

USE OF THE INSTRUMENTS OF SALES IMPROVEMENT IN THE NEIGHBOURHOOD STORES

Sandra Mrvica MADARAC*

Stanislav NAKIĆ**

Matej GALIĆ***

Abstract

The retail market in the Republic of Croatia has considerably changed during several last years by entering of large European hypermarkets and by opening a great number of shopping centres. This particularly affected the business of small independent retailers that are due to price uncompetitiveness difficult to cope with competition from hypermarkets.

Sales success depends itself on the success of marketing program of a company. Improving sales brings a whole range of benefits to both producers and consumers and consists of a set of different incentives that are mainly short-term, designed to encourage faster and greater purchasing of certain products or services.

Through well thought entrepreneurial approach and the use of methods for improving sales, neighbourhood stores could contribute through their business strategy to their competitiveness. Gaining customer loyalty, creating a personal relationship with customers, rewarding of loyal customers, promoting new products, helping the buyer in purchasing are some of the ways of improving neighbourhood store sales.

The paper presents research results to which extent neighborhood stores in Osijek-Baranya County use instruments of sales improvement in order to enhance their sales and relationship with customers.

Keywords: neighborhood stores, entrepreneurial approach, the instruments of sales improvement, business strategy

1. Introduction

The emergence of large retail formats in the Croatian market in the past few years has led to a change in the consumers' habits. Today, consumers do their weekly and monthly grocery shopping in hypermarkets and go to neighbourhood grocery stores to buy only the most essential goods. The reason behind this is the variety of products that can be found in hypermarkets, as well as their large price competitiveness in relation to neighbourhood grocery stores.

This paper focuses on the theoretical approach to improvement sales, instruments of sales improvement, the role of neighbourhood grocery stores as selling places, the possibilities of achieving customer loyalty in these stores, and the results of the research on the use of instruments of sales improvement in neighbourhood stores.

The research could be of importance to both owners and employees of neighbourhood stores: it could help them realize the possibilities and benefits of using instruments of sales improvement, which would in turn lead to customers getting the most out of their money, but also to stores achieving customer loyalty. The questions that this survey deals with are whether neighbourhood stores use any instruments of sales improvement, and, if they do, which ones. Other papers on this subject have also approached the issues of sales

improvement and its instruments from a theoretical point of view, but have not conducted any similar studies where neighbourhood stores were the object of the study.

So far, promotional activities have proved themselves successful in making an impact on customers' attitudes and the sales volume. The instruments of sales improvement can win new customers, but also affect the loyalty of regular customers to a certain selling place.

The use of one of the instruments of sales improvement, along with a more personal approach to customers, could lead to an increase in sales for the neighbourhood grocery stores.

2. Neighbourhood stores as selling places

In Croatia, trade is one of the most important economic sectors. Out of the total number of registered legal entities in trade, 28% of them are business entities. Given the importance of trade, as a sector that is supposed to be of interest to the overall Croatian economy, a legal basis has been established: its function is to take care of the employees and customers in terms of supplying them with goods in remote and isolated areas, as well as with goods that bear relation to cultural and family traditions and the needs of the tourists. During the process of establishing the legal

* Senior lecturer, College of Applied Sciences „Lavoslav Ružička“ in Vukovar (e-mail: smrvica@vevu.hr).

** Ph.D., Herzegovina University (e-mail: agent@tel.net.ba).

*** Lecturer, Belje Inc. (e-mail: galic.matej@gmail.com).

basis in Croatia, the functioning of the entire community is taken into account¹.

The data for the 19 countries of the EU for 2012, show that Croatia had 20 200 stores in retail trade. The average number of inhabitants per shop is 211. Since it is in direct contact with consumers and detects all changes in relation to their consumer habits, trade can be seen as an indicator of economic trends, and the changes it has gone through can attest to that claim. Since 2008, under the influence of the global crisis, there has been a stabilization of consumption, and these trends have continued throughout recent years, with the exception of 2010, when the turnover of retail trade grew at an annual level of 1%. After the recovery in 2011, there has been a stabilization of consumption and a decline in turnover on an annual basis in 2012 of - 4.2% and in 2013 of - 0.6%. The year 2014 recorded turnover growth of 0.4% compared to the same period in 2013².

Changes in the Croatian trade in the last decade reflect the changes in retail formats. With numerous hypermarkets entering the Croatian market, as well as the announced arrival of other hypermarkets, the entire Croatian trade has changed, and it has brought about changes even in the consumers' habits. Prior to 1990s, the Croatian retail trade was dominated by smaller stores located in city centres and neighbourhood grocery stores that mostly sold food products.

"Neighbourhood store is a selling place in which the trading activity of selling is carried out, and the goods sold there are mostly food products. In surface, they range from 15 to 200 square meters, which is why they are also called small stores. Neighbourhood stores are located in neighbourhoods or parts of town. Their existence is essential because they provide service to a smaller number of customers and they are in close proximity to their homes, so that customers can easily buy household goods, and especially the much-needed food products. Elements needed for running a successful neighbourhood store: location and position of the sales object, size of retail space, visibility, sign and a clean facade, a range of products, an arrangement of products and a tidy retail space, fresh and safe food products, service and professionalism"³.

The modern retail market, as opposed to the once fragmented retail market ruled by traditional small independent retailers to a greater or lesser extent, is marked by the processes of concentration, domination and expansion of large-format stores and the result of all this, which is marginalization of small independent retailers⁴.

Today, it is difficult to predict customer loyalty to one retail format. However, personal contact with customers and sales promotion methods can coax the customer into shopping in neighbourhood grocery stores.

Table 1. Key segments for small independent retailers

Area	Description
Consumer behaviour	<ul style="list-style-type: none"> - One available store - Random or emergency purchases - Purchase of products that are not available elsewhere
Employment	<ul style="list-style-type: none"> - A way to encourage entrepreneurship due to small entry barriers
Local people	<ul style="list-style-type: none"> - Contribution to the structure of the local community - Providing a sense of identity
The variety of choices	<ul style="list-style-type: none"> - Competitive advantage via differentiation strategy
Dynamism	<ul style="list-style-type: none"> - The introduction of new products and retail innovation - a better understanding of the local market and consumer needs as a potential source of competitive advantage

Source: Vojvodić, K. „Strategies survival of small independent retailers“. (paper presented at the XI. Business Logistics in Modern Management, Faculty of Economics in Osijek, Osijek, Republic of Croatia, November 12, 2009), page 213.

The rule goes as following: the closer the store is to the consumer, the greater the likelihood of the consumer making a purchase there. A greater distance from the consumer allows for a number of factors to influence and lower the probability of going to a certain store⁵.

3. The term of sales improvement

"American Marketing Association (AMA) defines sales improvement as those marketing activities that do not fall within the range of personal sale, propaganda and publicity, and that stimulate the customers to purchase, as well as the efficiency of the mediator in presentations, demonstrations and other non-typical sales activities. Sales improvement is a form that is complementary to other forms and stimulates all forms of saving money when purchasing"⁶.

¹ Ministry of Economy, Entrepreneurship and Craft. Accessed December 10, 2015. www.mingo.hr/page/kategorija/trgovina-i-strateske-robe.

² Croatian chamber of economy. Accessed December 17, 2015. www.hgk.hr/sektor-centar/sektor-trgovina/hrvatska-maloprodaja-u-skladu-s-europskim-i-svjetskim-trendovima?category=68.

³ Association of small retailers in Split-Dalmatia county, Accessed November 23, 2016. www.umtsdz.hr/novosti/prirucnik-za-male-trgovce.

⁴ Vojvodić, K. „Strategies survival of small independent retailers“. (paper presented at the XI. Business Logistics in Modern Management, Faculty of Economics in Osijek, Osijek, Republic of Croatia, November 12, 2009), page 212.

⁵ Kesić, T. Consumer behavior. Zagreb: Opinio. 2006., page 335.

⁶ Kesić, T. Marketing communication. Zagreb: Mate. 1997, page 242.

The impact of promotional activities on the attitudes of consumers can be seen in two main processes⁷:

1. in the process of formation of positive consumer attitudes
2. in the process of changing the intensity (strength) of positive or negative consumer attitudes, and the process of changing the direction of attitudes (negative to positive attitudes).

Sales improvement consists of short-term incentives to encourage the purchase or sale of products or services along with basic benefits offered with the product or service. Sales improvement provides reasons that lead to immediate sales. The idea is to motivate consumers to immediately buy a particular product. Sales improvement includes a wide range of promotional tools that stimulate a faster or stronger reaction in the market. Sales improvement should help build a long-term relationship with the customer, as well as help ensure the product a position in the market, instead of creating a momentary sale or a temporary choice of a particular brand. Sales improvement has certain limitations as well. Traders have to be aware of the fact that new buyers, who are the target of their promotion, can be consumers of a certain type of product, customers loyal to some other brand and consumers who often change brands. Sales improvement often attracts customers who often change brands because, those who do not use that product or use another brand, look for cheaper or more cost-effective products. Thus, sales improvement encourages customers to try new products, rather than constantly using one and the same, and also informs the consumer of prices, as they like to buy products at special prices⁸.

"The tasks of sales improvement are: to speed up the transfer of products between the producer and the consumer, to raise the level of cultural and professional services for end users, to improve the image of the economic entity, to create a favourable pre-purchase ambient situations at selling places, to increase consumer awareness, to reduce seasonal fluctuations of products, to attract new customers, as well as potential customers to the retail facilities, and to increase the number of loyal customers"⁹.

A number of instruments can be used in order to achieve the objectives of sales improvement. The plan for sales promotion should take into account the type of market, the objectives of sales improvement, competitiveness and cost-effectiveness of each instrument separately. The main promotional tools intended for consumers are¹⁰:

- samples - small quantities of products offered to consumers for testing
- coupons - documents that guarantee discounts for consumers when purchasing a product

- offers of refund (rebates) - a partial refund that the consumer receives after sending the manufacturer a "proof of purchase"

- packing at a better price - reduced price which is highlighted by the producer on the label or packaging

- premiums (gifts) - products that are offered either for free or at a lower price as an incentive to purchase goods

- special promotional material - useful items that carry a company logo and are given to consumers as gifts

- reward for loyalty - money or other rewards given for regular use of the products or services of a certain company

- promotion at the point of purchase (POP - Point of purchase) - point-of-sale display and product presentations in stores

- contests, raffles, lotteries and games - a type of promotion that offers consumers the possibility to, by playing games of chance or putting an effort of some other kind, win something, such as money, a trip or a product.

Table 2. Main forms of consumer-oriented sales improvement

Prize for consumers	Promoting test purchase	Stimulating trade	Reinforcing brand image
Immediate	1	3	5
	Samples	Discount	
	Coupons	Bonus pack	
	Coupons on shelves	Premiums with packages	
Delayed	2	4	6
	Coupons in direct mail	Rebates/refunds	Self-liquidating premiums
	Free coupons in post offices	Telephone cards	Competitions
	Delivered coupons	Preset programs	

Source: Kesić, T. Integrated marketing communication. Zagreb: Opinio. 2003., page 391.

Sales improvement has most often a direct impact on consumer attitudes. Instruments of sales improvement can be reflected in the attitudes of consumers in the following ways:

- with consumers or nonconsumers who have formed a positive attitude about a certain product: instruments of sales improvement will generally heighten the intensity of those positive attitudes, and the consumer's interest in buying that product (a higher

⁷ Kotler, Ph. Marketing management. Zagreb: Informator. 1989., page 625.

⁸ Kotler, Ph. et al. Marketing basics. Zagreb: Mate. 2006., page 785-787.

⁹ Meler, M. Marketing basics. Osijek: Faculty of Economics in Osijek. 2005., page 293.

¹⁰ Meler, M., op.cit., page 293.

degree of commitment)

- with potential consumers with negative attitudes towards the product: inducing these potential consumers to try out the product creates primarily good starting points to weaken the negative attitudes in their intensity; this way, the very process of creating positive attitudes among potential consumers is more easily influenced

- with consumer or nonconsumers who have not formed attitudes towards the product: the goal of the instruments of sales improvement is to induce consumers to test the product and help create a positive experience which would lead to positive attitudes¹¹.

Issues needed to be solved by sales improvement plan for instruments¹²:

1. coupons

- What saving will customer have while buying product with a coupon?
- Which segment of the market coupons will seize?
- Which appeals will be used on customers for using coupons?
- How coupons will be distributed (time, place, method)?
- Which method will follow effectiveness of this sales promotion model?

2. special price packing

- What saving will customer have while buying special prize packings?
- Which segment (segments) of the market this sales promotion model will seize?
- Which appeals will be used on customers for this sales promotion model?
- How this model will be distributed (time, place, method)?
- Which method will follow effectiveness of this sales promotion model?

3. customer rewards

- Which products will serve as rewards for customers?
- Which segments of the market (customers) will be rewarded? Why?
- Will there be rewards given in the form of free products or special prize products?
- Which appeals will be used on customers for this sales promotion model?
- How customer rewards will be distributed (time, place, method)?
- Which method will follow effectiveness of this sales promotion model?

4. product demonstration

- When, on which method and where the product is will be demonstrated?
- Had the merchandisers acquired the knowledge, skills and abilities for product demonstration?
- Which target segment of customers will be subject of demonstration?
- Which method will be used to stimulate customers on attending product demonstration?

- Which method will follow effectiveness of this sales promotion model?

5. free samples

- Which customers will get free samples?
- What is the intention of free samples distribution?
- How the samples will be distributed?
- Who will distribute samples?
- Which appeals will be used on sample distribution?

- Which method will follow effectiveness of this sales promotion model?

6. low price offer

- Which customers (segment) will be granted for discount on featured price?
- Will it be time and place-limited activity?
- What is the intention of this sales promotion plan?

What is the achievement?

- Who will guide and organize activities?
- Which appeals will be used on discount for customers?

- Which method will follow effectiveness of this sales promotion model?

- 7. Which customers (segment) will be granted for discount on featured price?

- Will it be time and place-limited activity?

- What is the intention of this sales promotion plan?

What is the achievement?

- Who will guide and organize activities?
- Which appeals will be used on discount for customers?

- Which method will follow effectiveness of this sales promotion model?

7. money refund

- How the money refund model will be monitored and controlled?

- What amount of purchased bill will be refunded? What percentage?

- Will there be same percentage on every bill or rates will be differentiated by size, structure and meaning of bill and place of purchase?

- Will refund be applied on individual bills or/and on accumulated purchases during specific period?

- What is the intention of this sales promotion plan?

What is the achievement?

- Who will guide and organize activities?

- Which appeals will be used on money refund for customers?

- Which method will follow effectiveness of this sales promotion model?

8. trading stamps

- On which selling places and market segments trading marks will be distributed?

- How long will this sales promotion model last?

- Which customer and consumer motives are incounted for implementation of this model?

- What rules will be applied on this model implementation?

- Who will guide and organize whole activity?

¹¹ Nakić, S. „Consumer attitudes in promotion activities“. *Practical management* 2 (2014)., page 112.

¹² Nakić, S. *Marketing plan*. Međugorje: Faculty of social sciences, Hercegovina University. 2016., page 231-234.

- Which appeals are going to be referred to customers?
 - Which method will follow effectiveness of this sales promotion model?
9. exhibits on selling place
- What sales exhibits are will be used?
 - On what selling places it is going to be used?
 - How to create a successful appeal to customers?
 - How long will this sales promotion model last?
 - Who will guide and organize whole activity?
 - Which appeals are going to be referred to customers?
 - Which method will follow effectiveness of this promotion model?

The influence of sales improvement instruments on consumer attitudes is showing in Table 3.

Table 3. The impact of instruments of sales improvement on the formation, stability and changes in consumer attitudes

Instruments of sales improvement	The formation of attitudes	The stability of attitudes	The change in the intensity of attitudes	The change in the direction of attitudes
Packaging at a special price		X		
Prizes for customers			X	
Demonstrations of products	X	X		X
Free samples	X		X	
Offers at a lower price		X	X	X
Refund		X		
Consumer competitions			X	
Award games		X	X	
Store brands		X		
Point-of sale display		X	X	

Source: Nakić, S. „Consumer attitudes in promotion activities“. Practical management 2 (2014)., page 113.

4. How to achieve customer loyalty in neighbourhood stores?

The study of consumer habits in retail (GfK, 2010) shows that the main reasons for going to a certain store are their range of products, proximity to one's place of residence and price acceptability. On the other hand, consumers' preferences when deciding where they will go shopping for food products indicate that consumers most frequently decide on supermarkets (47%), small shops

(23%) and hypermarkets (15%). There are two elements that should be noted regarding that. The first one is the advantage of the location of neighbourhood grocery stores that are in proximity to the consumers' place of residence and the customers' habit to shop there for basic, everyday products. The second element refers to a smaller sales area which, on the one hand, limits the range of products offered to customers, but at the same time allows for faster shopping. The emphasis should be placed on the differentiation of those elements of independent retailers' business to which customers are committed. When it comes to the development of such an approach, independent retailers have a certain advantage, since they are flexible and their stores are in proximity to customers' homes. Such position can facilitate their approach to customers and the development of strategies that could be a determining factor of their future survival¹³.

In considering the application of sales promotion, a business entity needs to¹⁴:

- define objectives: in terms of consumers, objectives include encouraging greater use and purchase; in terms of retailers, objectives include encouraging retailers to accept new products and higher stocks; in terms of sales force, objectives include support for a new product
- choose the means: for achieving these goals, there are many instruments of sales promotion at their disposal (samples, coupons, special packaging, product demonstrations, award games)
- test the program: the program should be tested to determine its effectiveness
- create a program for the application and control of sales promotion (e.g. how were sales before, during and after sales promotion).

A well thought-out sales strategy and the use of appropriate methods of sales improvement can increase sales in neighbourhood grocery stores. The business of neighbourhood grocery stores can be explained through Pareto principle, which reflects the typical economic thinking and cost-effective procedures - the store's turnover (around 80%) depends on a small percentage of customers (about 20%). This is why those customers must be offered bigger rewards, since they make up for them in the store's turnover during their lifetime of loyalty (rewarding regular customers)¹⁵.

The advantages of applying customer relationship management (CRM) approach are¹⁶ (Goldstein, 1; 272):

- better customer retention and customer loyalty because it can adequately meet their needs
- an increase of market share by applying cross-selling and up-selling strategies
- the possibilities of providing services that are better adapted to customers
- greater efficiency, since this approach helps with time management
- greater competitive advantage because of good access to the customer.

¹³ Vojvodić, K. op.cit., page 217.

¹⁴ Kotler, Ph. op.cit., page 682.

¹⁵ Pavlek, Z. Successful stores. Zagreb: M.E.P. Consult. 2004., page 32.

¹⁶ Goldstein, B. The best marketing tools for small entrepreneurs. Zagreb: Algoritam. 2009., page 272.

One of the instruments of sales improvement that could be used in neighbourhood grocery stores are discounts, which represent a reduction on the regular price of the product. The usual discounts range from 10% to 25% of the nominal price. This form of sales improvement is used in the following cases: as a reward for existing customers, as an incentive for consumers to purchase larger quantities, as an incentive to repurchase, to help promotional investments reach consumers, to ensure a place in the shop windows and other areas of presentation, to assist sellers and obtain the support from intermediaries¹⁷.

The best methods of sales improvement in neighbourhood stores are: discounts for the amount of purchased goods, tokens of appreciation (e.g. a birthday card), written thank you notes for frequent shopping, hospitality, friendly relationship with customers, award games, free samples, gifts to customers, delayed payment, promotion of new products, a joint discount for a certain type of product (e.g. all types of cleaners) and so on.

Some of the more innovative idea for sales promotion are: a week of attention dedicated to the customer, discount for blood donors, discounts for those whose birthday is on the day of the purchase, best mask contest, pancake days, late-night shopping, competition in decorating Easter eggs, encouraging a good atmosphere in the stores on some special days, "guess the number" prize games e.g. how many apple are there in the basket etc.¹⁸.

In order for neighbourhood stores to retain the loyalty of existing customers and increase the number of new customers, they should maintain a personal approach to them, expand their product range and increase their supply of fresh (organic) fruits and vegetables that most such stores are missing. In Zagreb, in the past few years, the popularity of neighbourhood stores has been on the rise again. They offer products from organic production and delicatessen whose origin is verified (jams, juices, venison salami and sausages, pastries, cheeses, homemade teas, pasta ...) from different family farms, thus generating "a small market". This has attracted the segment of pensioners as customers due to the proximity of these stores to their homes, as well as mothers who are concerned with a healthy diet. Some stores have improved their sales by personally delivering products or selling their products through e-commerce.

5. Research on the use of instruments of sales improvement in neighbourhood stores

For the purposes of this paper, the research was carried out in 10 neighbourhood stores in Osijek-Baranja County in Croatia. Osijek-Baranja County is located in the east of Croatia and has 305,032 inhabitants. Its centre is Osijek with a population of 108,048 inhabitants. This county serves as an example of an area where there has been a change in the structure of retailing. In fact, prior to the opening of shopping

malls, neighbourhood stores and retail stores located in the centre of cities were extremely popular. With the opening of shopping malls (such as Portanova and Avenue Mall), which have become a place of hypermarkets, but also entertainment where people spend their free time, there are now only a few neighbourhood stores left that offer mostly food products. Since consumer habits have changed, the question is: how can small neighbourhood stores survive in a competitive market?

The aim of the paper is to explore how often and what instruments of sales improvement do neighborhood stores use in Osijek-Baranja County. The three set criteria for the formation of the sample are:

1. the criterion of business: retail trade
2. the criterion of size: small neighborhood stores
3. the criterion of geographical affiliation: shops located in Osijek-Baranja County.

Sample size: $n = 10$.

Time of research: October 2016.

Stores from the sample were selected randomly.

Table 4. The use of instruments of sales improvement in neighbourhood stores

Neighbourhood store	Samples of products	Coupons for purchase	Offers of refund	Packaging at a lower price	Gifts for customers	Loyalty rewards for customers	Promotion in stores (point-of-sale display and product presentations)	Award games	Other instruments (name which ones)
1	x	-	-	x	x	-	-	-	-
2	-	-	-	-	-	-	x	-	-
3	x	-	-	x	-	-	-	x	-
4	-	-	-	x	x	-	-	-	-
5	x	-	-	x	-	-	-	-	-
6	x	-	-	x	-	-	-	-	-
7	x	-	-	x	-	-	x	-	-
8	-	x	-	-	x	x	x	-	-
9	-	-	-	x	-	-	x	-	-
10	x			x	x	x	x	x	-

Source: author's work

Based on the obtained answers, instruments of sales improvement were ranked accordingly, as is shown in Table 5.

¹⁷ Kesić, T. Integrated marketing communication. Zagreb: Opinio. 2003., page 398.

¹⁸ Pavlek, Z. op.cit., page 13.

Table 5. The ranking of instruments of sales improvement that were used

Rank of the instrument	Instrument of sales improvement	Number of neighbourhood stores that use this instrument (n=10)
1	Packaging at a lower price	8
2	Samples of products	6
3	Point-of-sale displays and product presentations	5
4	Gifts for customers	4
5	Award games	2
6	Loyalty rewards for customers	2
7	Coupons for purchase	1
8	Offers of refund	0

Source: author's work

Table 5 shows that packaging at a lower price is the dominant instrument of sales improvement used in neighbourhood grocery stores. Other commonly used instruments are product samples and point-of-sale displays and product presentations. None of the stores from the survey use offers of refund, and only one uses coupons for purchase. The study indicates that neighbourhood stores do not use instruments of sales improvement as much as they should in order to increase their sales and become more competitive in the market.

6. Conclusions

Sam Walton, the founder of Wal - Mart, once said: "There is only one boss. The customer. And he can fire

everybody in the company from the chairman on down, simply by spending his money somewhere else." This statement has proven to be correct when it comes to the business of neighbourhood stores as well. The changes in the retail market in the last ten years in Croatia indicate significant changes in the trading business and customer behaviour. With the appearance of shopping malls and large hypermarkets, customers do their weekly and monthly grocery shopping in hypermarkets, and rarely in small neighbourhood stores. The reason behind this is the wide range of shopping malls, which, in addition to a wide range of products, offer a place where people can spend their free time in a number of ways: by going to different events, the cinema, restaurants.

In order for neighbourhood stores to survive in the retail market, they must improve their business and entrepreneurial approach to retain the existing customers. In this study, a sample of 10 neighbourhood stores has shown that packaging at a lower price and product samples are instruments that are most often used in sales improvement. The survey also suggests that neighbourhood stores do not use instruments of sales improvement, as an important promotional factor, as much as they should. This study has proven that neighbourhood stores still have room to improve their business through various promotional activities.

The subject of the following studies could deal with the same issue, but take another geographical area, e.g. Zagreb, due to differences in prices and in purchasing power. Also, a survey could be conducted among customers on the effect of sales improvement instruments on their attitudes.

With the use of some of the measures and instruments of sales promotion, imaginative entrepreneurial approach, friendly approach towards the customer, as well as by expanding the range of healthy food products they offer, small neighbourhood stores could increase their sales and gain customer loyalty.

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