

Regional products, regions' reputation and commercial strategies: a tale of two cheese suppliers

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Abstract

Clustered SMEs in well defined geographical areas are producing and selling regional products to domestic and foreign markets. Most of the local activities are embedded in historical tradition and geographic, cultural and social specificity.

To study the mechanisms and factors which favour spontaneous development in specific areas and make SMEs competitive, we used case study methodology. An evolutionary perspective of “Casa Matias” and “Casa dos Queijos”, two Portuguese SMEs, is expected to illustrate which key factors triggered the firm's cheese business and, simultaneously, examine organisational practises, with particular emphasis on cluster formation and internationalisation process.

From this analysis we expect to conceptualize a policy scheme to help developing spontaneous entrepreneurship, cooperation between clustered SMEs and policy-makers to establish more efficient and sustained regional and rural development strategies.

Introduction

Taking as central concern the relationship between the region of origin and the price of products, Cadima Ribeiro and Freitas Santos (2003, 2004, 2005) have found that portuguese wines, cheeses and olive oil from certain regions of origin were better priced than others and that those origins have a significant impact on prices. According to this and following other authors, namely Gil and Sanchez (1997), Angulo *et al.* (2000), Skuras and Vakrou (2002) and Schamel (2003), they have concluded that, in a real market context, it seems consumers are willing to pay more for a differentiate and traditional regional product.

Going from analysis to action, Cadima Ribeiro and Freitas Santos (2003, 2004, 2005) have defended that, if the region of origin has a positive image/reputation, producers from that region should give more visibility to it on the label and use that reputation in their advertising programs. A complementary marketing strategy is “the identification of consumer groups (market niches) that are willing to spend a higher share of their budget to buy products more able to attend theirs particular needs” (Dinis, 2000, p. 547).

For producers from regions with lesser reputation, co-operation between producers or public support should be considered (Cadima Ribeiro and Freitas Santos, 2003, 2004, 2005). This co-operation and/or public support was thought to be necessary for establishing the distinctive features of regions of origin, as a pre-condition to change consumers’ attitude, and to get a certain scale, either in terms of goods available or in terms of distribution channels.

In a paper entitled “Network evolution and the growth of artisanal firms: a tale of two regional cheese makers”, Richard Blundel (2002) explores the growth trajectories of two regional farm-based cheese producers and the business networks in which they were embedded. From the study, the major conclusions drawn by the author are: i) firms can learn from their network linkages (Blundel, 2002, p. 24); and ii) small supplier’s ability to maintain core artisanal knowledge is affected by buyers’ power (Blundel, 2002, pp. 24/25). Besides the already mentioned concluding remarks, Blundel (2002, p.26) adds that “one of the central challenges for researchers is to obtain a deeper understanding of

the mechanisms that help to sustain heterogeneity and value, distinguishing from those that arise from unique histories”. Additionally, he defends that forthcoming research “should lead to more informed contributions to public policy-making and, arguably, to more effective support for craft-based firms” (Blundel, 2002, p. 26).

Taking the buffalo mozzarella Italian producers and the tomato southern Italy processing firms, Tito Bianchi (2001) has published a paper where he discusses the possible explanations for the different cooperative attitudes he found between those two industries. As a major conclusion, he notes that the first group, that is, the mozzarella producers, has built their “remarkable commercial success by creating a business-level institution to promote the reputation of their product” (Bianchi, 2001, p. 117). This strategy was made possible taking as a starting point the definition of the mozzarella cheese as a “typical” product, linking the product image univocally to a certain region and to the spatial role taken by some individuals and agents (Bianchi, 2001, pp.137, 138,141).

Approaching the policy issue, Bianchi (2001, p. 141), following Maskell *et al.* (1998), considers that “this strategy could probably be applied with some caution to low-technology sectors in other regions and countries that have accumulated some manufacturing tradition and/or use some distinctive endogenous local input”. Underlying the difference found between the economic strategies followed by tomato and the cheese industries, he also concludes that, “if an industry intends to pursue this particular type of high road strategy ... it as to retain control of all the phase of the production chain, including the agricultural one” (Bianchi, 2001, 141). Only this way it can certify the product quality to the extend that is necessary to built a strong collective reputation.

The main motivation for this research was to bring some light on the questions raised by the previous mentioned studies, that is, to bring information on the mechanisms and factors which favour spontaneous development in specific areas and make Small and Medium Enterprises (SMEs) competitive. Going from analysis and theory to policy, a second goal was to conceptualize a policy scheme to help developing spontaneous entrepreneurship, cooperation between clustered SMEs and policy-makers to establish more efficient and sustained regional and rural development strategies.

This paper is organized as follows: in the next section we begin by presenting a

brief literature review dealing with rural and regional development, territory products and capabilities, entrepreneurial initiative and the expected role of SMEs; in section 2 the methodology used in the empirical approach is presented; just after, the case studies, Queijos Matias and Casa dos Queijos, are presented in a detailed way; in the conclusion, we summarize the main results we got from the analysis, discuss the findings and draw some policy implications and recommendations.

1. Literature review

Since the eighties of the twenty century, empirical literature available reached consensus that large corporations are no longer the only engines of economic growth and development. There is an increasing number of small, locally-owned firms, producing and selling high quality regional products to domestic and foreign markets. The success of these firms is greatly facilitated by the maintenance of a craft tradition explicitly working for the improvement of the competitiveness of particular areas and products, namely the rural ones (Pezzini, 2000). Region's specificities such as history, geography and culture can be mobilised to qualify regions' products (Sodano, 2001; Sanz Cañada and Macias Vázquez, 2005). Thus, we can expect that local firms use the territorial references to increase the value of their products and sustain differentiation towards their competitors (Salolainen, 1993; Kuznesof *et al.*, 1997; Henschion and McIntyre, 2000; Coquart and Pouzenc, 2000; Sodano, 2001).

In the regional products industry the specific capabilities require, on the demand side, social recognition of its usefulness and, on the supply side, a local collective dynamic of appropriation that qualifies the product, be for the modification of an intrinsic characteristic (as taste) or extrinsic (as packaging, labelling information or brand name) [Lockshin and Rhodus, 1993; Jennings and Wood, 1994; Gil and Sanchez, 1997; Angulo *et al.*, 2000; Orth and Firtasová, 2003]. The returns of a region's resources and capabilities depend upon the recognition by the market of the product identity (specificity), of the sustainability of the competitive advantage acquired (protection of region or product origin) and of the ability of local firms to appropriate the rents earned. The mechanism of rent appropriation corresponds to the internalisation, on the part of

local producers, of a group of external effects embedded in the territory (reputation, image). However, the rent is only reached when the producer is willing to reflect the effects of a product's region of origin on price, and when the consumer values those characteristics of the region that are associated with the product, being disposed to pay a price premium (Lockshin and Rhodus, 1993; Sodano, 2001; Skuras and Vakrou, 2002; Orth and Firbasová, 2003).

Since Schumpeter the central role played by the entrepreneur on economic growth and development is undeniable. The entrepreneur as innovator capitalises on profitable opportunities and, when successful, achieves a temporary competitive advantage within the marketplace until competitors imitate or supersede this innovation. Economic development becomes a product of entrepreneurial activity whereby new business start-ups and firms' growth exceed business failures. In some cases, the endogenous development capacities and entrepreneurship are latent and, so, measures to encourage them to reveal are required (Pezzini, 2000). Additionally, relying on empirical evidence, it is useful to mention that the potential for growing new entrepreneurs depends on the economic base of territories.

Literature on industrial districts (Becattini, 1994; Maillat, 1996) evidenced as key factors for spontaneous entrepreneurship and collective development the presence of favourable local social climate and cultural values. Also, small business is a critical element and driving force in generating employment and realising economic development (Henderson, 2002). The belief in smallness, entrepreneurship and individual initiative at local and regional levels are now well established among regional science researchers and, even, policymakers.

Within the context of local and regional development strategies, a strong emphasis is put on the involvement of local communities to develop business ventures and local employment, rather than to assume that the attraction of large industrial firms from outside (domestic or foreign) will create the necessary flow-on effects. That is, "the opportunity for success must be fostered by the community environment" (Henderson, 2002, p. 58) and the process will be not sustainable over time without some sort of institutionalization of the "innovation" which has been introduced (Infelise, 2002).

SMEs have many favourable characteristics such as flexibility, resilience,

efficient management and organisation, and tailor-made production systems (Giaoutzi, Nijkamp and Storey, 1988, p. 12). In rural areas a multitude of non-economic benefits are also associated with SMEs, like countering the drift of people to cities, protecting and maintaining a “rural culture”, employment and rewarding career opportunities for youth, provision of unique and specialised products generating a regional identity, enhancing local facilities and infrastructure benefiting all, personal fulfilment and satisfaction, building community pride, creation of a quality lifestyle (Henderson, 2002). A bottleneck for many SMEs is the lack of interaction with knowledge centres (the source of technological innovation) and promising but distant markets (the source of significant revenues). In this context, the design of efficient information, marketing and sales networks (sometimes of informal nature) are an extremely important issue (Giaoutzi, Nijkamp and Storey, 1988, p. 12).

The successful experiences of many SMEs located in well defined geographical areas is of great significance to policy-makers and those interested in fostering local development. A question of general interest is to perceive whether the success of these SMEs is a unique occurrence, or does it exist, in part or as a whole, in other regions. Secondly, we must understand if the critical success factors have been a fruitful combination of a particular kind of territorial resources with SMEs managerial competence and, if so, whether some of the critical success factors can be replicated in other regions and firms.

2. Methodology

To study the mechanisms and factors which favour spontaneous development and make SMEs competitive through cluster development we used case study methodology. An evolutionary perspective of *Casa Matias* and *Casa dos Queijos*, two Portuguese SMEs, is expected to illustrate which key factors triggered the firm’s cheese business and, simultaneously, examine organisational practices, with particular emphasis on cluster formation, internationalisation process and strategy of diversification.

Case study research is a methodology of qualitative nature, used in relatively less-known areas, where there is little experience and theory available to serve as a guide

(Ghauri, Gronhaug and Kristianslund, 1995). According to Eisenhardt (1989), case studies are particularly well-suited to new research areas or research areas for which existing theory seems inadequate. This type of work is useful in early stages of research on a topic or when a fresh perspective is needed.

Having in mind our research issue, intensive study of selected cases is a very useful method of gaining insight through the features and characteristics of the firms being studied (Ghauri, Gronhaug and Kristianslund, 1995). Concerning this paper, our intention is to examine the behaviour and performance of the selected firms, looking for the reasons of their present success. Isolating the critical factors behind that success, we will be able to make some general recommendations to guide those which want to follow a similar future path. Considering business, we believe it is useful to have in mind that the ultimate test to check if the decision took was the right one is success itself: if the results obtained were the expected ones, that means the decision taken was the adequate one; if the results are bad, then decision was the wrong one.

The case study methodology allows a large freedom to the researcher, either in cases selection, either in the choice of the information sources and analytical techniques. That imposes to the researcher the need to clarify, since the beginning of the investigation, the main goals he wants to achieve and the research structure. Otherwise, we could confront ourselves with lots of unsuited information.

Every case study should be considered as a complete research one, looking to find appropriate evidence to explain firms' behaviour. If the explanation got is compatible with economic rationality, then the information is considered useful to approach the next case study, as well to define the hypotheses to follow in the research of a possible common behaviour pattern. Having in mind the criticism made to this sort of analytical approach (Blundel, 2002, p.6), we have made use of triangulated sources (Perez Aguiar, 1999).

The information used in our research was taken from newspapers and magazines, that is, a review of the news available regarding the firms we had chosen to study was made. Also, several electronic sites were visited, including sites of *Queijos Matias* and *Casa dos Queijos*, and some from regional and local authorities (namely, the municipal one), tourism promotion operators, regional and local development agencies and local

newspapers. Taking these different elements, every relevant data was checked contrasting the various information sources.

3. Two case studies: Queijos Matias and Casa dos Queijos

3.1. Queijos Matias

The family firm, Queijos Matias, located in Seia, Beira Interior, Portugal, is an artisan producer of cheese of the Protected Designation of Origin *Serra da Estrela*, using in their products the label Casa Matias. The activity of this small firm (having no more than six workers) goes back to more than two centuries ago, being a family tradition that has passed from generation to generation, the present one being the forth (Coutinho, 2004). This kind of cheese is produced from goat milk, through traditional methods, what gives it singular characteristics. It is a cured cheese, of half soft paste, full fat, and white coloured or slightly yellow, with little or no holes at all, produced through the slow drying of the curdled-milk after the coagulation of the single raw goat milk, using the wild thistle.

Besides the preservation of the traditional way of producing cheese, the herds are exclusively composed by goats of the kind Bordaleira, from Serra da Estrela, that is well known by being “the Portuguese one with better milk vocation” (Garcia, 2005). The milk is drawn from the goats every day, from which a strict selection is made. Afterwards, the milk is put in beans adequate to the curdled-milk formation (Coutinho, 2004; Garcia, 2005).

The growth of the firm is being done through the conquest of small market niches, based on the Protected Designation of Origin (PDO) acquired in 1992. For the year 2006, the firm has the project to get the biologic product certificate. Nowadays, the selling is done mostly in super and hypermarkets within all the national market (Carrefour, Continente, Corpo Santo, Charcutaria MOY, Casa dos Sabores de Portugal, Lisboa Welcome Center, Makro and El Corte Inglés), using their own labels (Casa Matias, Casa Matias Seleção e Quinta do Chão da Vinha) or the one of large retail chains, like *Sabores Lusitanos*, in the case of El Corte Inglés, and *Fileira Qualidade*, in the case of Carrefour (Monteiro, 2004; Brito, 2005).

The relationship kept with the Carrefour Group, which sells 40% of the total production (about 20 tones a year) in the national market, allowed the firm Queijos Matias to sell its cheese abroad, namely in Spain, France and Brazil (Brito, 2002; Coutinho, 2004).

In 2001, with the growth of the business, Queijos Matias decided to establish a partnership with 25 other producers of the protected region in order to have access to their milk production that, as a whole, could reach the dairy amount of 600/700 litres in the last years. As a consequence, the production of the Serra da Estrela cheese could reach the 50 tones in the year 2004 (Rosário, 2004; Botelho, 2005).

According to José Matias, the business leader, “since 2000, we succeed to get a stronger market position, as a result of direct distribution”, whose “roots at the retail level” constituted a stimulus to the entry of the firm in the external market, “allowing the first steps in exports” (Garcia, 2005).

The annual production reached the 30 tones, that is, 110 cheese units by day, in 2002, the cheese being sold all over the world since then, especially in the USA (United States of America). The selling to this market was already of 5 tones in 2001 (Brito, 2002). Besides the USA and Spain (through El Corte Inglés), exports are nowadays made to France, Italy, Luxembourg, Switzerland, Brazil and Japan.

Internationalization goes on with the participation of the firm in the International Mountain Cheeses Committee, an association that joins 12 European towns, including the one of Seia, which receives its annual fair “next year” (Botelho, 2005). Another important stimulus to the growth of the firm and the promotion of its products in the international markets was the participation in several fairs and international cheese contests. Additionally, “the Casa Matias was the first Portuguese company to enter to the *Caseus Montanus* movement, entity with headquarters in Italy devoted to preserve, and promote the European mountain cheeses” (Coutinho, 2004). In that aim, during 2000, answering to the invitation of ADRUSE (Association to the Rural Development of Serra da Estrela), the Queijos Matias participated in a mountain cheeses international contest, in Grenoble. “Competing with 250 labels, they succeeded to get the gold medal” (Botelho, 2005).

In global terms, Queijos Matias “received four product prizes in four years, in

mountain cheeses international contests”, having the Serra da Estrela cheese being “distinguished among the best cheeses in the world” (Porta da Estrela, 2004).

The diversification of the business takes place through the opening of one unit of rural tourism. This establishment offers 10 bedrooms and is located close to the cheese production unit, in a place called Quinta do Chão da Vinha. Besides hosting the tourists, Queijos Matias allows them to get in contact with the goats pasturing and the cheese fabric process. A small museum is also being built in order to show the tourists the way the cheese used to be made in the remote past, to observe the fabric of curd cheese and Serra da Estrela cheese, to participate in a taste proof of those same cheeses and to allow the visitors to buy them in the place (Coutinho, 2004; Garcia, 2005).

3.2. Casa dos Queijos

Casa dos Queijos is a firm located in Santa Eulália, Municipality of Seia, Portugal, created having in mind the promotion and commercialization of high quality regional products. Taking the market characteristics, as well as the recent evolution of consumers’ profile (that is, the preference for “friendly” environments and healthy goods), the firm has implemented strict criteria in the choice of the products to distribute. Established in December 1999, Casa dos Queijos sells traditional and artisanal products of the Portuguese cuisine.

The market strategy adopted relies in product differentiation, complementarity, singularity and quality of the goods distributed. It aims to be innovative in the way it approaches the domestic and international markets. In order to reach that market positioning, the firm is just selling top quality traditional products and is looking to establish close contact with its costumers. The goods it distributes are produced using the traditional recipes of the regions of origin and natural ingredients. To get such products, Casa dos Queijos is leading a national consortium of producers, including some from Serra da Estrela and Alentejo.

In the beginning, the firm use to operate just in the domestic market. Recently, it is expanding to Brazil. The first steps to establish in that market were given in 2001. According to the available data regarding the Brazilian market, in 2001 the annual consumption of cheese was about 120 tones and, from 1994 until the before mentioned

date, it has experienced an annual average growth of 4%. In what refers to imports, those reached 65 tones, with Portuguese products counting for less than 0,01%, placing itself in the 22nd position in the imports ranking.

In strict sense, by that occasion there was no offer of Portuguese cheese in the before mentioned market. Considering that reality, João Carlos Pessoa, the head of Casa dos Queijos, took the Brazilian market as a business opportunity. A favourable factor was the existence of a wealthy social class (medium and high) representing 5% of the total population, including the Portuguese established community. This factor could have a strong facilitator role. In fact, the Portuguese regional products benefited already of a strong acceptance in the market, partly due to that circumstance. Another facilitator aspect was the countercyclical nature of the Portuguese and Brazilian cheese productions, due to geographical circumstances, and the different attributes of the products.

To reach that target, it was necessary to put working together different public and private entities, which use not to work in partnership. In that sense, taking that role, Casa dos Queijos was innovative, as well. The institutions involved were AEP (Portuguese Entrepreneurial Association), ICEP (public Portuguese External Trade Institute), Foreign, Affairs Portuguese Ministry, through the Portuguese embassy and consulate in Brazil, and Agriculture Portuguese Ministry. That means that there was a strong and coordinate effort to succeed in surpassing the administrative barriers that prevent the Portuguese export of traditional Portuguese cheese to Brazil.

After strict inspections to the Portuguese producers units, conducted by the Brazilian authorities, by the end of 2005, Casa dos Queijos became the first national firm officially authorized to export about 35 genuine Portuguese kinds of cheese to Brazil. The cheeses exported go from those of Alentejo, Beira Baixa to the ones of Serra da Estrela region of origin (Porta da Estrela, 2005).

From the initial 20 candidates, only 9 producers got the authorization to export to Brazil. Those were the ones that had a protected designation of origin (PDO) certification or a protected indication of origin (PDI) one. As declared João Carlos Pessoa (Antunes, 2005), “we were 4 years investing without warranties. Meanwhile, the returns we just got reveal an abnormal receptivity”. According to the same business leader, the exports only could multiply several times, due to the giant potential of the country market.

From the cheeses that got approval for export, Serra da Estrela is the “*ex-libris* of the collection”. Casa dos Queijos developed an isothermal package to use in its exports that allows keeping the nutritional qualities of the products. Dealing with goods of quality above average and low quantities produced, José Carlos Pessoa, added that the market price in Brazil would be “high”, reaching the €75 per Kg (Porta da Estrela, 2005).

In the beginning, the cheeses exports are expected to reach 100 tones a year and the target market will be restaurants (in São Paulo and Rio de Janeiro) specialised in Portuguese food, eminent speciality chains, large retail chains (Pão de Açúcar and Carrefour) and major importers. Other regional Brazilian capitals are though to be interesting, mainly the south and southeast ones (Porto Alegre, Curitiba, São Paulo, Belo Horizonte and Brasília).

Besides those selling points, the consortium will try to use the visits of Portuguese cuisine chiefs to Brazil to promote its cheeses. This can be instrumental to publish articles in specialized Brazilian magazines about the Portuguese cheeses and their quality, as a way to promote the sales. Another kind of marketing action is the cross promotion of Portuguese cheese and wines, taking profit of wine promotion events, as this two products “work very well, together”, says the head of Casa dos Queijos (Porta da Estrela, 2005).

As underlined before, nowadays Casa dos Queijos sells to the domestic market and to Brazil. Meanwhile, it plans to operate in the USA in the next future and to diversify the type of products distributed. In that aim, it considers including in their selling package Portuguese sausages, wine, honey and stewed fruits. The business model will be the same: partnerships with regional producers.

Conclusion

If we consider the case studies which have been analysed, we can keep as common features the followings: i) both are small firms (SMEs), from rural areas - in this case, from the same territory - doing business or envisaging to do it in the international market; ii) the products that constitute the basis of their operation are traditional ones, using local raw materials and relying on skills and cultural regional heritage; iii) starting

from a different economic basis (one began by being a farm cheese producer while the other has always operated as a commercial one), they both rely on partnerships with raw materials producers or goods producers in order to get the industrial scale allowing them to operate in global markets, even if they work in niche ones; finally, iv) it is noticeable that, behind this success stories, we can find a personal leadership and a market strategy.

Briefly commenting the case studies, besides underlining the before mentioned different firms industrial basis and heritage, we find worthy making present that, even if we are dealing with small firms from rural areas, that didn't prevent them to look for cooperation with producers from other territories offering the same kind of goods (Casa dos Queijos) or to establish business partnerships with large retail chains (Queijos Matias). Taking the neighbour location of the firms and the recent launching of Casa dos Queijos, we shouldn't exclude that some level of emulation took place.

This analysis is in line with the idea that has been doing its way among regional and rural development scientists that mobilizing local resources and local collective goods to support competitive advantages of local firms, local entrepreneurship and innovation can be promising development strategies for rural territories. Pezzini (2000, p. 50) goes, even, far away and risks to say that "there is a widely held view that a change in emphasis from fiscal policies to endogenous strategies can add impetus to the restructuring of national economies by reinforcing the capacity for self-generated change".

Anyway, the case studies allow us to conclude, at least, that globalization is, both, a threat and an opportunity to rural and less developed territories, if they are endowed with a portfolio of natural and cultural resources, and some degree of innovative entrepreneurship can take place. Besides, according to what we have just said, being each region a case, it is worthy to keep in mind that policies implemented to stimulus endogenous capabilities should be "tailor-made".

In line with theory, the case studies tell us that a special role is reserved to change initiators and facilitators, that is, business and social entrepreneurs, where public policy, probably, can give some stimulus and develop the institutional environment that favour business initiative and innovative behaviours. Regarding this policy, we would like to add, reinforcing the idea that each region is a case, that public authorities must pay

attention to the fact that “innovative network spring from pre-existing long-lasting systems of relations between various actors, based on unwritten rules of mutual trust, respect and shared priorities” (Infelise, 2002, p. 5).

Returning to the defying ideas marked out in the introduction of the paper, if the case studies seem to give full support to the idea that the use of territorial references is a viable strategy to increase the market value of products and sustain differentiation towards competitors, Blundel (2002, p.24) is probably right when defends that, rather than competing “for a price”, producers should propose to consumers a new concept, based (in this particular case) on “a strong ethos of making cheese in a traditional way”. Of course, this calls for marketing action (advertising, brand equity, sales promotion) in order to well establish the uniqueness and the historic background of the goods they are offering to the market, as claimed by Bianchi (2001, p.141).

In order to be succeeded in the long run, quality certification is needed to prevent free-riders to operate in those markets (Bianchi, 2001, p. 141). It is noticeable this seems to have been cared by the cheese suppliers we have studied, as declared by the business heads. Besides certification, control on all phases of the production chain must be followed as a precondition to assure the quality of the final product. To pursue those goals, co-operation between producers and/or public support will be needed (Cadima Ribeiro and Freitas Santos, 2004; Sanz Cañada and Macias Vázquez, 2005): i) to promote the region of origin and change the attitude of consumers regarding the consumption of the product; ii) to establish control structures (certification); iii) to get a certain scale in terms of goods available in the distribution channels. The operators of our study, both, seem to have understood this aspect, even if their business model and strategy present clear distinctive features.

The analysis doesn't allow us to go further regarding two main conclusions of the Blundel (2002) study. That is, we fully agree that “firms learn from their network linkages” and got some signs in that sense from the Queijos Matias case, but we can't present unquestionable data to confirm it. In what concerns the way “buyers affect small supplier's ability to maintain core artisanal knowledge”, we simply can add nothing. A future follow up of these cases probably will give us an answer to that research issue.

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