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**Conference Paper**

## Territorial Marketing: A useful tool for competitiveness of rural and peripheral areas

44th Congress of the European Regional Science Association: "Regions and Fiscal Federalism", 25th - 29th August 2004, Porto, Portugal

**Provided in Cooperation with:**

European Regional Science Association (ERSA)

*Suggested Citation:* Dinis, Anabela (2004) : Territorial Marketing: A useful tool for competitiveness of rural and peripheral areas, 44th Congress of the European Regional Science Association: "Regions and Fiscal Federalism", 25th - 29th August 2004, Porto, Portugal, European Regional Science Association (ERSA), Louvain-la-Neuve

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## **TERRITORIAL MARKETING: A USEFUL TOOL FOR COMPETITIVENESS OF RURAL AND PERIPHERAL AREAS**

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### **ABSTRACT**

Over recent years territorial cohesion has become an important concern for national and supra-national governments. This concern stems from the unexpected growth in spatial imbalance in terms of economic development. Urban and more developed areas are attracting more and more people and economic activities, while a great part of rural and peripheral territories seem condemned to desertification and abandonment. This is clearly the case of Portugal.

This paper shows how the application of marketing tools and philosophy can be used to reverse (or at least slow down) this process when applied to the formulation and implementation of territorial development strategies. With this in mind, the issue of territorial development is looked at and marketing concepts are introduced.

Considering rural and peripheral territories as the product to be marketed, the main components of its marketing system are discussed and some of the current trends in society that affect supply and demand of the rural product are presented. Under the light of this theoretical framework, some guidelines for action and the main responsible agents are identified in order to improve the competitiveness of rural and peripheral areas

**Key words:** Rural and peripheral territories, Marketing, Competitiveness

### **1. TERRITORIAL COHESION AND TERRITORIAL COMPETITIVE ADVANTAGE: THE CHALLENGE TO RURAL AND PERIPHERAL REGIONS**

Territorial cohesion has become an important concern for national and supra-national governments especially in the European Union. An evidence of this fact is the growing importance of Regional Policy in the context of European Policies. This concern stems

from the unexpected growth in spatial imbalance in terms of economic development in the European territory, resulting in a disillusion with traditional urban poles policies of development that did not produce the expected results of convergence. Under these circumstances European Union policies and philosophy evolved in order to consider that *“The key to the sustainable development of rural regions lies in the development of an independent perspective and the discovery of indigenous potential.”* (European Commission, 1999).

These words reflect quite well the idea that nowadays rules rural development in Europe: the *bottom-up or from below* (Stör e Taylor, 1981) process of development, also known as *endogenous development* (Friedman e Weaver 1979). Endogenous theories of development emerged at the end of the 70's as result of several circumstances, namely:

- The, above mentioned, disillusion with traditional exogenous theories (with neoclassic or Keynesian bases) which, in several cases, increased the differences between regions (Benko 1999).
- The impossibility of spread the growth, since in a climate of economic crisis it was inexistent. So another model of development was needed.
- The empirical observation of local phenomena that did not suit the traditional development model, in the so called “Third Italy“, by some Italian sociologist (Bagnasco 1977) and economists (Becattini 1979, 1989, Garofoli 1983), which calls attention to an alternative way of (rural) development.

Contrary to the previous exogenous paradigm, the endogenous paradigm considers the rational and sustainable exploitation of local resources of crucial importance (Diniz and Gerry 2002). The fundamental issue in regional development is no longer the capacity of the region to attract new enterprises but the capacity of the region to internally generate the conditions of transformation of its own productive structures. But if the region is to benefit from the economic exploitation of its own resources (that is, if the added value resulting from their economic exploitation is to be retained in the region), it must be done by agents that belong to the territory. Thus, SMEs resulting from local initiative should be seen as the main agents of local/regional economic development. With successful local initiatives, the living standards of local populations become sustainable. However, in a context of growing globalization and rapid change, the survival of both regions and firms depends on their ability to achieve **competitive advantages** in the global economy and to conquer new

markets. In fact, this idea is nowadays the base of European rural development models, and it was explicitly recognized in the Cork Declaration (1996) that rural development should be based on strategies which *“promote, in all possible ways, local capacity building for sustainable development in rural areas, and, in particular, private and community-based initiatives which are well-integrated into global markets”*

Considering the problematic of territorial cohesion, the situation of great part of European's rural territories is particularly concerning. These territories *“are complex economic, natural and cultural locations, which cannot be characterised by one-dimensional criteria such as population density, agriculture or natural resources.”*(European Commission 1999:23). This diversity is connected with their cultural, social and political inheritance, but also impacts their future. As noted by the European Commission: *“with regard to the paths taken in development and prospects for development they differ greatly from each other”*. (idem: p. 24). This mean that while some rural territories have successfully assimilated structural changes (e.g globalization and changes in society) and achieved a considerable level of economic development, others remain behind and have become more and more peripheral (in economic terms). Of course, the areas with structural problems of adjustment are those which need the attention of authorities and Governments.

For this reason, in this paper we are particularly concerned with this type of rural regions. This concern also steams from the fact that most Portuguese rural areas are peripheral.

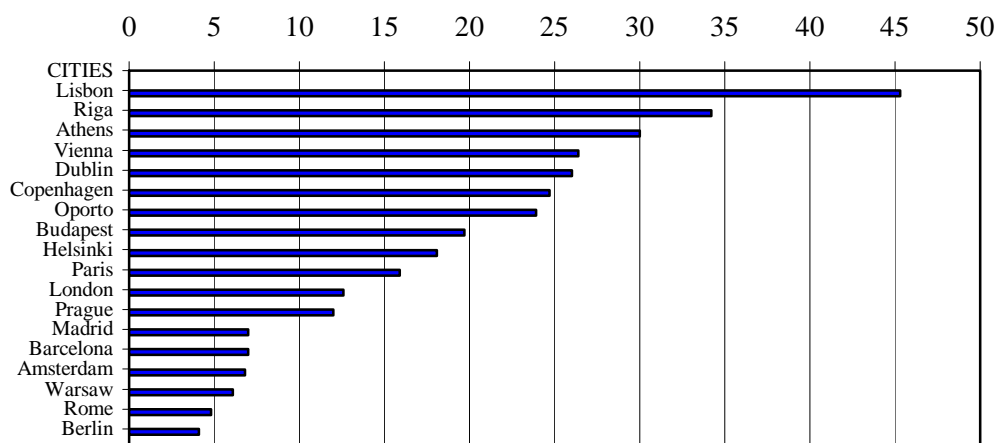
In fact, Portugal has a dualist economy in which the relatively well developed large urban centres (e.g Lisbon and Oporto) are located on the coast and the undeveloped “low density”<sup>1</sup> areas are located inland. Furthermore Portugal maintains the trend towards concentration of population in the larger urban centers. The study *“World Urbanization Prospects”* (United Nations, 2001) reveals that in 2015 more than 45% of the national population will live around Lisbon and 24% in the metropolitan area of Oporto. Comparing the some projection in other countries (see Figure 1), it is clear that Portugal represents a unique and extreme case in Europe of excessive concentration in large urban areas (and

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<sup>1</sup> The term “low density” is the same used by Magalhães *et al* (2001) and refers not only to demographic (low population per Km<sup>2</sup>) but also institutional (small number of entities with responsibilities and competencies for development at local level), relational (small number and few variety of people and institutions to interact); occupational (few opportunities and usually concentrated in agriculture, of

consequent desertification of other parts of the country). This means that, maintaining the same path of development, there is no perspective of change into convergence or cohesion of the territory. Under these circumstances, reflection on rural development - and the mechanisms that can promote it - is a crucial issue concerning the overall development of Portugal.

**Figure 1 - Population Living in European Cities in 2015**  
(in % of the total population of each country)



Source: United Nations (2001) *World Urbanization Prospects*

Studies of local systems of production (including industrial districts, *milieux innovateurs* and learning regions) made clear that firms and entrepreneurs are embedded (Granovetter 1985:483, 1993) in a territory in a dynamic and relational way: firms and institutions contribute towards the local entrepreneurial context and, in turn, the context is a fundamental element of support for its existence and good performance. However, this mutual relationship can represent a problem for backward rural regions – like the Portuguese ones - where this positive relational dynamic does not exist. In fact, in the more peripheral regions where firms, institutions and people are scarce, neither entrepreneurial spirit nor a supportive environment exists. Thus, the emergence and success of firms and initiatives are a very difficult phenomenon. At this point two related questions must be addressed: *How can this circle be broken? And how rural and peripheral regions (and its economical social and political agents) manage to be successful even within an unfavourable local environment?* The argument here presented is that a marketing

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occupation/employment); and economical (few opportunities of valorisation in the market of small local production).

perspective can be a useful tool for formulation and implementation of a sustainable development strategy for these territories. In other words, it can be useful to broken this vicious circle of economic underdevelopment.

## 2. MARKETING CONCEPTS APLLYED TO RURAL AND PERIPHERAL REGIONS

*Marketing*, according Kotler (1996:6) definition, is “*a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others*”. Thus, this concept is closely linked with the notion of exchange..

*Exchange* is the act of obtaining a desired object or service from someone by offering something in return. For an exchange take place, at least two parties must participate and each must have something of value to offer to the other. *Value* can be defined as the result of each part evaluation about what is received (functional or emotional benefits) and what is given (monetary, time, energy and /or psychic costs) in the exchange. A product or service is valuable if benefits are perceived as exceeding costs. Thus, for an exchange take place, both parts have to consider that the benefits obtained are superior to the costs incurred. It can be said, then, that exchange is a process of value creation, since it only takes place if both parts become in a better situation than before. Since marketing is process to promote exchange, it is also a process of value creation.

*Marketing* also means working with markets to bring about exchanges for the purpose of satisfying human needs and wants. A *market* is the set of actual and potential buyers of a product. In marketing concept, the **product** is everything that can be offered to a market to satisfy a need or a want, including gods, services, experiences, events, people, organizations, information, places and territories. For the purpose of this communication, **territories (and its resources)** are the “product” under analysis.

Exchange process involves work for *sellers or marketers* (those who look for a response (money, attention, buy, vote, donation, adhesion, etc.) from market. They must search for “buyers” (those who can give the desired response), identify their needs, design good products, promote them, store and deliver these products and set prices (costs for the consumer) for them. Thus, their activities include a strategic analysis (of potential markets

and their needs) and operational activities (concerning products, promotion, distribution or Place and Price). These last activities are the well known *marketing-mix* four P's, which are defined as "a set of marketing tools that work together to affect the market place" (Kotler 1996: 6).

Thus, the **marketers** of territorial product are those who are *interested in promote the development of a territory* which, according the *endogenous development perspective* presented in the previous point, are all the **socioeconomic actors within that territory**, including, citizens, politicians, firms, and other economical, social and political institutions.

To define potential "buyer" (or consumer) it is useful to introduce the notion of *market segmentation*. This notion implies the idea that potential market can be divided in different groups. This division must be done based in characteristics (bases for segmenting) that reflect different behaviours or attitudes toward the product or, in other words, that identify different "classes of buyers who differ in their products needs or buying responses" (Kotler 1996:354).

Thus, when applied to territorial marketing of rural and peripheral areas, is it possible to identify two different **target-markets** (two segments of potential buyers): the **residents** and the **non-residents** in the territory. Both consume (or can consume) the offers of rural territory. But considering them as two different market segments, is assumed that they *needs and wants* are different, and, though, also their criteria of value (c.f . Cristóvão, 2000a). Both look for a better "quality of life" but they differ in the criteria used to define and evaluate "quality". Meanwhile residents mainly look for an increased economic standard of living, non-residents look for other kind of things, like, contact with nature, knowledge about traditions, beautiful landscapes, peace and rest, etc. Also, the *answer* that marketers want from each group is different. From residents they want them to *stay in the territory* (and thus, invert the tendency to desertification of these territories and achieve more political influence and critical mass to development). From non-residents there are mainly two objectives: one is to convert them in residents (in order words attract people to the living in the territory), the other is to obtain their *money* and/or *political or social support* (for instance, a favorable political attitude towards rural and peripheral territories, a societal support to development of rural and peripheral territories, etc). It must be noted

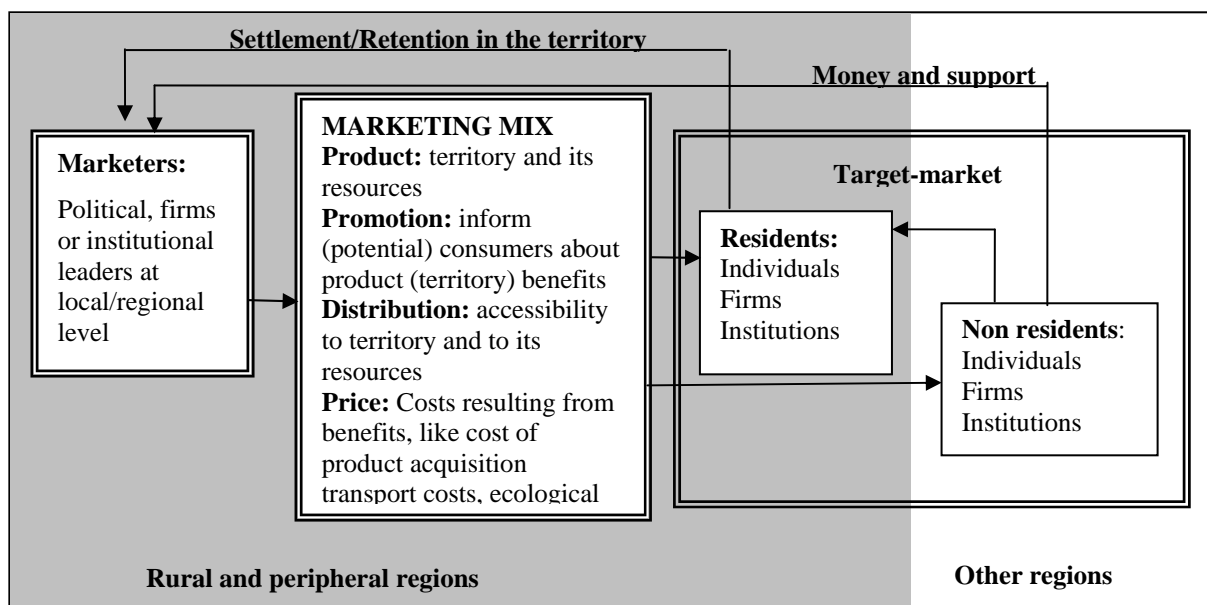
that both groups include individuals (local population, tourists), firms (endogenous or exogenous) and institutions (political, social, cultural – local, regional or extra-regional)

The distinction between these two groups (residents and non-residents) allows us to differentiate between **internal marketing** – directed to the internal consumers (local population of individuals, firms and institutions) – and **external marketing** – directed to external “clients”.

To obtain the desired response, marketers have, as we have seen, the *marketing-mix* operational tools. It includes **product** – rural territories and its resources and the way they are combined to make an attractive (valuable) offer to the market – **promotion** – the set of communication activities with the market(s) in order to inform about the territory (product) and its benefits – **place** – the set of activities which aim to make the product available and (physically) accessible to the consumers – and **price** – represents the costs associated with the achievement of the desired benefits.

Thus, we have settled down the basic elements of what we call **territorial marketing**, which are represented in figure 2. This is a simplified scheme since it does not explicitly consider other important elements in marketing decisions, namely, competition of other territories, societal trends (social, demographic, cultural economics, technological, etc) and the influence of political and legal forces. In the next point, some of these societal trends are analysed, namely those that have a relevant impact in the demand of rural “product”.

**Figure 2 – Territorial marketing basic components**



### 3. TRENDS IN MODERN SOCIETY AND RURAL PRODUCT OPPORTUNITIES

Nowadays global economy is suffering a transformation in which “industrial society” is giving way to “information society”. In this new era, information, exchange of data and communication are of vital importance for economic development. This transformation was caused by the rapid advances in technology in the last decades and is impacting both the conditions of demand and the conditions of supply. This “revolution” represents an opportunity for rural marketers to integrate the global economy and for rural and peripheral areas to change their status of (economical) periphery.

Technological advances and the growing of urbanization (consequence of the industrial economy) in developed countries in general induced a transformation in the occidental life style. This transformation can be traced in several domains (Dinis 2000, Magalhães *et al.* 2001):

- Higher levels of family income, as result of the wealth created by increased productivity and effectiveness. The higher power of purchase means that a higher share of the income can be spent on goods and services of no vital importance.
- Development of information “society”, with the expansion of new information technologies, allows better knowledge and information about products in the market (a more transparent market, less asymmetries of information) and an easier, faster access to the desired products.
- Increased levels of literacy, training and information which result in (1) a more selective and demanding consumer (2) different interests and motivations, namely those related with the acquisition and development of knowledge about different cultures and traditions.
- More free time, resulting from several circumstances, namely: reduction of daily work time, larger holiday periods, period of active life shorter and increase in life expectancy, later entry into active life (because of the larger period of studies). Even if this tendency is general, there are some segments of the population where during their active life time is scarce, representing a “time poor – money rich” paradox.

- Better accessibilities, resulting from both increased public resources and better technologies. This means a generalized reduction of transportation costs and better conditions of mobility.
- Generalization of urban lifestyle resulting in a valorisation of what is genuine and different. The era of massification result in a paradoxal need of uniqueness.
- A more generalised concern and valorisation of scarce natural resources, frailty by the industrial society, and not reproducible by the industry.

Of course these trends in demand are not homogeneous. However, they affect a significant and growing part of the population and, for that reason, constitute meaningful segments of market.

Technological advances also affect productive systems and the conditions of market supply. They represent less demands of capital for many operations of production and for transportations. They also allow a drastic increase in the quality and flexibility of output. Furthermore, the bases of the emerging economy – information and knowledge – are not site-specific and can be easily created and used in remote sites at relatively low costs (Mackenzie, 1992). For instance, as Pancucci (1995) refers, a simple computer connected to the Internet allows access to a university research library or to another centre of research and/or information.

On the other hand, knowledge and information also demand more creativity, not only because imitation will be more rapid but also because the consumer is more informed, selective and demanding. In this context, firms and their products will only be successful if they are able to identify and quickly respond to the changing needs of the “new” consumer. The results are both (1) it is necessary deeper and more continuous information and knowledge about consumers and (2) mass production - the dominant force within the economy since the industrial revolution - is progressively being superseded by speciality production directed to the specific needs of each consumer/client.

This means that the new economic paradigm is also in a new organizational paradigm – individuals and small firms with access to information and knowledge and the ability to use them with creativity and innovation will be able to cumbersome corporations as the dominant producers of wealth and tenants power (Toffler, 1990). This new model of

organization is reflected in what Piore and Sabel (1984) called *flexible specialization*, which is characterized the already mentioned “industrial districts” and other local productive systems (e.g Kalantaridis, 1997). Thus, the key elements of successful economic reorganization within the new economy include not only access to necessary resources and technology but are contingent upon a set of relationships which are based at the local and regional level. This highlights the concept of *social capital* as source of innovation and “social innovation” as a fundamental issue for (territorial) competitiveness. And this represents a new opportunity for rural and peripheral areas.

#### **4. RURAL RESOURCES AND MARKETING STRATEGIES**

Competitiveness is related with the strategic choice. Strategic choice results from the analysis of external conditions of demand and available resources. In the previous point we focused on the external conditions impacting rural economies; it is now time to discuss the available resources of the rural world that can form the bases of regions’ competitive advantage.

The analysis of society trends in the previous point makes clear that there are a set of needs and wants directed to the specificities of the rural world. Craft production and traditional products – with all uniqueness, genuinity and respect for nature that they represent - are valuable products for a certain global market segment. Also the informal and traditional life style, and the contact with nature that characterize rural regions put them in a unique position to respond to the growing concern of citizens about the quality of life in general, and about quality, health, safety, personal development and leisure in particular. In general, the analysis of trends in society shows that there are three fundamental resources that are highly valuable for a growing part of the society – a part with more purchasing power and free time, but also with more sensibility and knowledge about details connected with natural and cultural heritage. These resources are (1) natural resources, (2) tradition and cultural heritage and (3) environment and amenity resources. These resources allied to the identified trends open up a large market of speciality or niche products (both goods and services) for rural firms (Lane and Yoshinaga, 1994).

This means that some activities/products that usually constitute the “invisible” economy of rural areas - like a gastronomic speciality of grandmother, the homemade bread, the

embroidery and tissues made at home in the free time between work in agriculture and domestic work, the casual work done by a more skilful neighbour - are all informal situations that can constitute a good business opportunity. Products like these are specific to the rural world, and thus difficult or impossible to imitate. They represent the uniqueness of each region and for that reason they are a source of **competitive advantage** for rural regions (and its agents) and must be at the centre of their strategy. That strategy should convert them in **speciality products**, i.e., *“goods or services with unique characteristics or brand identification for which a significant group of buyers is willing to make a special purchase effort* (Kotler 2000:419). This type of products bring in far more revenue and provide more employment than current products ever would, if correctly directed to the market segment that valorises them – that is, if a **niche marketing strategy**<sup>2</sup> is followed.

Niche marketing strategy implies the identification and deep knowledge of the desired target-markets - the groups of consumers that are willing to spend a larger part of their disposable income to acquire the products that better satisfy their specific needs. They also demand **innovation** - to attract the desired high quality consumers.

Innovation is, as we have seen, a multiple fold concept. As the European Commission (2003:6) highlighted, *“the search for new, untapped, market space is another driving force [of innovation]. This may rely on technological innovation, or on reconfiguring existing products and services so as to present a radical change that will be perceived by costumers as offering more or better value (“value innovation”)* Rural regions and their firms will achieve increased competitiveness with the incorporation of **new technologies** but maybe even more, with **design, presentation and image** innovations. **Organizational** innovation is also fundamental: some characteristics of the rural society like familiar and community ties are the basis of the new model of production – flexible specialization. As Piore and Sabel (1984:275) refer *“Among the ironies of the resurgence of craft production is that its deployment of modern technology depends on its reinvigoration of affiliations that are associated with the pre-industrial past”*.

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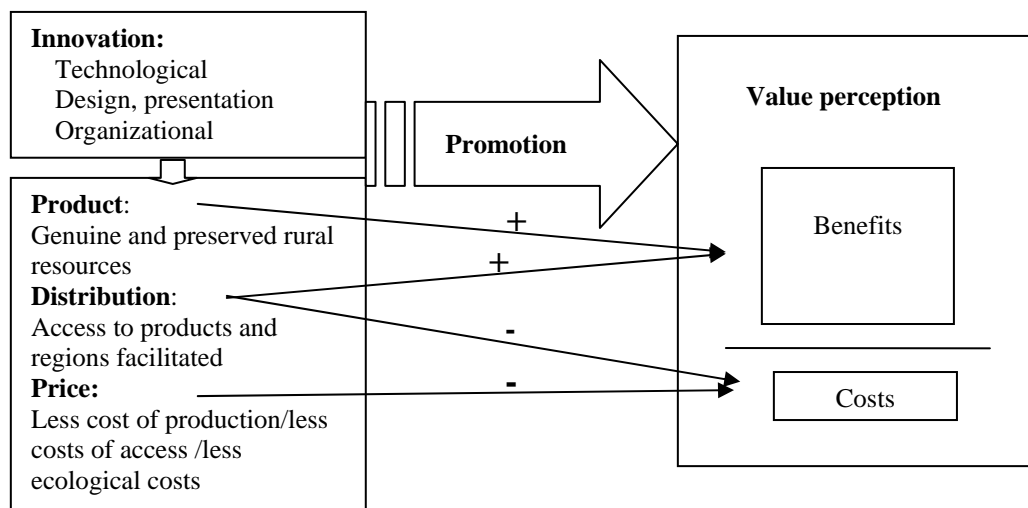
<sup>2</sup> A niche is group defined more strictly; a small market whose needs are not completely satisfied. The market nicher ends up knowing the target costumer group so well that it meets their needs better than others which sell to this niche. As a result, the nicher can charge a substantially mark-up over costs because of the added value. (Kotler 1996: 492). An attractive niche has the following characteristics: costumers have a set of distinctive needs; they agree to pay a premium price to those who better fit they needs; the niche does not

This strategy will allow a sustainable economical exploration of rural resources because it doesn't imply mass production and the inherent resource's deterioration and/or exhaustion (c.f Cristóvão 1999, 2000b). Simultaneous it will allow generate a superior income, by increasing the perceived value for the consumer and (eventually through technological innovation) decreasing perceived (and effective) costs of demand and supply.

Last, but not least, internal and external **territorial promotion** is fundamental. Interventions of economical, political and social collectives must be ruled by the aim of positively influence the perception of value of rural territories, both by rural population (to value their own resources), and external population, and thus achieve a progressive integration in niche markets that transcend the limits of the local territory. Thus, the promotion of rural territories image is crucial since it constitute an important vehicle of connection between rural resources, local population and global market. Furthermore, it could constitute an important factor to retain population and attract new segments of population with the needed competences to direct firms and/or institutions, or, simply, to attract the "critical mass" of population needed to development.

In figure 3 is schematically presented the requisites - concerning innovation and its effects on marketing-mix components - and consequences of niche marketing strategy, as here presented.

**Figure 3 – Niche Marketing Strategy and process of value creation for rural products**



attract easily other competitors, it generate more revenues through specialization and has potential to grow and to generate more income. (Kotler 2000:279)

## **5. TERRITORIAL COMPETITIVENESS: AN INDIVIDUAL AND COLLECTIVE (SOCIAL) RESPONSIBILITY**

As we seen, the new rules of the economic “game” provide an opportunity for rural and peripheral areas and their firms to achieve a better position on the “chess-board” of the global economy. They re-evaluate a set of elements of the rural world transforming them into valuable assets on which rural firms can base their strategy and achieve global competitiveness. However, competitiveness and the conquest of new markets in the global economy depend on the capacity of firms to innovate. Innovation includes not only the use of new technologies in product and/or process but also organisational and marketing innovation.

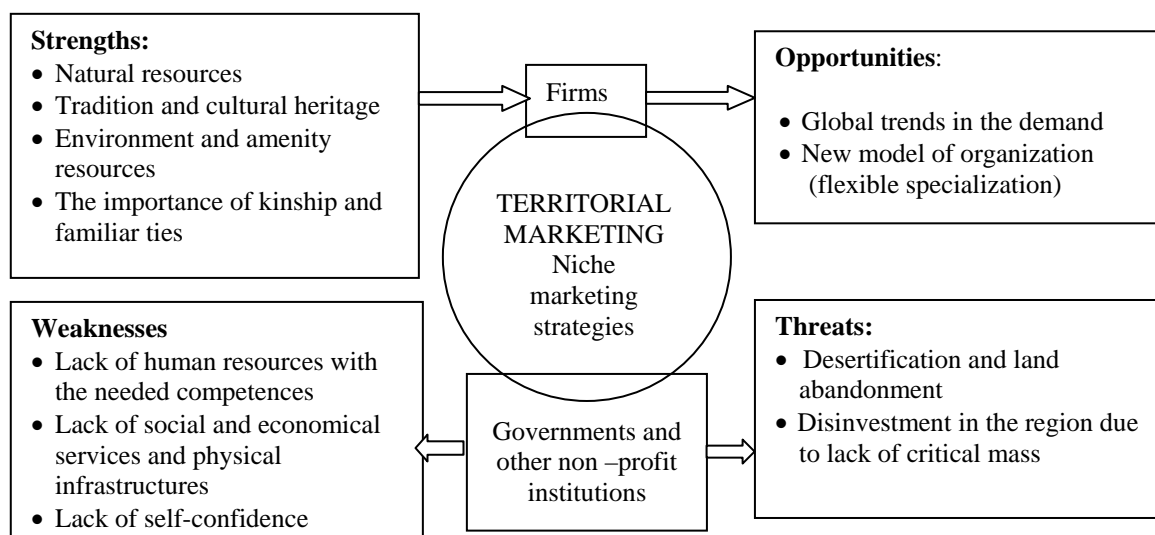
The enthusiasm for the new opportunities, should not make us forget that there are still a number of liabilities that these regions face, like the lack of critical mass to support development of specialised services (such as health care, transportation, technological support on-site), as well as the lack of electronic infrastructures and people with the needed competencies to operate them and manage the information (MacKenzie 1992). Furthermore, the vision of these regions as peripheral (as a result of the long standing secondary position in context of the industrial society) can constitute an important liability to accede to financial and human capital but also a psychological obstacle for their population becoming entrepreneurs.

So rural areas face threats and opportunities, as well possessing weakness and strengths. How these weaknesses will be overcome and these strengths enforced depends on the strategy of both firms and regions as a whole. And strategy, as we seen, is ultimately a question of choice - made by individuals (citizens and entrepreneurs) and made by governments and institutions (local, regional, national and supra-national). Individuals have the responsibility of take advantage of the rural resources to profit from the new opportunities. Governments and other (non profit) institutions have the responsibility to find ways to overcome the weaknesses of rural and peripheral areas and to prevent threats from becoming true (see figure 4).

The use of marketing tools demands a strategic vision about the territory and the segments of market that it intends to achieve. The construction of that strategic vision is also a

(social)<sup>3</sup> responsibility of each one, but also of the collective formed by national authorities and, mainly, by the economic and socio-political local/regional agents.

**Figure 4 - Swot Analysis of Rural and Peripheral Areas, Strategies and Actors of Rural Entrepreneurship**



Source: Dinis (2003). Adapted.

The success of some rural economies based on small firms that naturally emerged calls attention to the importance of networks and to the fact that what small firms need is an information/business network that supplements their advantages of being small, namely their flexibility and ability to respond quickly. It seems clear that, as Pyke and Senberger (1990: 4) state: “the key problem for small firms appears not to be that of being small, but of being isolated”.

Thus, governmental and other institutional support should be directed not (or not mainly) at the individual entrepreneur but at the creation of network structures which promote the organisational context of entrepreneurship and reduce the impact of borders (Dinis 2003). In terms of development, this means that if a small village or a rural region is to be revitalised through the creation of small businesses, the construction of **local** and **global** networks must also occur. It also means that all (internal and external/individual and

<sup>3</sup> The responsibility is *social* since it refers to a territory that belongs to a collective. This collective includes, first of all, the population of that territory, but ultimately all the country and even the world, if we consider that the preservation of natural, historical and cultural resources is responsibility of all and everyone. In fact, the existence of natural and cultural *world heritage* classification by UNESCO reflects the recognition of this collective responsibility.

collective) actors interested in the development of a territory, must be coordinated in order to be effective and efficient, i.e. more competitive.

This idea, strongly and more and more supported by regional development theorists, can also be found in marketing authors under the name of *marketing network*.

This concept highlights the importance of relationships in marketing (Kotler 2000:35, Stanton et al., 1994: 642). It represents a shift in marketing concept from trying to maximize the profit on each individual transaction to maximize mutually beneficial relationships with consumers and other parties. Thus, transaction marketing becomes a part of a larger idea of **relationship marketing**; which is based in long-term relationships with key parts of the exchange process - costumers, distributors, dealers and suppliers – in order to gain and retain its preference in the long term. This type of relationships establish solid economic, technical and social ties between parts and the final result is the building of an organizational asset - the **marketing network**, which include the organization and those who support it. Interventions with this aim, obviously, should have a strong territorial orientation.

## 6. CONCLUSION

Along this communication was emphasized the applicability and usefulness of marketing concepts to the formulation and implementation of rural and local/regional development strategies- According this (territorial marketing) perspective, rural territories and its resources should be seen as valuable (or valorisable) product and marketing actions should be developed to contribute for that process of value creation. The theoretical reasoning made in this paper, make clear that the insertion of local/regional economies in the global economy is the challenge to local actors but also the opportunity for small and underdeveloped regions to survive.

Internal and external territorial marketing actions conceived along four marketing-mix dimensions (product, , promotion, place and price) will help to achieve two complementary objectives: (1) make territories more competitive and (2) offer conditions for the settlement of active segments of population. In short, it will break the circle: “because there is no local entrepreneurship, (economic) local development is not achieved; because there is no local development, local entrepreneurship is not achieved”

The success of such actions depends of co-operation and adjustment of actions between the different actors that live in (and make alive a) territory (individuals and organisations) in the same way that the success of any firm and of its marketing programme depends of each and all of its the participants. Ultimately, it is also responsibility of a country, of a Continent (Europe) and even of the world, if, as frequently politics, intellectuals, mass media, groups of citizens proclaim, economical cohesion and the right to difference (which include the existence of “alternative”<sup>4</sup> territories) are, in fact, values that society believes and are worthwhile to defend.

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<sup>4</sup> They are “alternative” in the sense that they differ from the dominant urban territories, and represent an alternative choice to them.

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