Competitiveness of Family SMEs in the Supply Chain

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ABSTRACT

Objective: The goal of the article is to study the problem of identification of the correlation between the goals and development strategies of network structures (organizations) and the goals and strategies of SMEs, realization of their harmonization and synergy effect generation as well as adaptation of typical strategies to the conditions of functioning of small and medium-sized family businesses within network structures.

Methodology: Theoretical (critical analysis of sources, data systematization, statistical analysis, comparative analysis, hypothesis formulation, etc.) and empirical (survey method, observation, critical analysis, hypothesis verification, etc.) research methods are used in the article. In order to study the prospects of and readiness of small enterprises for cooperation within network
structures an express questionnaire online survey of the representatives of small companies in different sectors of Lviv and Lviv region (Ukraine) was conducted. The sample included 134 respondents.

Findings: Calculation and statistical analysis of empirical material collected within the survey has not confirmed the assumption made by the authors about presupposed that the overwhelming majority of the representatives of small and micro enterprises would be open to (ready for) cooperation in the supply chains, ready for close interaction in the field of IC, business process integration with the supply network or chain participants/partners, etc. Only 7.6% are ready to be active participants of network structures, 84.6% are not yet clear about that, while 7.8% object to such cooperation. Less than 40% are ready to integrate their ICs with the ICs of network participants, and the same is the number of those who are not yet clear about that. The largest number of negative answers was given to the question about the readiness to share competences, expertise with network participants – 38.5% and 30.7% are not clear about that. Commodity (service) certification procedure is the direction where the representatives of SMEs showed the strongest readiness for cooperation (69.2%)

Value Added: The article suggests a model of the mechanism of strategic development of small and medium-sized family businesses in the supply chain. This model involves, primarily, combination of strategies specific to the micro level and integrated systems, and secondly, delineation of typifying of strategic decisions in such areas as the basic strategies of competitive behaviour, strategies of supply chain development, strategies of supply system planning, relationship institutionalization strategies and specialization strategies.

Recommendations: Modern supply networks and chains must possess a considerable elasticity potential that will enable them to successful adjust to the turbulent environment. Such elasticity potential should be developed via involvement of small and medium-sized enterprises with a relatively narrow specialization. Such process must take place in the context of well-grounded decisions of out/insourcing in the distribution system and towards construction of network structures in the strategic dimension. Involvement of small and medium-sized enterprises will contribute to increased elasticity of network structures’ means.

Key words: supply chains, small and medium-sized enterprises, family business, network structures, strategic development, the mechanism of strategic development

JEL codes: M11, L14, L25.
Introduction

Currently, in the epoch of business globalization, integration and internationalization, dynamic and active information technology development, the striving of companies to be more flexible and elastic in their response to the fast environment changes they cannot affect is one of the main trends. Great attention is paid by companies to the search of new forms, ways and concepts of functioning that would meet current and future demands, in particular, in the field of customer expectation satisfaction, thus creating a competitive advantage. Some companies, all the more small and medium-sized family businesses, find it hard to compete on the market. Therefore, there arises a need for cooperation between companies (representing different business types and domains: producers, insurance companies, distributors, banks, logistic operators, advertising, trading and other companies) within supply networks and chains. Such need is caused by the necessity to quickly react to the changes in the demand and the customer’s requirements, to provide comprehensive customer services, etc.

In the current conditions of tougher competition establishment of network structures constitutes a great chance of efficient functioning for small and medium-sized family businesses. Thanks to their involvement in supply networks or chains such companies get access to strategic means and obtain confidence of their existence prospects. Positioning of family SMEs in supply chains requires identification of their relations with each other and with the integrated system in general. Therefore, actualization of scientific research in this direction is quite logical.

The goal of the article is to study the problem of identification of the correlation between the goals and development strategies of network structures (organizations) and the goals and strategies of SMEs, realization of their harmonization and synergy effect generation as well as adaptation of typical strategies to the conditions of functioning of small and medium-sized family businesses within network structures. Theoretical (critical analysis of sources,
data systematization, statistical analysis, comparative analysis, hypothesis formulation, etc.) and empirical (survey method, observation, critical analysis, hypothesis verification, etc.) research methods are used in the article.

Current State of Knowledge

Analysis of SMEs development prospects within network structures

Supply networks and chains are complex formations. These are the integrities of companies of producers, suppliers, mediators, consumers, having their own missions, visions, values and business models, but also common goals, no territorial restrictions. The key factor here is strategic partnership based on high level of trust and transparency of relations. This, in turn, reduces transactions costs, increases predictability and provides companies with flexibility and opportunities for achieving their own goals, improves their response to innovations and performance oriented at the end user (Szymonik, 2010, p. 174).

Intensive development of large network structures and supply chains is directed towards globalization, however, such development is ensured by business initiatives undertaken by small and medium-sized enterprises (SMEs), without voluntary inclusion of which into these structures such development would take longer and be less efficient.

On the other hand, acceptance of the strategies of network structure development as their corporate business development strategy by large networks creates attractive conditions for the development of companies from small and medium-sized business since it does not normally require from them any substantial investment, risky strategic decisions, but rather ‘firm’ regulation of their tactical and operating activity. In general, both large networks, and SMEs are necessary for each other, this causing the sources of competitive advantages in improving elasticity (accessibility of network
products), and, hence, a certain synergy effect. Construction of a network structure or functioning within such structure often constitutes a pre-condition for further development of small and medium-sized family businesses, since it provides prospective opportunity for expanding the scope of their activities, developing new competences and gaining new knowledge. The goal of the network structure is also to create ‘new value’ for customers, that would provide a competitive advantage. However, that does not happen in each specific case. In the network structure there occur many complex situations, there are different interests, a number of factors of organizational and cultural, market and legal nature, affecting the supply chain and network and thus determining their success.

The prospects of SME development have for quite a period been a significant subject of scientific research done by scholars abroad and in Ukraine, mainly through the prism of employment and GDP. Such scholars include Z. Varnaliy (2013, pp. 121–150), H. Bashnianyn (2006, pp. 140–205), S. Illiashenko (2010, pp. 268–360), Z. Patora (2006, pp. 1141–194), and others. Another part of researchers focus on the concept of network structures, which evokes the interest in many branches of science, in particular, marketing (network marketing), logistics (logistic networks), trade (trade networks), other fields of service. A considerable contribution into the development of the theoretical grounds of network structures have been made by such scholars as P. Castells (2000, pp. 160–170), P. Doyle & P. Stern (2006, pp. 260–378], F. Kotler (2014, pp. 7–144), D. Bowersox (Bowersox & Closs, 2006, pp. 560–134], M. Kristopher (2005, pp. 16–120), K. Rutkowski (2001, pp. 160–254], N. Chukhry (Chukhry 2007, pp. 20–158), Oklander (2012, pp. 125–254], p. Reshetnikova (2009, pp. 581–587), N. Karpenko (2008, pp. 15–267), and others. Thus, according to a specialist in network economy M. Castells, ‘...new economic forms are built around global network structures of capital, management, and information. ... Companies, firms, other organizations and institutions merge into the networks of different configuration, the structure of which is characterized by deviation from traditional differences between large
corporations and small business, embracing sectors and economic groups organized by the geographical principle’ (Castells, 2000, p. 81). According to this scholar, in order to take on new markets large corporations should change their organizational structures. Some changes include increased use of subcontracts of small and medium-sized businesses, viability and flexibility of which would enable to get a gain in productivity and efficiency of both large (network) corporations, and economy in general. Thus, it is at the same time obvious that small and medium-sized enterprises are the forms of organization, that are well-adjusted to the flexible production system in the conditions of information economy, as well as that their updated dynamism starts being controlled by large corporations remaining in the center of the economic structure of the new global economy. We are witnessing the crisis of traditional corporate organizational model based on vertical integration and top-to-bottom functional management (Castells, 2000, p. 161).

Small and medium-sized firms are often controlled by the system of sub-contracts or are under the financial / technological domination of network corporations. But they also often take on initiative in the establishment of network relations with some large firms and / or other small and medium-sized firms, finding market niches and establishing joint ventures (Castells, 2000, p. 165).

At the same time, the problems of identification of the correlation between the goals and development strategies of network structures and the goals and strategies of SMEs still remain understudied.

Positioning of participants in the supply network or chain requires identification of their relations with each other and with the integrated system in general. By their nature these relations may be: confrontational; cooperative; symbiosis of confrontational and cooperative, that has been labeled ‘cooperence’ or ‘coopetition’. In general, relations between the participants can develop both horizontally and vertically. Cooperance presupposes simultaneous existence of cooperation aimed at achievement of the accepted system goals and confrontation (competition) for expansion of one’s share, role, importance, share of income, etc. It is obvious that all that can
be achieved just through reduction of the costs and/or adding value for the customer. Therefore, it is so important to identify prevalence of this or that general strategy of the supply network or chain on the whole and for specific SMEs, strategic units of business, segments, niches, etc.

**Special features of SMEs functioning within supply chains**

A special place within the system of strategic development of SMEs as participants of the supply chain goes to supply and procurement management strategies, that is development of the distribution channel. These issues have grown over the past years from the range of current management matters into the category of strategic management objects, and viability of the whole supply network or chain is becoming more and more dependent on the efficiency in this field (Linders, Johnson, Flynn, & Firo, 2007, p. 697). This fact is confirmed by the complexity of the tasks to be performed here: correct interpretation of the corporate goals and the goals of the supply and procurement subsystems; substantiation of the rational plan and strategy of achievement of the goals and tasks set; identification of the core aspects in the activity of the procurement and supply service integrated into the organizational structure of the distribution system, etc.

According to definitions provided by scientists (Linders, Johnson, Flynn, & Firo 2007, pp. 698–699), supply and procurement strategy is the plan of actions of the respective structural unit of a unitary or corporate business entity, designed to achieve the goals set and perform the selected tasks for the sake of integration (via circulation of commodity reserves) of the trade and technology process into the environment. And the following six basic supply and procurement strategies (supply chain development strategies) can be pointed out as the strategies of: 1) securing supply, 2) cost reduction, 3) supply network support, 4) change of environment, 5) securing competitive ability, 6) risk management.
Thus, the strategy of securing supply presupposes guaranteed satisfaction of future needs for commodity supply, simultaneously with performance of commitments in terms of quantity and quality. When the cost reduction strategy is selected, the company shifts the focus from reduction of the risk of reduced supply stability to management and optimization of the costs related to product turnover. The strategy of supply network support is based on the improvement of the environment for communication between the distribution system participants for the sake of improving the level of knowledge and the necessary characteristics of rational supply and flow of goods. A characteristic feature of the environmental change strategy is getting the advantages of competitive ability and efficiency via prediction of possible changes in the effect of institutional, organizational and management, financial and economic, social and demographic as well as other external factors and their advance consideration through introduction of the necessary corrections in the distribution system’s supply and procurement sector. The strategy of securing competitive ability, under which market opportunities and strengths of business entities within the distribution system are predicted and taken into account for prevention purposes, should be regarded as the continuation of this type of strategy. Application of the supply risk management strategy aims to minimize the risks and threats of commercial risk appearance.

In our opinion, a logical conclusion can be drawn that since supply and procurement objectively constitute a separate integral functional direction of integrated systems, the strategies characterized should be allocated a special place in the processes of managing strategic development of small and medium-sized enterprises, but with simultaneous coordination with the so called process strategies of supply system integrated planning, which, in particular, are the following ones: JIT (Just-In-Time), VMI (Vendor-Managed Inventory), ECR (Efficient Consumer Response), CPRF (Collaborative Planning, Replenishment and Forecasting) (Kristopher 2005, pp. 112–115; Bozarth & Handfield 2007, pp. 475–522).
Management of the processes of commodity flow, procurement and supply, as well as all the other relations between the supply chain entities, requires their respective institutionalization. Here it would also be expedient to talk about specific strategic decisions made for the sake of building the necessary configuration of legal organizational, financial and economic, and other relations. These problems are in the focus of attention of many researchers. Thus, Bernard J. Lalonde and Marta C. Cooper (1989, p. 6) suggest selecting out of the possible strategies of mutual relations establishment in logistic chains: 1) partnership (joint activity and profit distribution over a certain period), 2) strategic alliance (contractual relations between the independent entities of the logistic channel, aimed to achieve shared goals and to gain profit), 3) establishment of the agent of the logistic channel (entering long-term relations with some other distribution channel entity), 4) contract logistics (conclusion of an agreement of respective service provision within the logistic system for a certain fixed period). David L. Anderson (1998, p. 44) has specified special features of contract logistics ‘...as the use of specialized logistic companies in the field of distribution (shippers, warehouses, other entities) for performance of all or only some functions of output distribution, including transportation, storage, control over the condition of reserves, customer servicing, creation of data bases with logistic information’.

Results

The study of the SMEs positions in the Ukrainian economy

In order to identify the positions of medium-sized, small and micro enterprises in the structure of the Ukrainian economy their positions have been researched through the prism of dynamics of the change in the number of enterprises, employees, the scope of output sold, by company types and industries. Table 1 represents some mean values (calculated for the period
from 2010 to 2017) of performance of companies in Ukraine, with the breakdown into large, medium-sized, small and micro enterprises.

Table 1. The average values of the main indicators of enterprises in Ukraine, with the breakdown into large, medium-sized, small and micro enterprises in 2010–2017

<table>
<thead>
<tr>
<th></th>
<th>Large companies, in % of the overall number of companies</th>
<th>Medium-sized companies, in % of the overall number of companies</th>
<th>Small companies, in % of the overall number of companies</th>
<th>Micro companies, in % of the overall number of companies</th>
</tr>
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<tbody>
<tr>
<td>The average value of the number of companies, %</td>
<td>0.2</td>
<td>5.0</td>
<td>14.2</td>
<td>80.6</td>
</tr>
<tr>
<td>The average number of employed workers, %</td>
<td>30.0</td>
<td>42.8</td>
<td>16.2</td>
<td>11.0</td>
</tr>
<tr>
<td>The average scope of the output sold (goods, services), %</td>
<td>41.0</td>
<td>41.7</td>
<td>11.7</td>
<td>5.6</td>
</tr>
</tbody>
</table>

1 The data is provided with no due account of the results of performance of banks, public institutions as well as for 2014–2017 without the temporarily occupied territory of the Autonomous Republic of Crimea, the city of Sevastopol and a part of temporarily occupied territories in Donetsk and Luhansk regions.

Source: calculated by the author on the basis of: http://www.ukrstat.gov.ua.

For comparison, in Poland at the beginning of 2018 (GUS, 2017), the share of micro enterprises was 96.5% and they provided 30% of the total volume of value of products with a share of persons employed of 40.4%. The contribution of large enterprises and the share of employees, and the share of value of products is the same as in Ukraine. However, the importance of medium and small enterprises in Poland is less: medium-sized enterprises share is only 0.7% and the share of small enterprises is 2.6% in total, their share of value of products is 16.5% and 10.5% respectively.

According to the data [http://www.ukrstat.gov.ua], a tendency to reduction of the number of large and medium-sized companies and even the number
of small companies can be traced, however, to the increase in the number of micro companies (most of them are family businesses), the total share of which as of the end of 2017 in the overall number of companies exceeded 82.3%. Such tendencies can also be traced in the number of employees and the scope of output sold. Thus, the share of employees of large companies went down from 30.2% in 2010 to 26.9% in 2017, however, there was an increase in the share of those employed at medium-sized (from 42.6% in 2010 to 44.6% in 2017) and micro companies (from 10.5% in 2010 to 12.3% in 2017). As to the scope of output sold, the lion’s share of the total scope goes to large and medium-sized companies, but the trend is towards increased importance of medium-sized companies: the share of output sold by large companies went down from 41.6% in 2010 to 38% in 2017, and the share of output of medium-sized companies increased from 41.5% to 42.7%. The scope of output sold by small and micro enterprises is though smaller as compared to the scope of large and medium-sized enterprises, however, a steady tendency to its increase can be traced (for small companies – from 11.5% in 2010 to 12.8% in 2017, and for micro companies – from 5.4% to 6.5% of the total scope).

As far as the scope of output (commodities, services) sold by small and micro companies in Ukraine by sectors is concerned, as of the end of 2017 the largest volume of output (services) were sold by micro enterprises in such domains as education (28.5%), real estate transactions (29.2%), construction (17.8%), in the field of art, entertainment, and leisure (17.3%). The lowest volume of commodities (services) sold was traced in the industry (1.2%), health care (6%), transport, warehousing business, mail and courier activity (5%). The structure of distribution of the volume of output sold by sectors is similar for small companies.

The change in the structure of the volume of output sold by sectors in 2017 as compared to 2012 is represented in fig. 1 and fig. 2 for small and micro enterprises respectively.
Figure 1. The structure of the volume of output (goods, services) sold by micro enterprises in Ukraine by sectors in 2012 and 2017, %

Figure 2. The structure of the volume of output (goods, services) sold by small enterprises in Ukraine by sectors in 2012 and 2017, %

Source: calculated and built by the author in accordance with: http://www.ukrstat.gov.ua.
The prospects of cooperation of SMEs within network structures – survey results

In order to study the prospects of and readiness of small enterprises for cooperation within network structures an express questionnaire online survey of the representatives of small companies in different sectors of Lviv and Lviv region was conducted. The sample included 134 respondents. The respondents were asked to assess the degree of consent (readiness) to cooperate in the following directions: readiness to be an active member of the network structures (organizations); readiness to share core competences (know-how) with the network participants/partners, as well as to integrate their information systems with the ISs of their partners (suppliers, distributors, etc.) for the sake of reinforcing coordination and raise the degree of cooperation between network participants, readiness to undergo the procedure of certification of their goods/services in order to meet the network’s standards; readiness to change (adjust) their management system, business processes in accordance with the network requirements.
The assumption made by the authors prior to the survey commencement presupposed that the overwhelming majority of the representatives of small and micro enterprises would be open to (ready for) cooperation in the supply chains, ready for close interaction in the field of IC, business process integration with the supply network or chain participants/partners, etc.

Calculation and statistical analysis of empirical material collected within the survey has not confirmed the assumption made.

Thus, only 7.6% are ready to be active participants of network structures, 84.6% are not yet clear about that, while 7.8% object to such cooperation. Less than 40% are ready to integrate their ICs with the ICs of network participants, and the same is the number of those who are not yet clear about that. The largest number of negative answers was given to the question about the readiness to share competences, expertise with network participants – 38.5% and 30.7% are not clear about that. Commodity (service) certification procedure is the direction where the representatives of SMEs showed the strongest readiness for cooperation (69.2%). All in all, research has shown...
either absolute resistance, or lack of determination (doubts) concerning cooperation prospects in network structures. This can partially be accounted for not by the realization of the advantages of such cooperation, but by the reservations of SMEs as to loss of their independence, market share, unfair competition or ‘pressure’ exerted by more powerful network participants. However, clarification of the exact reasons curbing SMEs from establishing close cooperation in the supply chains will become subject to further research.

**Development of SMEs in the supply chain: from operational to strategic level**

The results of analysis of foreign experience of supply chain functioning and development in specific modern conditions (in particular, tougher competition and mediator enlargement, increased share of retail commodity turnover via trade networks, change in the end user’s behaviour, informatization) allow to point out the types of promising specialization strategies (table 2). Thus, large national logistic and distribution enterprises should apply a comprehensive strategy which gives opportunities for the provision of a full spectrum of services in supply chain management – warehousing and distribution services, cartage, international transactions and customs registration of goods, introduction of integrated IT solutions for supply chain management, establishment of the service for electronic business (e-fulfilment).

**Table 2. Strategic orientation of managing the development of network participants by their specialization level**

<table>
<thead>
<tr>
<th>Strategy types</th>
<th>Distributor types</th>
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<tr>
<td>Comprehensive strategy</td>
<td>National and logistic distribution companies</td>
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</table>
Function-specialization strategy and corporate and business-level strategy is expedient for enterprises specializing in logistics and trade mark development. That is for such SMEs it would be expedient not to embrace all the parameters to the fullest extent possible, but to focus on some of the above functions.

Wholesale companies, catering companies and e-commerce entities should select customer/product-specialization strategy, own trade mark marketing. The participants of this group may also focus on distribution consulting (for example, in design and retail outlet management, risk insurance, private trade mark creation and development, intellectual property and logistics).

Let us generalize the characteristics of theoretical approaches and decisions that may be passed by the supply network or chain participants for the sake of their strategic development in fig. 4.

Future status of commodity and service supply network or chain development may conceptually be described as a dynamic system with vague inner and outer boundaries, a poorly structured one. It may be represented as a certain relatively stable ‘frame’ built of the key elements of the distribution system and dynamic relatively less stable filling of this ‘frame’ with other business entities, in particular, the ones representing small and medium-sized enterprises due to which the distribution system acquires mobility properties, this enabling it to successfully adjust to the changing conditions.

<table>
<thead>
<tr>
<th>Function-specialization strategy; corporate and business-level strategy</th>
<th>Companies specializing in logistics</th>
<th>Companies specializing in trade mark development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer-specialization strategy/product-specialization strategy; marketing of own trade mark</td>
<td>Wholesale companies</td>
<td>Catering companies</td>
</tr>
</tbody>
</table>

Source: developed by the author on the basis of: Stratehyi dystrybutsyi na rynke potrebytel’skikh tovarov, 2008, online.
of the environment and act anticipatively to react to the changes expected from customers.

Figure 4. The semantic model of the mechanism of strategic development of small and medium-sized family businesses within network structures

Source: own development.
Scientific guidance by such principles causes the need for building up the internal structure of strategy pyramid (the overall strategy of strategic business units – functional strategy) in the horizontal and vertical dimensions, that is specific functional strategies adjacent to some domains and functions at the level of the integrated system and business strategies of business entities of the distribution system. That is critically important for the network-type system (partnership, franchising networks, mixed, not firm networks), since their integration may generate numerous targeted conflicts that are extremely difficult to avoid, therefore, ‘arbitration’ mechanisms need to be introduced. It is much easier to avoid targeted conflicts if the goals of business entities are coordinated at the strategic level.

It is obvious that each current or prospective network participant must be informed about the system’s strategic goals, its mission, vision and principles of functioning in order to adapt its goals respectively, or to make the respective coordination of special conditions, or even pass a decision not to enter the structure of that network.

That means that the above descriptive model of the mechanism of strategic development of family SMEs in network structures must be filled with specific sense out of the possible solutions represented here. Hence, that enables each business entity to assess the opportunities and threats for this network, assess its strengths and weaknesses through the prism of the distribution system, outline acquisition of core competences, specialization, place in the system, degree of institutionalization of the relationship with the system and its entities, etc. and thus approach development of its own business strategy. That refers equally well to both SMEs in retail sales (trade outlets, e-stores), and performers of logistic functions (transportation, forwarding, delivery), information, communication, service, etc.

The semantic model of the mechanism of strategic development of family SMEs in network structures, represented in fig. 4, does not in any way mean that integrated network functions only on the basis of one general strategy. And that means that in relation to some goods/customers/markets low price
strategy can be applied, while to others – differentiation strategy, and still to others – concentration strategy. Thus, business strategy of a specific business entity (SMEs), either in the period of stabilization of its place in the network, or in the period of its entering the network, may be structured in accordance with the above strategic decision options.

In case of small and medium-sized enterprises, knowledge of the market and customer needs is crucial for the development and growth of competitive ability. Construction of the strategy of competition in small enterprises, with due account of their specificity, should primarily focus on minimizing of costs and stable quality of goods/services. Also, application of the option with the priority of opportunities and threats is expedient, since it stands for the need to adjust (use) own strengths, if there are any, to the conditions of the network, and to eliminate (remove) own weaknesses via development of respective competences, technologies, means, etc.

Intensive development of e-commerce, based on the dynamic development of Internet technologies, creates a significant chance for small and medium-sized enterprises (SMEs) for entering promising network structures as its business entities. This chance lies in the significant reduction of entry barriers and exit barriers for the reasons of cost affordability of Internet communications, Internet marketing, Internet experience, cloud technologies, etc. The following can be topical mechanisms of SMEs integration into prospective supply networks and chains: establishment of the representation in the e-network, entering e-markets/exchanges (model P2P), Internet store launching (model P2P), entering the market of logistic services, etc.

Conclusion

Modern supply networks and chains must possess a considerable elasticity potential that will enable them to successful adjust to the turbulent environment. Such elasticity potential should be developed via involvement of small and medium-sized enterprises with a relatively narrow specialization. Such
process must take place in the context of well-grounded decisions of out/insourcing in the distribution system and towards construction of network structures in the strategic dimension. Involvement of small and medium-sized enterprises will contribute to increased elasticity of network structures’ means. Since small firms cannot change the environment where they function, they are forced to adjust to current conditions and requirements. Therefore, they should focus on their permanent study. That causes the need for further studies for the sake of developing respective competitive marketing and logistic strategies for small and medium-sized enterprises.
References


