

# PLACE MARKETING AS THE INTEGRATED APPROACH TO ATTRACT FDI. THE CASE OF THE CITY OF ŁÓDŹ, POLAND

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## **Abstract**

*The introduction of self-government at the level of local and regional authorities in Poland increased their autonomy and put these territories into a competitive situation. For instance, a foreign investor who wishes to build a single production unit on the Polish territory will consider its localisation in different cities and regions. But only one of them will win the competition. As far as investments are concerned, it is new jobs that count the most for local communities.*

*The competition has been even strengthened by the enlargement of Poland to the European Union. Today the territorial authorities need to seek modern methods of action under the market conditions, which require a more flexible approach on their part. A kind of solution is provided by the notion of place marketing, which derives from the commercial activities of enterprises. Places like cities, regions, countries have to operate in a competitive environment. They compete for the external growth factors (inward investments, structural funds, purchasing power). Marketing is an integrated approach to competing in the international environment.*

*The paper will explain the notion of territorial competitiveness as well as the marketing approach to attract foreign direct investments (FDI). The successful example of the city of Łódź from Poland will be presented and the recommendations for the cities will be drawn.*

## **1. The essence of competitiveness of regions**

The term "competitiveness" has become quite popular recently. This notion is constantly evolving. Therefore, it is worth thinking about how to define it. This term is more and more frequently used to describe socio-economic phenomena. One hears about the competitiveness of: a nation, its economy as a whole and each branch, or smaller territories. Nevertheless, the term gained its

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popularity earlier regarding economic enterprises and it means their "ability to succeed in the ongoing economic rivalry among them" (Winiarski 1999: 48). To assess the competitiveness, it is often said that being competitive means selling one's products with a profit, and being more competitive than others means selling with a relatively higher profit (Klamut and Passella 1999: 58). The price dimension of competitiveness of enterprises has been extended to encompass quality, quickness, reliability, and many more features that affect the consumer choice. Thus firms compete mainly for clients, who are the ultimate evaluators of their offer. However, they are not the only participants of the competition. It also takes place among people competing to get a job, a more advantageous position or function performed in a given organisation.

As far as both firms and persons are concerned, the competitiveness applies to individual phenomena. It should be observed, however, that the notion of competitiveness is increasingly used in relation to bigger and more complex systems. Thus it is possible to talk about the competitiveness of the economy, industry or region. Localities like cities, regions, countries may take part in the competition, especially in the era of globalisation.

The competition between places concerns, most of all, attracting various entities and means which could boost the socio-economic development of a region. The processes of economic globalisation and, in the case of Europe, the integration of the continent make such actions possible and useful (Rudolf 2000: 355-359). The target group encompasses foreign investors, tourists, employees, managers, famous people, artists etc. In the context of the integration into the European Union and the European cohesion policy (Rudolf 2007), one more element comes up: attracting European funds to one's region in order to increase its competitiveness by investing them in the region. This category is particularly important for countries acceding to the European Union. It constitutes a chance to accelerate considerably the socio-economic development. The contemporary cohesion policy of the European Union aims at enhancing the competitiveness of the regions lagging behind. Its objective is stimulating the endogenous growth potential, a mobilisation of regional competence and resources so as to increase the competitiveness of a given area. It should be underlined that it is about achieving a certain level of the quality of life - the European quality of life on the entire territory of the Union.

## **2. Place marketing and its aspects**

This part of the paper aims to define the notion of marketing and its use to places. It should be explained beforehand, however, that the notion of marketing was applied first to commercial organisations (enterprises), and it is only

recently that it has been extended to non-profit organisations. Marketing no longer confines itself to the stimulation of selling within enterprises. The meaning of this notion has been significantly deepened for the last decades. Marketing constitutes a philosophy of conducting economic activities based on the subordination of all actions of a given organisation to the clients' needs. Nevertheless, they must not only satisfy the mentioned needs of the consumers of goods and services, but also bring a profit to the entrepreneur. P. Drucker defines marketing by the following statement: "It is the whole business seen from the point of view of the ultimate result, i.e. from the point of view of the client" (Kotler 1994: 1). Recently, the traditional approach of attributing marketing only to enterprises has been replaced by an approach including in the marketing subjects non-profit organisations as well, followed by places - spatially distinct local communities functioning as organisational and territorial entities (Rudolf 2006: 401-412). This so-called wide understanding of marketing appeals to the essence of exchange, which constitutes the basic form of satisfying both individual and collective (public) needs in the contemporary world. In definitions appealing to the essence of exchange may be found the drive to universalise marketing and apply its principles, methods and tools not only to commercial enterprises, but also to governmental, local, political and religious organisations as well as to various social initiatives in the sphere of culture, sport, health care etc. (Niestroj 2000: 30). Thus, one may observe a development of social marketing, which aims at improving the level of life of societies (Kotler 2002).

The notion of marketing started to be applied to places in Western Europe already in late 1960s (Girard 1997: 69-70). It was created by the need to promote certain areas or objects located there. Local authorities wanted to attract in this way visitors pursuing commercial, tourist or leisure activities. Industrial areas became the object of promotion as well, because local authorities looked for foreign investors with the use of modern information techniques. Then growing demand for promotion of various places led to the elaboration of a number of tools used in the pursuit of this objective at the turn of 1960s and 70s. They began to be used more widely in 1980s and 90s also due to the ongoing decentralisation of the decision-making procedures and the growing autonomy of local authorities in many countries. It should be underlined, however, that the basic direct reason for taking up marketing activities by local authorities is the crisis situation of a place (Kotler et al. 1999: 1-20).

The notion of place marketing is quite complex. It can be defined as: "a system of co-ordinated actions of local, regional and national agents which aim to generate exchange and stimulation processes by getting to know, shaping and satisfying the needs and desires of the inhabitants" (Szromnik 2007: 16-19). Therefore, the principal goal of the place marketing is influencing the opinions,

positions and the patterns of behaviour of "external" and "internal" groups of interested clients by shaping the set of means and instruments of stimulating exchange contacts (Meffert 1989). H. Meffert makes a clear classification of various aspects of place marketing. They are: philosophical, informative, strategic-operational, of the diversification of activities and co-ordination of planning. The explanation of the meaning of each category deserves some space.

The **philosophical** aspect of place marketing concerns the way of treating marketing as a philosophy of actions focussed on the client orientation. For regional authorities, the philosophical aspect means a stronger orientation of their actions on the inhabitants and other potential clients. This approach must be endorsed not only by current regional authorities but also by lower echelons of public administration and the executive level so that it could bring about tangible results: the satisfaction of inhabitants and other groups using the regional product. It is often lowest level employees of the local authorities who shape the public opinion regarding the functioning of the local structures.

The **informative** aspect of place marketing is extremely important, though still underestimated by the local authorities. Shaping the best regional offer for consumers requires an examination of the beneficiaries' needs. Therefore, it is necessary to study the expectations and wishes of the target groups for shaping properly all elements of the regional offer. This aspect of marketing requires research activities and instruments ensuring permanent contacts between the decision-makers and the target groups. The political struggle often makes one forget about the inhabitants.

The **strategic-operational** aspect of place marketing is linked to the need of planning development activities by the local authorities. The strategy of the regional development is the basic instrument available for the regional authorities, which may be used to carry out the development policy. It ought to be emphasised that not only local politicians but also representatives of various social and professional communities in the region should take part in the process of working out the strategy. Making the preparation process of the regional strategy public increases the chances that the elaborated document will be treated as common, which improves in turn the chances of its implementation. The strategic-operational aspect of marketing activities also concerns the development of supply of goods and services, infrastructure planning, price setting, and communication policy-making. The last element seems particularly important in the context of popularisation of knowledge on the opportunities of getting financial support from European funds and the promotion of good projects.

The next aspect of place marketing - **diversification of activities** draws on the notion of market segmentation used by enterprises. The regional offer should be adjusted to various groups of consumers. Thus it should be diversified. For the inhabitants, it may express care about the young people (e.g. building

recreational amenities, organising sports events), about the less affluent people (e.g. social welfare), or about the elderly (e.g. new health care facilities). For external addressees like investors, the offer is created according to their needs. If potential investors are quite heterogeneous, they may be divided into smaller target groups and the regional offer may be shaped in a more precise way.

The last of the mentioned aspects of territorial marketing - **co-ordination of planned activities** stems from the complexity of regional management. The multiplicity of decision-makers, of the addressees and of the projects makes the actions of the local authorities not easy. That is why they require considerable organisational effort. Marketing is expected to facilitate the co-ordination of numerous activities performed at each management stage, from the decision-making to the implementation of individual projects.

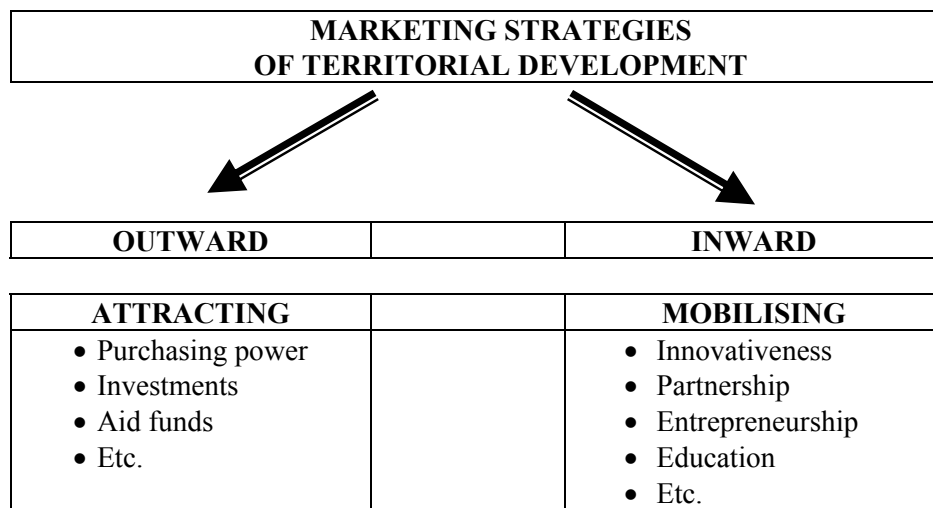
The above arguments point out to a wide application of marketing in the development policy of cities and regions. At present this topic becomes more and more popular in Europe and Asia (Kotler 1999, Kotler 2001), despite the fact that most publications dealing with it continue to appear in the United States (Ward 1998; Morgan 2002; Kotler et al. 1993). It is probably there that places compete with one another to the greatest extent, and the production factors are the most mobile. Due to the enlargement of the European Union and the Single European Market expanding to cover the whole territory of the United Europe, a growing competition among regions may be expected.

### 3. Marketing strategies for a territory

Local/regional authorities are responsible not only for creating multi-annual development strategies, but also for their implementation. Previous experiences show that the implementation phase tends to be the most difficult. In practice, many strategies created with the use of a marketing approach are not implemented. It may result from the shallowness of the planning activities on the one hand, and on the other from a lack of suitable marketing strategies or programmes, which are supposed to develop strategic statements. This part of the paper will contain an attempt to classify the most important marketing strategies in relation to regional authorities. It needs to be added that the below divisions are not exhaustive.

Marketing strategies of a region may be divided into two broad categories (Scheme 1, based on the Author's own research). The first one concerns outward-oriented strategies. They encompass competitive actions regarding regional growth factors. **Attracting** external growth factors is meant here. Taking into account the experience of local authorities in countries having a developed market economy, these factors comprise: purchasing power, foreign

investments and structural funds. In the case of Poland, these three groups seem very relevant as well. Territorial authorities can undertake actions aiming to attract clients for goods and services produced there, e.g. tourists or buyers coming from other areas. Foreign investments, as it has been mentioned, constitute an important object of interest for territorial authorities and a subject of competitive struggle. The topic will be widely discussed later in this article. The EU structural funds, which are available for Poland from 2004, are also an important growth factor. The extent to which the available opportunities of supporting various local/regional undertakings depends primarily on the self-governments. They may be direct beneficiaries of each programme. Nevertheless, it is worth adding that beside this form of actions, they may also take part in publicising the programmes among the inhabitants and regional organisations.



Scheme 1: Principal categories of marketing strategies of territorial development

The second category comprises inward-oriented strategies and aims at stimulating the endogenous potential of the territory. Their principal goal is **mobilising** endogenous growth factors. They consist of actions improving the innovativeness of local enterprises, creating local partnership, helping to start economic activity, developing investments by firms located in the territory, or promoting the absorption of aid funds by enterprises, organisations, or persons from the territory. They may also include the efforts of local authorities to raise the education level of local communities or to set up vocational training programmes adjusting workers to new labour market requirements. Therefore, both categories comprise strategies which are complementary and they should be

conducted simultaneously, in a co-ordinated way. Obviously, the above classification is not exhaustive and may be developed further. In particular, this applies to the category of outward-oriented marketing strategies. It may be enlarged by the strategy reinforcing the development of international co-operation of a place, or the strategy promoting the sale of local products in other regions or countries.

The choice of the marketing strategy should depend on the situation of a given region and the adopted goals. An interesting classification from this point of view has been presented by M. Krantz and L. Schätzl (1997). They distinguished the 3 following categories of strategies: strategy of regional development, strategy of positioning, strategy of offer diversification.

The **development** strategy will depend on the phase of the economic cycle in which the regional economy is. Three possibilities may be proposed here. The first one is the *expansion strategy*. It is based on introducing actively modern industries to the industrial structure of the territory, promoting technological innovations and supporting local entrepreneurship. It tends to be applied in the growth phase, when the perspectives of economic development are very promising. The second one is the *continuation strategy*. It is based on carrying out less active, but coherent, development actions. Emphasis is put here on the identification of factors which could lead to a loss of equilibrium or to a crisis of the local/regional economy. This strategy is supposed to continue previously undertaken actions (*the expansion strategy*) and eliminate their drawbacks and neglects. The third one is the *limitation strategy*. It is applied in the unfavourable period for the regional economy. The regional authorities are forced then to limit the range and quality of their services, which results mainly from the unfavourable economic situation.

The strategy of **positioning** concerns the communication policy of the regional authorities and the creation of a desirable, coherent image. However, it is not about incoherent advertising activities concerning the region. This strategy is supposed to create and, subsequently, consolidate the image of the region with specially selected features. Thus every territory must work out its unique positioning leading to its comparative advantage and based on original strengths which are difficult to imitate by competitors. It is worth returning to the competitive factors. The territorial authorities should try to shape them in such a way that their region could surpass others in a given category, which is sometimes quite narrow.

The strategy of **diversification** is based on adjusting the regional offer to the demands of various consumer groups. The territorial authorities should be aware that the effectiveness of their actions improves considerably if they fit their offer to the client. Hence, many divisions of the clients of the region into segments, i.e. homogeneous groups of addressees. A. Szromnik make an

interesting segmentation into groups (Szromnik 2007: 61-64), however the segmentation of consumers of the local/regional product will always remain individual and specific to the local conditions.

#### **4. Attracting investments as the marketing challenge – the case of Łódź**

Here we will explore of outward strategy of the territory aiming at attracting the new investments. The contemporary process of attracting foreign investors should not consist of just promotion. Communities needs to adopt a strategic marketing plan to compete successfully on the FDI international market.

The marketing concept adapted from commercial sector should be applied to places and its fundamental elements (target market, marketing research, product development, communication, etc.) should become the key pillars of the place marketing strategy.

The innovative approach to attracting direct investments has been implemented in the City of Łódź in 2005 and its initial results have just been observed. It is the European Social Fund which substantially supported the new concept (46% of its budget).

Łódź is one of the largest cities in Poland. Centrally located, with qualified workforce, it would have been an interesting place for direct investments. Unfortunately, it has not experienced the dynamic inflow of FDI in the first years of the current century. Other, major Polish cities like Poznań, Wrocław, Cracow, Gdańsk have profited from the market-oriented reforms and improved their competitive advantage. A few years ago, the city of Łódź experienced a number of problems, which had to be solved in order to stimulate the development of the city. The first problem concerned the image of the city. The City was not recognized, especially in the international business arena. The knowledge of its potential and localization among potential investors was very insufficient. The other problem concerned the former dominant industry, which collapsed at the beginning of the 90-ies and only some textile companies survived. Unfortunately, the liberalization of textile trade with China has additionally threatened that market in the Łódź region. The City of Łódź is centrally located in Poland, but still it is difficult to reach, because of the lack of highways, roads and fast rail connections. Some elements of business infrastructure were also underdeveloped. The lack of high class hotels and prime office spaces. Insufficient hotel capacity was the reason why the city of Łódź was not taken into account as a city co-organising the great European sports event, EURO 2012, when the Polish-Ukrainian offer was being prepared. All



these problems stimulated the local authorities to undertake dynamic actions aiming at creating jobs and at a renewal of the city.

The project “Łódź cluster as the network of co-operation in innovation within the region” was submitted in 2004 and accepted to be co-financed from the European Social Fund (project no 494/2004 of the Integrated Programme for Regional Development 2.6.). The key element of the project is preparation of so-called Development Strategy for Łódź, which was conducted by the principal beneficiary of the project selected in a public tender – the McKinsey Company. The key objective of the project is to create 40,000 jobs until 2015.

The strategy is based on three pillars: The first one means proactively attracting large investors to priority sectors. It is worth underlining that the key priority sectors have been identified, sectors which have the greatest chances to develop and whose requirements can be easily met by local facilities. The following sectors have been identified: Business Process Offshoring (BPO), Household goods, Logistics. To these three the city authorities after 2 years decided to add one more sector – information technology (IT). The second pillar is development of entrepreneurship. Activities for improving general conditions of conducting economic activities and for stimulating the creation and development of enterprises have been planned. The third pillar concerns enhancing city attractiveness. According to the strategy such actions as: improving the city’s image, focusing promotional activities on the Łódź unique themes and improving both transport infrastructure and hotel facilities have been proposed as the priorities .

Here I will list the most important element of the strategy which directly relate to the process of FDI attraction. The regional network of co-operation has been created. It consist of the leader – city authorities of Łódź – followed by public and private bodies (like the Łódź Special Economic Zone, regional authorities, universities, job agencies, leading real estate agencies, etc.). It should be stressed that neighbouring counties joined the network, which means a better solution than competition between neighbours is co-operation. The next tool to attract new investments and create favourable conditions for their development are four assistance programmes which have been developed in Łódź. Moreover, a one-stop-shop for investors: the Investor Relations Unit has been created. The McKinsey Company has organised complex training for the whole team on how to attract and serve investors successfully. Also important are undertakings concerning labour market which aim at better adaptation to market requirements. The city has undertaken a new image policy, based on the key features of the city.

After 2 years from the beginning of the project implementation, the initial results can be observed. Firstly 18,000 jobs have already been created or will

have been created by 2009. This forecast is based on investors' declarations/obligations. One investor of international fame has been attracted (DELL). It resulted in positive articles in international newspapers (Financial Times, LaTribune.fr, THE INDEPENDENT, etc.). The favourable press was also stimulated by some non-commercial activities of Łódź authorities. The great celebration of the 60<sup>th</sup> anniversary of Litzmannstadt Getto liquidation (it existed in the city of Łódź between 1940-1944) has been the largest marketing event in our city for the past few years. It attracted the international media attention to the City.

The situation regarding high class hotels is now very different from that 2 years ago. Actually, four new facilities – 4- and 5-star hotels are under construction. For sure, the *de minimis* aid program for entrepreneurs investing in new hotel establishments in Łódź has had its influence on these decisions. Also a few new world class office spaces are being developed in the city.

The economic development of the City is now much more dynamic, but some problems remain. The city image in the international arena is today much different than a few years ago, but the internal image remains neutral or negative. Especially, the image among the young should be improved. It is not possible to improve local and regional infrastructure in the short run, even with the support of European funds. It lasts long, it lasts years. We have to be patient. Investor Relations Unit of the Łódź City Hall employs skilled and well educated young people. Unfortunately, the salaries offered to them cannot be competitive compared to the salaries in international business, so some staff fluctuations take place.

## **5. Recommendations for the challenged areas (cities and regions)**

Taking into consideration the experiences of the city of Łódź, some recommendations for cities aiming at attracting investments successfully can be drawn:

- Specify who you are intending to attract (target markets)
- Create the appropriate marketing product (within the EU territory with the support of structural funds)
- Communicate the new city image (friendly for investors)
- Create local partnership with other public and private organisations to enhance common efforts
- Build and maintain long-term business relations with new and existing investors

As far as the new Member States are concerned, their economies remain at a lower level of development and without obtaining external development factors, it is impossible to achieve a high growth rate. Therefore, a greater emphasis should be put on improving the capacities of attracting growth factors from outside.

Looking at the marketing actions of local authorities both in Poland and in Europe, one may observe the predominance of promotion activities, which probably precede a fuller application of marketing strategies and instruments.

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