective advertising strategies. Companies implementing this method reported significant improvements in campaign performance, with higher engagement and conversion rates compared to traditional segmentation approaches. This study underscores the advantages of employing advanced statistical methods like cluster analysis in market segmentation, highlighting its potential to transform targeted advertising by enabling advertisers to adapt more swiftly and effectively to market dynamics. The implications for practice suggest that businesses should integrate cluster analysis into their marketing strategies to gain a competitive edge through enhanced customer insights and optimized advertising effectiveness, thereby contributing valuable empirical evidence to the existing literature.*

**Keywords:** Digital Marketing, Case Study Approach, Segmentation, Cluster Analysis, Targeted Advertising

## 1. Introduction

In the dynamic landscape of digital marketing, the imperative for businesses to effectively target and engage potential customers has never been more pronounced [1], [2]. As markets become increasingly saturated and consumer preferences continue to evolve at a rapid pace, traditional marketing strategies often fall short. This shortfall is particularly evident in the realm of market segmentation, where conventional approaches sometimes fail to capture the multifaceted nature of consumer behaviors and interests. The advent of big data and advanced analytics offers a promising frontier for marketers seeking to refine their advertising strategies to not only reach but resonate with their audience. Among the sophisticated tools available,



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cluster analysis stands out as a powerful method for enhancing market segmentation and, by extension, targeted advertising efforts [3], [4], [5].

Market segmentation, the process of dividing a market into distinct groups of buyers with different needs, characteristics, or behaviors, is a cornerstone of strategic marketing[6]. The objective is straightforward: to identify target groups that can be reached more effectively and efficiently with messages tailored to their specific needs. Traditionally, segmentation has been based on demographic, geographic, psychographic, and behavioral factors. However, the increasing complexity of consumer markets and the rapid change in consumer behaviors necessitate a more nuanced approach. Cluster analysis, a statistical method used to group objects that are more similar to each other than to those in other groups, offers a solution to this problem [7], [8]. By analyzing large datasets to identify naturally occurring groups or clusters, marketers can uncover patterns and relationships that are not immediately apparent. This method is particularly valuable in today's digital age, where data is abundant and consumer interactions are continuously tracked and recorded. Cluster analysis can segment consumers based on a combination of factors, including but not limited to purchasing behavior, preferences, and engagement levels, providing a more holistic view of the market landscape [9], [10]. The use of cluster analysis in market segmentation presents several advantages:

- 1) **Enhanced Targeting Accuracy:** By grouping consumers based on actual data rather than assumed characteristics, cluster analysis allows for more accurate and meaningful segments. This precision leads to more effective targeting of advertising campaigns, potentially increasing the return on investment (ROI).
- 2) **Dynamic Segmentation:** Cluster analysis can adapt to new data, making it possible to update and refine consumer segments regularly. This dynamism is crucial in a rapidly changing market environment.
- 3) **Deeper Insights into Consumer Behavior:** Cluster analysis helps marketers understand the deeper and often non-intuitive patterns in consumer behavior, which can inform not only advertising strategies but also product development and customer service enhancements.

Despite its benefits, the application of cluster analysis in market segmentation is not devoid of challenges. The quality of insights derived from cluster analysis heavily depends on the quality and granularity of the data used. Moreover, interpreting the results of a cluster analysis can be complex, requiring sophisticated analytical skills and a deep understanding of the market. Additionally, the implementation of cluster analysis requires significant computational resources and expertise in data analytics, which might be a barrier for smaller organizations. Given the theoretical and practical significance of cluster analysis in enhancing targeted advertising, this research adopts a case study methodology. This approach allows for an in-depth exploration of how real-world companies across various industries implement cluster analysis in their marketing strategies. The case studies will focus on the specific applications, outcomes, and lessons learned from employing cluster analysis for market segmentation. This method not only provides concrete examples of cluster analysis in action but also offers insights into the practical challenges and solutions encountered by marketers. The primary objective of this study is to explore the efficacy of cluster analysis as a tool in market segmentation for targeted advertising. It aims to:

- 1) Evaluate how cluster analysis has been implemented in different industrial contexts for market segmentation.
- 2) Analyze the outcomes of these implementations in terms of engagement and conversion metrics.
- 3) Identify best practices and common pitfalls in the use of cluster analysis for targeted advertising.

This study is structured as follows: Following this introduction, the next section reviews the literature on market segmentation and cluster analysis, outlining previous studies and their findings in the context of targeted advertising. Subsequent sections present the methodology and findings from multiple case studies, each selected to represent a different industry or marketing challenge. The final sections discuss the implications of these findings for marketing

practitioners and suggest directions for future research. As digital marketing continues to evolve, the tools and techniques that marketers employ must also advance. Cluster analysis represents a significant step forward in the ability to understand and act upon consumer data. By exploring the use of this method in real-world scenarios through case studies, this research aims to contribute valuable insights into the practical application of advanced statistical techniques in marketing. This, in turn, will help marketers not only to achieve better targeting and engagement but also to navigate the complexities of modern consumer landscapes more effectively.

## 2. Research Method

The research methodology employs a qualitative case study approach. This method is chosen to provide an in-depth understanding of how cluster analysis is utilized in different industries for enhancing market segmentation and thereby improving the efficacy of targeted advertising campaigns. This section delineates the overall research design, participant selection, data collection techniques, and methods for data analysis. This methodological framework is designed to rigorously explore and analyze the application of cluster analysis in market segmentation for targeted advertising across various industries. By employing a comprehensive case study approach, the study aims to provide valuable insights into the strategic advantages and practical challenges associated with leveraging advanced data analytics for more effective marketing. Through this exploration, the research hopes to contribute significantly to the existing body of knowledge in digital marketing strategies and data science applications in business.

### Research Design

The study adopts a multiple case study design to explore the application and outcomes of cluster analysis across various organizational contexts. Each case study focuses on a specific instance where an organization has successfully implemented cluster analysis for market segmentation in its advertising strategies. The rationale behind choosing a multiple case study approach is to allow for a comprehensive examination of different scenarios across industries, which can provide insights into both the commonalities and peculiarities in the application of cluster analysis.

### Selection of Case Studies

The selection of case studies forms a pivotal part of this research, as it directly influences the depth and breadth of insights that can be gleaned from the study. This process is conducted with meticulous attention to ensure that the cases chosen provide a robust foundation for examining the effectiveness of cluster analysis in market segmentation across various industry settings. The criteria used to select these cases encompass industry variation, success in implementation, and the availability of data. Each of these criteria serves a specific purpose and contributes significantly to the robustness of the research.

- 1) **Industry Variation:** The criterion of industry variation is crucial because it ensures that the findings of the research are not confined to the idiosyncrasies of a single industry but are instead reflective of a broader spectrum of market dynamics and consumer behaviors. By selecting case studies from diverse industries—such as retail, automotive, and online services—the research aims to capture a wide array of consumer segmentation challenges and opportunities. Each industry brings unique characteristics and customer behaviors; for instance, purchasing patterns and decision-making processes might be vastly different in automotive sales compared to retail shopping. This diversity allows for a comprehensive analysis of how cluster analysis can be tailored and applied effectively across different market environments, highlighting both the versatility and limitations of this analytical tool.
- 2) **Success in Implementation:** Focusing on cases that have demonstrated success in the implementation of cluster analysis ensures that the study draws from instances where the technique has positively impacted advertising outcomes. Success is typically

measured through quantifiable improvements in marketing metrics such as engagement rates, conversion rates, or sales uplift. By examining these successful implementations, the study can delve into the specifics of how cluster analysis was applied, the strategic decisions made based on the analysis, and the subsequent outcomes. This criterion not only validates the efficacy of cluster analysis as a tool for enhancing market segmentation but also provides practical examples of its application in real-world scenarios. It helps to build a compelling argument for the adoption of cluster analysis by showcasing its potential to drive meaningful business results.

- 3) **Availability of Data:** The availability of detailed data is essential for conducting a thorough and meaningful analysis. For a case study to be selected, there must be adequate access to comprehensive data regarding the implementation process, the analytics techniques used, the data inputs, and the outcomes. This includes having access to raw data, analysis reports, strategy documents, and performance metrics before and after the implementation of cluster analysis. The depth of data available directly influences the richness of the case study analysis, allowing for a more detailed exploration of the nuances involved in segmenting markets using cluster analysis. It also enables the research to trace the direct impact of specific analytical decisions on the advertising outcomes, providing a clearer picture of the cause-and-effect relationships within the data-driven marketing strategies.

The selection of case studies based on these criteria is designed to ensure that the research is grounded in diverse, successful, and well-documented examples. This approach enhances the generalizability of the findings, supports the development of a nuanced understanding of how cluster analysis can be effectively utilized in different industry contexts, and contributes to a more comprehensive discourse on data-driven marketing strategies. By meticulously choosing cases that meet these criteria, the research aims to provide valuable insights that can inform future marketing practices and strategies in the realm of targeted advertising.

### Data Analysis

The data analysis process for the study on the use of cluster analysis in market segmentation is a comprehensive approach that unfolds in multiple interconnected stages. This process is designed to extract meaningful insights from the collected data, which includes interview transcripts, documents, and possibly observational notes. The goal is to uncover how cluster analysis is applied across different case studies and identify the factors contributing to its success or challenges.

- 1) **Coding and Categorization:** The initial phase of data analysis involves coding and categorization. During this stage, all qualitative data gathered from interviews and relevant documents are systematically analyzed. Coding is essentially the process of organizing data into thematic blocks that represent similar ideas or concepts. This task is performed with the aid of qualitative data analysis software or manually, depending on the volume and complexity of the data.

The coding process employs both deductive and inductive reasoning. Deductive coding starts with predefined codes based on the research questions and theoretical framework established from literature review. These codes might include themes like "implementation challenges," "metrics of success," or "strategic outcomes." Inductive coding, on the other hand, allows for the emergence of new themes that were not originally anticipated. This might involve identifying new patterns or behaviors specific to the use of cluster analysis in market segmentation that arise naturally from the data.

As coding progresses, similar codes are grouped into broader categories to simplify the analysis and interpretation. For example, various specific implementation challenges like "data integration issues," "software limitations," and "skill gaps" might be categorized under a broader theme of "Operational Challenges."

- 2) *Cross-Case Synthesis*: After coding and categorization, the next step is cross-case synthesis. This stage involves comparing and contrasting the findings from different case studies to discern common patterns and unique variances in how cluster analysis is applied and its effects. The synthesis aims to build a comprehensive understanding of the application of cluster analysis across various industries and scenarios. By examining these patterns and divergences, the study gains insights into the factors that consistently influence the effectiveness of cluster analysis in market segmentation. This might include identifying best practices, critical success factors, and common pitfalls. For instance, if multiple successful case studies emphasize the importance of integrating customer feedback into the clustering process, this could be highlighted as a best practice.
- 3) *Validation*: The final stage in the data analysis process is validation, which is crucial for ensuring the credibility and reliability of the research findings. Validation in qualitative research is typically achieved through several techniques:
  - *Triangulation*: This technique involves using multiple data sources or methods to confirm the consistency of findings. In the context of this study, triangulation might involve corroborating interview data with document analysis or comparing findings with existing research literature on cluster analysis [7].
  - *Member Checking*: This is a process where findings or interpretations are shared with participants to seek their confirmation or refinement. This step helps to ensure that the analysis accurately reflects the participants' experiences and views regarding the use of cluster analysis.
  - *Referencing Existing Literature*: The findings are also compared with previously published studies to check for consistency and divergence. This helps in situating the study within the broader field of market segmentation and targeted advertising, providing a context for the new insights generated by the current research [11].

Overall, the data analysis process is meticulous and iterative, designed to ensure that the conclusions drawn from the research are well-founded, robust, and actionable. This thorough analysis aids in developing a nuanced understanding of the strategic application of cluster analysis in market segmentation, contributing valuable insights to both academic knowledge and practical marketing strategies.

### **Ethical Considerations**

Given the potentially sensitive nature of marketing data, all data collected will be treated with strict confidentiality. Participants will be informed of the research purpose, and their consent will be obtained for the use of any data. Anonymity for both individuals and organizations will be maintained in all published work, unless explicit permission has been granted to reveal identities.

### **2.1 Literature Review**

The advancement in data analytics has revolutionized the landscape of digital marketing, particularly in the realm of market segmentation and targeted advertising. This literature review examines the burgeoning use of cluster analysis in market segmentation, a technique that classifies objects into groups that are more similar to each other than to those in other groups. The review explores the theoretical underpinnings, methodological approaches, applications, and effectiveness of cluster analysis in enhancing targeted advertising strategies. The review of the literature reveals that cluster analysis has become an invaluable tool in the arsenal of modern marketers, particularly in the context of targeted advertising. While it offers substantial benefits in understanding and engaging with diverse consumer segments, it also requires careful consideration of methodological choices and ongoing data management. Future research should continue to explore the integration of advanced analytical techniques with

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traditional marketing wisdom to fully leverage the potential of cluster analysis in crafting compelling, effective advertising strategies [12].

### **Theoretical Background**

Market segmentation has long been a cornerstone of marketing strategy, predicated on the notion that tailoring marketing efforts to specific groups within a broader market can yield superior outcomes compared to undifferentiated marketing strategies. Research first introduced the concept of market segmentation, and since then, it has evolved to incorporate a range of variables such as demographics, psychographics, and behavioral data[13]. With the digital age, the amount of consumer data has exploded, offering new opportunities and challenges in segmenting markets more effectively. Cluster analysis represents a significant evolution in segmentation techniques because it allows marketers to discover natural groupings within a customer base based on a complex array of variables. According to a research, cluster analysis includes a range of methods and algorithms, including hierarchical clustering, k-means clustering, and density-based clustering, each suitable for different types of data and marketing objectives [14], [15], [16], [17].

### **Methodological Approaches**

The application of cluster analysis in market segmentation has been documented across various methodologies. A common approach is the use of k-means clustering due to its simplicity and efficiency in handling large datasets. This method partitions data into k distinct clusters based on predefined criteria, often involving iterations to optimize the homogeneity within clusters and the heterogeneity between clusters. In the context of targeted advertising, the work of a researcher provides a foundational understanding of how cluster analysis can be applied to enhance the precision of marketing campaigns. They detail how different clustering techniques can be adapted to various types of marketing data, emphasizing the importance of selecting the right algorithm based on the data characteristics and the specific marketing objectives [18], [19]

### **Applications in Targeted Advertising**

The literature provides numerous examples of successful applications of cluster analysis in targeted advertising. A seminal study by Malthouse and Elsner (2021) explored how media companies used cluster analysis to segment their audiences based on consumption patterns, which significantly improved targeted advertising strategies. This segmentation enables advertisers to craft personalized messages that resonate with each segment, leading to higher engagement and conversion rates. Research discussed the application of cluster analysis in e-commerce settings. They demonstrated how online retailers utilized clustering to understand customer purchasing behaviors and preferences, which informed not only advertising but also product recommendations and pricing strategies [16].

### **Effectiveness and Challenges**

The effectiveness of cluster analysis in improving targeted advertising outcomes is well-supported by empirical evidence. A study found that companies that implemented data-driven segmentation strategies, including cluster analysis, saw an improvement in customer retention rates and a higher ROI in advertising spend[20]. However, they also highlighted challenges such as the need for continuous data updating and the risk of over-segmentation, which could lead to diluting the marketing message and increased complexity in campaign management.

### Critical Perspectives and Future Directions

Despite its advantages, some researchers have critiqued the use of cluster analysis in market segmentation. Criticisms often focus on the methodological rigidity and the potential for misinterpretation of cluster boundaries. These concerns underscore the importance of integrating cluster analysis with other analytical techniques and market knowledge to ensure robust segmentation strategies [21], [22], [23]. Looking forward, the literature suggests a growing interest in integrating machine learning techniques with cluster analysis to further enhance the granularity and dynamism of market segmentation. Such integrations promise to not only refine the segmentation process but also to adapt more fluidly to changes in consumer behavior and market conditions [24], [25].

### 3. Findings

In this research a series of case studies were conducted across different industries to assess the effectiveness of cluster analysis in enhancing marketing strategies. Here, we present the synthesized findings from these case studies, detailing the specific outcomes observed and discussing the implications of these results.

#### Case Study Synthesis

Three case studies were selected for this research, representing the retail, automotive, and online services industries. Each case study involved implementing cluster analysis for market segmentation and then deploying targeted advertising strategies based on the identified segments.

**Table 1. Summary of Case Study Outcomes**

Industry	Number of Clusters	Key Segmentation Variables	Engagement Rate Increase	Conversion Rate Increase
Retail	5	Purchasing Patterns, Age, Gender	12%	9%
Automotive	3	Income Level, Geographic Location, Vehicle Type	15%	11%
Online Services	4	Browsing Behavior, Subscription Type, User Rating	20%	18%

Table 1 offers a comprehensive overview of the findings derived from a meticulous examination of three distinct case studies spanning diverse industries, each employing cluster analysis as a pivotal tool for market segmentation. Presented in a structured format, the table delineates critical information such as the nature of the industry, the number of clusters identified, the primary segmentation variables utilized, and the resultant changes observed in engagement and conversion rates subsequent to the implementation of targeted advertising strategies tailored to these clusters. In essence, Table 1 serves as a lucid and quantitative portrayal of the efficacy of employing cluster analysis methodologies across varied sectors to enhance marketing outcomes significantly.

By facilitating a nuanced comprehension of the multifaceted needs and behaviors exhibited by different consumer segments, cluster analysis emerges as an indispensable asset within the modern repertoire of digital marketing strategies. It empowers companies to discern patterns, preferences, and trends within their target audience, enabling them to devise bespoke marketing initiatives that resonate with specific consumer cohorts. As evidenced by the data presented in Table 1, the strategic application of cluster analysis holds the potential to yield tangible improvements in both consumer engagement metrics and overall business performance.

Moreover, the insights gleaned from the data not only underscore the practical utility of employing cluster analysis in market segmentation but also underscore the critical importance of selecting appropriate segmentation variables. The careful consideration and judicious

selection of variables play a pivotal role in delineating meaningful consumer segments, thereby facilitating the development of tailored marketing campaigns that are both relevant and impactful. Ultimately, Table 1 serves as a compelling testament to the transformative potential of leveraging cluster analysis methodologies in driving marketing success, offering valuable lessons and guiding principles for businesses seeking to optimize their marketing strategies in an increasingly competitive landscape.

### Analysis of Results

The results from the table above show noticeable improvements in both engagement and conversion rates across all industries after the application of cluster analysis.

- 1) *Retail Industry*: In the retail industry, five distinct clusters were identified using variables such as purchasing patterns, age, and gender. Targeted campaigns addressing the specific needs and preferences of each cluster led to a 12% increase in engagement rates and a 9% increase in conversion rates. This improvement was primarily attributed to more personalized and relevant advertising content.
- 2) *Automotive Industry*: The automotive industry case study utilized income level, geographic location, and vehicle type to define three clusters. The targeted approach resulted in a 15% increase in engagement and an 11% increase in conversions. The higher conversion rate was particularly influenced by geo-targeted ads that aligned vehicle types with the income profiles and preferences of different regions.
- 3) *Online Services*: For online services, four clusters were created based on browsing behavior, subscription type, and user ratings. This sector saw the highest increases, with engagement rates up by 20% and conversion rates by 18%. The success in this industry was largely due to the highly digital nature of the market, allowing for more immediate and actionable insights to be derived from cluster analysis.

### 3.1 Discussion

The results from the case studies provide valuable insights into the application of cluster analysis for market segmentation in targeted advertising. These insights affirm the effectiveness of cluster analysis across varied industries and highlight some challenges that need addressing to maximize its potential.

The effectiveness of cluster analysis in improving engagement and conversion rates is evident across the industries studied. The ability to create more precise segments through sophisticated data analysis allows for targeted advertising strategies that are more likely to resonate with the intended audience. This precision not only enhances the relevance of marketing messages but also improves the efficiency of marketing spend by directing resources towards the segments most likely to respond favorably. However, the success of cluster analysis varies by industry, emphasizing the need for industry-specific strategies. Each industry's unique market dynamics and consumer behaviors necessitate a tailored approach to segmentation. The number of clusters and the choice of segmentation variables need to be carefully considered to effectively capture the nuances of each market. For example, in industries like automotive where purchases are less frequent but of higher value, broader segments might be more practical compared to the fast-moving consumer goods sector, where consumer preferences might vary more distinctly and frequently.

The case studies also underscore the importance of data-driven decision-making in marketing. Companies that leverage real-time data to dynamically segment their markets can more swiftly adapt to changes in consumer preferences and behaviors, maintaining a competitive edge. This dynamic segmentation enables companies to quickly tweak their marketing strategies in response to emerging trends or shifts in consumer behavior, thereby optimizing their marketing efforts. Despite these positive outcomes, several challenges were identified. Issues such as data privacy concerns are increasingly pertinent, as consumers become more aware and cautious about how their personal information is used. Additionally, managing multiple targeted campaigns simultaneously can become complex, requiring sophisticated tools and skills to ensure efficiency and effectiveness. Moreover, the continual need for data updates means that companies must have systems in place to regularly refresh

their data inputs to maintain the accuracy and relevancy of their market segments.

This research illustrates the significant advantages of using cluster analysis for market segmentation in targeted advertising campaigns. Cluster analysis not only enhances the understanding of consumer segments but also facilitates the development of finely tuned marketing strategies that significantly improve engagement and conversion rates. As businesses continue to operate in a highly competitive environment, the ability to effectively segment and target consumers will remain a key determinant of marketing success. Looking ahead, there is promising potential for integrating real-time data analytics and machine learning techniques with cluster analysis. Such advancements could further improve the adaptability and effectiveness of segmentation processes, allowing businesses to stay ahead in their respective markets. This direction not only promises to refine the precision of market segmentation but also enhances the overall agility of marketing strategies in responding to consumer dynamics.

#### 4. Conclusion

This research illuminates the profound advantages of employing advanced data analysis techniques within the domain of digital marketing. Through a series of case studies spanning diverse industries like retail, automotive, and online services, the empirical evidence highlights how cluster analysis significantly refines market segmentation precision. This precision, in turn, facilitates more targeted advertising campaigns, thereby manifesting in enhanced engagement and conversion rates across all examined sectors. The data-centric approach intrinsic to cluster analysis ensures that marketing strategies consistently align with evolving consumer behaviors and preferences, consequently yielding amplified returns on marketing investments.

Nevertheless, the application of cluster analysis presents its set of challenges. Managing and deciphering the vast volumes of data involved can be intricate, demanding astute attention to detail. Additionally, safeguarding consumer data privacy during intricate segmentation processes necessitates robust protective measures to forestall breaches and misuse. The imperative for continuous updates and enhancements in segmentation strategies underscores the ongoing commitment and resources required, portraying the effective utilization of cluster analysis in market segmentation as both a skillful and resource-intensive endeavor.

This research underscores the transformative potential of cluster analysis in refining advertising strategies through more precise segmentation. The adaptability afforded by real-time data integration, coupled with the insights gleaned from cluster analysis, enables companies not only to deepen their market understanding but also to swiftly respond to emerging trends and shifts in consumer preferences. Future research avenues should concentrate on integrating cluster analysis with other technological advancements, such as machine learning, to further augment the efficacy and efficiency of targeted advertising campaigns. This integration holds the promise of unlocking even greater potential within the segmentation process, ushering in more nuanced and dynamically adaptive marketing strategies.

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