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Distribution Channels and Innovation Strategies as Catalysts for MSME Growth: Insights from Northern Mindanao's Bakery Sector

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ABSTRACT

This study examines the relationship between distribution channels and innovation strategies in driving the growth of Micro, Small, and Medium-sized Enterprises (MSMEs) in the bakery industry of Northern Mindanao, Philippines. Using a qualitative approach, the research analyzes 10 key informant interviews to identify critical themes. Findings highlight the strategic importance of situating stores in high-traffic areas, process innovations to reduce waste and maintain product freshness, and technological upgrades to boost operational efficiency. Adopting hybrid distribution models such as combining traditional and digital methods was especially impactful during the COVID-19 pandemic as these enabled bakeries to sustain operations despite significant disruptions. However, limited internet access and low digital literacy remain key barriers to fully capitalizing on digital platforms. This study emphasizes the synergistic relationship between customer-focused innovation and adaptive distribution strategies, which enhances market reach, revenue growth, and customer loyalty. The research concludes that aligning innovation with tailored distribution channel investments, such as modern equipment and capacity-building programs, positions MSME bakeries for sustainable growth and resilience in a competitive market. These findings offer valuable insights for stakeholders, including policymakers and industry leaders, aiming to strengthen MSMEs and promote regional economic development in evolving and challenging business environments.

INTRODUCTION

Globalization and changing food preferences have elevated baked goods like bread and pastries from simple snacks to essential components of daily diets. In the Philippines, the bakery industry is projected to grow at a rate of 5% annually, reaching a market value of \$2.5 billion by 2027 (Talavera, 2023). This growing demand has broadened the availability of baked products, which are no longer confined to traditional bakeries but are now widely accessible in restaurants, grocery stores, and various retail channels.

Recent studies have noted significant shifts in the bakery sector, driven by changing consumer preferences and global influences. Filipino consumers, in particular, are increasingly seeking nutritious and innovative bakery products, with a growing interest in functional ingredients (Bocog & Paradero, 2023). Mickiewicz and Britchenko (2022) cited that consumers are also demanding healthier options with reduced fat and sugar content while showing interest in unique and creative flavors. Similarly, Boukid (2022) observed that modern bakers are embracing innovative techniques, experimenting with flavors, and incorporating healthier alternatives like low-carb breads to meet the needs of health-conscious customers. Additionally, Linzalone and Lerro (2021) posited that the increasing exposure to international cuisines and evolving palates has fueled creativity in the bakery sector, encouraging bakers to push boundaries with new ingredients and methods. The adoption of advanced baking equipment has further been noted to enhance

efficiency and support these innovations, enabling bakers to cater to the dynamic demands of the market.

The COVID-19 pandemic significantly disrupted the bakery industry's traditional operations, as lockdowns halted face-to-face transactions and forced businesses to reassess their strategies. Nadyan *et al.* (2021) posited that the pandemic severely impacted Micro, Small, and Medium Enterprises (MSMEs), with many being forced to close due to declining consumer demand. Ramirez & Limos-Galay (2023) further observed that the industry faced supply chain disruptions and shifting consumer behavior, including increased reliance on online transactions and a demand for new product offerings. This shift pushed bakery production and sales practices to adapt by implementing social distancing measures and stricter sanitary standards.

As cited by Nadyan *et al.* (2021) and Sentoso *et al.* (2023) digital transformation emerged as a critical survival strategy for MSMEs, enabling them to adopt e-commerce platforms, digital marketing techniques, and innovative pricing strategies to sustain operations. Kurniawati *et al.* (2021) noted that despite challenges in adopting new technologies, many MSMEs prioritized marketing innovation and embraced e-commerce as a primary tool for business continuity. A combination of offline and online marketing methods became a widely adopted survival approach during the pandemic. While Teguh Yudo *et al.* (2022) observed that only 13% of MSMEs initially adopted internet-based marketing and delivery systems, digital technologies ultimately proved

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instrumental in helping businesses navigate the crisis. Delivery services, such as Grab and Food Panda, helped businesses fulfill orders that would have been impossible through physical stores alone. Beyond survival, this shift highlighted the strategic potential of digital distribution channels, particularly for resource-constrained MSMEs. Despite these advancements, challenges remain, particularly in regions like Misamis Oriental and Lanao del Norte, where bakery businesses are experiencing a decline. While innovation, entrepreneurial skills, and online distribution have enabled many businesses to thrive, it is unclear whether this growth has been consistent across the industry. Existing studies have largely overlooked how these factors interact to influence MSME growth in such areas. This study seeks to fill that gap by exploring how bakery MSMEs in Northern Mindanao adapted to disruptions, identifying the critical role of innovation, distribution channels, and entrepreneurial human capital in their growth. The findings aim to provide valuable insights for both academic and practical purposes, offering evidence-based recommendations to stakeholders on fostering innovation, strengthening resilience, and supporting sustainable growth within the bakery sector.

LITERATURE REVIEW

Distribution Strategies of Bakery MSMEs in the Philippines

The choice of distribution channels is a strategic decision that significantly impacts the growth and sustainability of bakery MSMEs. Traditional distribution channels, such as physical stores, remain crucial due to their ability to offer personal customer interactions and immediate product access. In the study conducted by Yoshimura *et al.* (2021), they observed that businesses located in strategic, high-traffic areas enjoy higher revenue stability. However, the rise of digital platforms has transformed the distribution landscape. Hardaker (2022) noted that digital platforms reduce reliance on physical locations and enable businesses to reach broader audiences. During the COVID-19 pandemic, digital transformation was not merely an option but a necessity for survival. MSMEs that quickly adapted to online sales and delivery services, like Grab and Food Panda, were better positioned to maintain operations and meet evolving consumer demands (Pérez-Castillo, 2023).

The experiences of MSMEs with distribution channels highlight the importance of flexibility and adaptability. Businesses that integrated both traditional and digital strategies demonstrated greater resilience, leveraging the strengths of each model. For example, consignment arrangements allowed MSMEs to expand into new markets without significant upfront investments, while online platforms facilitated wider customer reach (Saad *et al.*, 2022). Nevertheless, challenges persist, particularly in regions with limited digital infrastructure. Haris (2024) emphasized that inadequate internet connectivity hampers the effective adoption of e-commerce tools,

limiting MSMEs' ability to maximize the benefits of digital distribution channels. Additionally, businesses often face logistical challenges, such as maintaining product freshness during transportation, managing delivery costs, and ensuring timely distribution to remote areas.

Managing online reputations is another critical challenge. Negative customer reviews can quickly spread through social media platforms, potentially damaging a business's brand image. Anggadwita *et al.* (2021) highlighted that while digital platforms offer increased visibility, they also expose businesses to the risks of public scrutiny. Many MSMEs lack the expertise and resources to manage these risks effectively, underscoring the need for digital marketing training and support. Moreover, MSMEs often face financial constraints that limit their ability to invest in advanced distribution technologies or expand their logistics networks. Domnich (2022) pointed out that cost-related issues, such as high transportation expenses and the need for specialized storage facilities, can hinder the scalability of distribution strategies. These challenges are particularly pronounced in resource-constrained regions like Northern Mindanao.

The Role of Innovations in the Philippine Bakery MSMEs

Process and product innovations play an important role in driving business growth. The ability to develop customer-driven products, optimize production costs, and implement efficient processes significantly contributes to competitiveness in the bakery sector. Investments in advanced equipment and technology further enhance production capabilities, enabling MSMEs to meet increasing demand while maintaining high-quality standards. Despite these advancements, MSMEs continue to encounter significant challenges, particularly in regions with underdeveloped digital infrastructure. Haris (2024) highlighted that limited internet connectivity poses a substantial barrier to e-commerce adoption, restricting the potential benefits of digital distribution. Furthermore, logistical hurdles, such as ensuring product freshness during transit, managing transportation costs, and addressing the complexities of last-mile delivery, remain critical concerns for many small businesses.

Reputation management in the digital space also presents a unique set of challenges. Negative customer feedback, when amplified through social media, can have far-reaching consequences for brand perception. Anggadwita *et al.* (2021) and Wang (2025) emphasized that while digital platforms offer expanded visibility, they simultaneously expose businesses to heightened reputational risks. This underscores the need for robust digital literacy and strategic communication skills to navigate the complexities of online customer engagement effectively. Financial limitations further complicate the adoption of advanced distribution technologies and process innovations. According to Domnich (2022), the high costs associated with transportation, specialized storage, and technology upgrades can hinder the scalability of

distribution efforts, particularly for MSMEs operating in resource-constrained environments like Northern Mindanao.

The Business Growth of the Philippine Bakery MSMEs

The business growth of Philippine bakery MSMEs (Micro, Small, and Medium Enterprises) can be analyzed within the broader context of small business development, focusing on key factors such as sales growth, workforce expansion, process innovation, and infrastructure upgrades. The bakery industry in the Philippines, like other MSMEs, is crucial for the country's economy, providing jobs and contributing to both local and national markets. However, bakeries often face challenges that require them to innovate and adapt in order to sustain growth.

One key factor contributing to business growth in the Philippine bakery sector is the trend of increasing sales and workforce expansion, which has been observed in various studies. According to Bercovitz and Mitchell (2007), growth in small businesses often correlates with a need to increase labor, as expanding operations necessitate additional staff to meet rising demand. This is especially true for bakeries, where increasing production volumes require more workers for both production and customer service. As sales increase, bakeries are likely to hire more employees to help maintain or improve production efficiency and customer satisfaction. This growth pattern is evident in many MSMEs in the Philippines, where labor is a key component of the business expansion process (Cheng *et al.*, 2013; Dela Cruz *et al.*, 2023).

In addition to workforce expansion, bakeries in the Philippines are also increasingly adopting recipe and process modifications to improve income. Tushman and O'Reilly (1996) highlight that innovation in products and processes is a critical strategy for businesses to maintain competitiveness, particularly in the food industry. In the case of bakeries, modifying recipes and production methods can enhance product offerings, appeal to a wider customer base, and increase profitability. For example, bakeries may introduce new, healthier, or specialty products to cater to changing consumer preferences, as discussed by Dube *et al.* (2010). Moreover, innovations in production processes—such as incorporating modern baking technologies or improving supply chain efficiency—can result in cost reductions and increased output, thus contributing to greater income generation. Upgrading equipment and expanding store locations are also critical factors in the growth of Philippine bakery MSMEs. According to Zahra and George (2002), business growth is often linked to technological upgrades that increase productivity and expand market reach. In the context of bakeries, investing in more efficient ovens, mixers, and packaging machinery can lead to better product quality, reduced waste, and higher production capacity. Store expansion also allows bakeries to serve a larger customer base, increasing their visibility and sales. This is particularly important in the Philippines, where

urbanization and the rise of consumer spending power have created new opportunities for businesses to expand their physical presence (Tan, 2015).

MATERIALS AND METHODS

Study Design

This study employs a qualitative approach to explore the role of innovation and distribution channels in the business growth of selected Micro, Small, and Medium-Sized bakeries in Northern Mindanao, Philippines. The qualitative method was selected as it facilitates in-depth data collection and provides a comprehensive understanding of the various innovations and distribution strategies adopted by MSME bakeries.

Data Collection

Key informant interviews (KIIs) were conducted to gather insights from respondents regarding the innovations and distribution channels employed by MSME bakeries over the years, as well as the reasons behind their adoption. The interviews were recorded using an audio recorder or mobile phone, while the researcher simultaneously took handwritten notes, adhering to standard interview protocols. Participants were clearly informed that their participation was entirely voluntary and that they could withdraw from the interview at any time. To ensure data security and confidentiality, all collected information was stored in a secure, password-protected database.

Data Analysis

The data analysis process began with the transcription of the recorded interviews, ensuring that all responses were accurately documented. Each transcript was carefully reviewed and assigned codes to organize the data systematically. Following this, thematic analysis was conducted to identify recurring patterns and key themes related to the innovations and distribution channels employed by the MSME bakeries. The analysis was guided by theoretical frameworks pertaining to business growth, innovation, and distribution channels, providing a structured lens for interpreting the findings. This rigorous approach allowed for a deeper understanding of the underlying trends, strategies, and motivations within the data to ensure a comprehensive and meaningful analysis.

RESULTS AND DISCUSSION

The respondents were asked to share the type of distribution channels they used from 2018 to 2024, the reasons for their use, their experiences, and the challenges they encountered.

From their responses four (4) essential themes emerged, as shown in Table 1, which are:

- (1) Prioritizing strategic store placement to enhance customer accessibility,
- (2) Maintaining product freshness as a key factor in customer satisfaction,
- (3) Challenges with internet connectivity hindering online operations,

(4) The online environment presents a significant threat to a seller's reputation, requiring careful management. Then the subthemes were then made based on the main themes.

Table 1: Themes and Core Ideas on their Thoughts and Decisions behind the Choice of Distribution Channels, along with their Experiences and Challenges

THEMES
Theme 1: Prioritizing strategic store placement to enhance customer accessibility
Exemplars: Respondent 1: “Dugay na jud ni akoang bakery and so far, okay man ang dagan. Halinan ra biya pud. Actually, suki na nako ng mga trabahanti sa hospital.” (My bakery has been around for a long time now, and things are going well so far. We still manage to make sales. Actually, the hospital workers are my regular customers.) Respondent 2: “Ang akong bakery kay naa man dinhis merkado nakabutang so daghan rakog customers”. (My bakery is located inside the public market, so I have a lot of customers.) Respondent 6: “We prioritize high-foot traffic areas as a strategic approach to ensure the survival of our branches.”
Subtheme 1.2: Offer convenience and accessibility
Exemplars: Respondent 2: “Kaning mga gikan bukid namo na mamalitay usahay mupakyaw ra ug motor para makapalit dinhi sa amoa”. (Customers from remote areas sometimes hire motorcycles just to come and buy from us.) Respondent 5: “Aside sa may tinda kaming bread, may space din kami na available for them to pray na hindi na sila magpunta pa sa mosque...” (Aside from selling bread, we also have available space for them to pray so they don't have to go to the mosque...) Respondent 12: “... we strive to provide space at our store front to ensure customers especially those with vehicles can park temporarily whenever they buy from us.”
THEMES
Theme 2: Maintaining product freshness as a key factor in customer satisfaction
Subtheme 2.1: Have a defined baking schedule, and Bake in small batches
Exemplars: Respondent 1: “...ginagamy ra jud among target lutuon... mao guro pud maka ingon akoang customer na maypa daw akoang baligya dinhi kay permi humok”. (We only bake small batches every day...I think that's why my customers would say our products are better since they are always fresh and soft.) Respondent 4: “...scheduled jud ni amoang pagbake. Mao jud na ilang pangutana permi if mamili sila dinhis display if bag-o pa ba daw maluto”. (...we bake according to schedule. The usual question they ask is if the breads are still freshly baked.
THEMES
Theme 2: Maintaining product freshness as a key factor in customer satisfaction
Subtheme 2.2: Have challenge in keeping the freshness of products on consignment
Exemplars: Respondent 7: “Gabilin kog pan sa mga canteens ug snack bars. Gusto unta ko mo-expand didto sa bukid pero basin mabahawan rako...” (I currently sell some of my bakery products on consignment like in canteens and small snack bars. I'm considering expanding to remote areas (bukid) but I'm concerned about in spoiled products) Respondent 11: “...dili sila kabalo mo-store ug tarong sa pan. Taas na nuon kog B.O...”. (...they don't know how to store the bread properly...my B.O level is high.)
Theme 3: Challenges with internet connectivity and adoption hinder online operations
Subtheme 3.1: Weak Internet Connectivity in the Area
Exemplars: Respondent 2: “... hinay kaayo ang internet dinhi sa amoang area”. (... the internet in our area is very weak.) Respondent 8: “... sa sentro sa school kay naa may internet didto. Dinhi sa amoa, wala jud tawon “. (...there internet at school in the downtown area. In our area, we don't have internet connection.) Participant 10: “Our challenge really is that some of our outlets are located in areas with very limited internet connection.”
THEMES
Theme 3: Challenges with internet connectivity and adoption hinder online operations

Subtheme 3.2: Some don't know how to use online platforms.
Exemplars: Respondent 4: "...wala na jud koy time eskwelahan unsaon na pag gamit ang social media". (...I don't have time to learn how to use social media.) Respondent 9: "Eh dito sa amin hindi naman uso yang internet. Si Sadam lang ata ang marunong gumamit niyan sa amin. Ayaw naman din kami turuan so wag nalang". (Internet isn't commonly used in our area. I think only my son, Sadam, knows how to use it. He doesn't teach us anyway, so we just don't use it.) Respondent 11: "Nag-try mi dati sa akoang anak para tabangan namog advertise tong mga consignees namo para gamay ra dayon amoang BO. Pero naa na siya ron sa Iligan, nag college na. Dili sad ko kabalo ana so wala jud siya na himo namo ug dayon". (We tried it with my son in the past to help our consignees in advertising our products to also reduce BO. However, he is already in college in Iligan now. I don't know how to do it myself, so we weren't able to follow through with the plan.)
Theme 4: The online environment presents a significant threat to a seller's reputation that requires careful management.
Subtheme 4.1: Internet can make or break the bakery online reputation
Exemplars: Respondent 1: "...hadlok ko anang naa palang dayon mag comment ug negative sa akoang produkto". (I'm afraid that someone might give a negative comment about my product.) Respondent 3: "Actually gamit kaayo ang social media atong pandemic...Karon medyo known na pud mi. Daghan daghan napud biya tong amoang followers". (Actually, the social media was very helpful during the pandemic...now, we are quite famous with significant followers.) Respondent 12: "Even though I hired a social media manager for my products. I still have reservations particularly negative reviews. But don't get me wrong, I am confident with my products. It's just that we can't please everyone".

The effectiveness of distribution channels emerged as a cornerstone for the business growth of MSME bakeries, as the ability to reach customers efficiently and effectively directly influenced sales performance and customer satisfaction. This finding aligns with Li (2020), who emphasized that effective distribution strategies are critical in enhancing customer access and driving sales growth. Respondents in the study highlighted the strategic importance of locating stores in high-foot-traffic areas, such as public markets, near schools, or in central business districts, which corresponds with (Yoshimura *et al.*, 2021) who observed that businesses situated in prime locations experience higher customer traffic and revenue stability. However, the study's findings offer a slight contrast to (Hardaker, 2022), who argued that digital platforms are becoming increasingly dominant, reducing the dependence on physical store locations. While digital platforms undeniably expand market reach, respondents in this study emphasized the irreplaceable value of physical accessibility and visibility in high-demand areas, particularly for small-scale bakeries. For instance, one respondent noted that hospital employees were among their most loyal customers, demonstrating how proximity to specific institutions can serve as a stable source of revenue. This observation is in agreement with Basavaraj *et al.* (2023), who noted that niche customer targeting, such as catering to institutional employees, can ensure consistent sales even during economic downturns. Additionally, businesses that prioritized customer

convenience, such as providing parking spaces or creating inclusive environments like prayer areas for specific clientele, built strong customer loyalty. This result supports Havíř (2019) who highlighted that enhancing customer experience through thoughtful amenities fosters long-term relationships and competitive advantage. In contrast, Barre *et al.* (2021) asserted that such initiatives may be secondary to product quality and pricing, particularly in highly price-sensitive markets. Nevertheless, the findings of this study emphasize that for MSME bakeries, combining convenience with accessibility can significantly differentiate their offerings and strengthen customer loyalty.

Furthermore, the respondents were asked about the changes in how things are done (process innovations), the incorporation of new tools (equipment and technology), the challenges faced when implementing these changes (and solutions to overcome them), and the creation of new products based on what customers want (product innovation). From their responses there were four (4) essential themes that emerged, as shown in Table 2, which are:

- (1) Develop Customer-Driven Product Innovations,
- (2) Optimize Product Cost Through Recipe Refinement
- (3) Optimizing processes to minimize wastes and enhance efficiency,
- (4) Upgrade Equipment and Technologies to Enhance Efficiency and Capabilities. Then the subthemes were then made based on the main themes.

Table 2: Themes and Core Ideas on Product, Process and Technological Innovations Practiced in the Bakeries

THEMES
Theme 1: Develop Customer-Driven Product Innovations and New Product Trends

Subtheme 1.1: Offer Seasonal Products Based on Customer feedback

Exemplars:
 Respondent 2: "...grabe ka kusog sa ube cheese pandesal, daghan nangita na mga customers. Gi-studyhan jud nako and gi-produce..." (... because there were a lot of customers looking for ube cheese pandesal at that time. I studied the product and started producing it.)
 Respondent 5: "...sinasabihan nila ako kung ano ang mga bagong gusto ng customers nila tapos bibilhin ko para icheck if gagayahin ko rin". (They tell me what their customers' new wants are and then I will buy them to check if I can also create my own version)
 Respondent 10: "We have an R&D team in Cebu who are always working on developing new products based on customer insights. They share the recipes with us, teach us how to make them, and then we release them in our area".
 Respondent 11: "Makabalo raman mi if naay bag-o kay mangita amoang customers then amo lang dayon isearch sa google tapos maghimo mig amoa". (We only know if there are new products when our customers ask for them. Then we just search them on Google and create our own version.)
 Respondent 12: "My R&D Manager regularly presents new products she develops based on her research. We typically calculate the cost first, then put the product on trial for a month".

Subtheme 1.2: Introducing New Products based on Trends

Exemplars:
 Respondent 2: "Usahay kay mag introduce mi ug new products based lang pud sa makita namo sa Facebook na trending. Basin diay mupatok pud sa amoang area". (Sometimes we introduce products based on what we see on Facebook which are trending. We hope it will also become popular in our area.)
 Respondent 3: "I know usually unsay new trends kay ga teach man ko sa baking school. Naa pud koy mga friends na from Philippine Baking Society na generous pud mag share ug unsay uso". (I usually know what are the new trends since I teach in a baking school. I also have friends from the Philippine Baking Society who are generous in sharing what's trending.)

THEMES

Theme 2: Optimizing Cost Through Recipe Refinement and Packaging

Exemplars:
 Respondent 1: "Katong pag mahal jud sa white sugar, nag-gamit mig washed sugar..." (When the price of white sugar really went up, we started using washed sugar...)
 Respondent 2: "...gilower namo to 17% then gihinay-hinay ug ubos. Tag 1% reduction per week to siya. Untill na-pull down namo ang amount to 16%..."
 (We lowered it to 17% and then slowly reduced it further. We did a 1% reduction per week until we were able to bring it down to 16%.)
 Respondent 2: "Actually, interested kaayo mi aning paper packaging unta but madak-an mi kay once isulod sa paper, mag ask napud ang mga customers ug cellophane, so ma-doble siya. Mag motor or mag sikad-sikad man gud sila pag uli nila sa bukid so mag lisud sila ug bitbit if naka bulseta..." (Actually, we are very interested in using paper packaging but we're worried that once we put it in paper, customers will also ask for cellophane, which would double the packaging. They mostly use motorcycles or tricycles to go home to remote areas so it would be difficult for them to carry if it's in a paper bag.)
 Respondent 3: "...ga-try kog sagol ug 3rd class sa akoang 1st class na harina then ang sugar, partial replacement lang like 50% white sugar and 50% brown sugar. (...what I did was try mixing some 3rd class flour with my 1st class flour. For sugar, I only did a partial replacement, using 50% white sugar and 50% brown sugar."
 Respondent 6: "We have a customized packaging materials for our products that contain our brand name, logo and other information to make it more appealing".

Theme 3: Optimizing processes to minimize wastes and enhance efficiency

Subtheme 3.1: Imposing production quota

Exemplars:
 Respondent 2: "I also imposed quota. Akong i-compute na daan if pila ang dapat mugawas based sa ingredients na gigamit para walay masobra-sobra. Sauna kay wala jud ko nag check ani, daghan usahay excess". (I also implemented a quota system. I pre-calculate how much yield we should get based on the ingredients used to avoid leftovers. Before, I didn't check this, so there was often excess production)
 Respondent 8: "...I-schedule nako daan ang mga lutuon para katong mga same ra ug recipe isabay para isa ra ka mix tapos makabalo nako pilay dapat mugawas like pila ka monay, pan de libro ug uban pa... akoa i-check na dapat sulod sa quota". (I schedule the baking of products with the same recipe together. This way, we only have one big mix. I can then calculate the expected output, like the number of monay, pan de libro, and others... I check to make sure everything stays within the quota."

<p>Subtheme 3.2: Measuring all ingredients</p> <p>Exemplars:</p> <p>Respondent 6: “We do premixing of ingredients so everything is weighed to ensure consistency”.</p> <p>Respondent 8: “...takos takos lang jud ang ingredients so dili jud magkaparehas kung unsa kadaghan ang nabutang na mga ingredients. Karon timbang na tanan para walay sobra na timbang kay usik biya”. (We just estimated the ingredients by eye, so the amount used wasn’t always consistent. Now, we weigh everything to avoid excess because waste is expensive.)</p> <p>Respondent 10: “We have designated weighing scales and require all bakers to weigh the ingredients, and even the dough, for portion control.</p>
<p>Theme 4: Upgrade Equipment to Enhance Efficiency and Capabilities.</p> <p>Exemplars:</p> <p>Respondent 1: “Naa koy mga new purchases actually. One is an electric oven para mareplace tong gamit pa kay LPG”. (I have new purchases actually. One is an electric oven to replace our oven which uses LPG.)</p> <p>Respondent 2: “Wala kayo mi upgrade sa equipment pero nag palit mig mga plantsa sa pan para ma protect sa mga lamigas”. (We did not have significant upgrade on equipment, but we bought new baking sheets to protect our products from ants infestation.)</p> <p>Respondent 5: “Wala masyadong major except sa electric mixer na kaya ang 5 kilos na dough. Dati malilit na batches lang magagawa ko kasi mano mano ang pang halo. Ngayon kahit 5 kilos, kaya na isang batch lang”. (I didn’t have major [equipment purchase] except for the electric mixer with 5kilograms capacity. Before, I only produced small batches since it was mixed manually but now I can mix 5 kilograms dough in 1 batch.)</p> <p>Respondent 10: “...electric oven, proofing cabinets and cooling room...”</p> <p>Respondent 11: “Kanang bread slicer ug proofing cabinet sa karon. Pero nag-plan ko magpalit ug bun moulder kay kaso ni na product sa amoa”. (Bread slicer and proofing cabinet for now. But I plan to buy a bun moulder since this product [buns] are very sellable.)</p>

Nonetheless, the integration of innovative distribution strategies proved transformative for many MSME bakeries, particularly during and after the pandemic. Respondents shared how online platforms such as social media, delivery apps like Grab and Food Panda, and hybrid distribution models combining traditional and online methods allowed them to sustain operations during the lockdown. This observation aligns with Pérez-Castillo (2023), who posited that digital platforms became a critical bridge for MSMEs to overcome physical barriers and adapt to shifting consumer behaviors during crises. While only a minority of businesses initially adopted these digital tools, those that did reported significant benefits, including increased visibility, market reach, and sales. Cueto *et al.* (2022) similarly observed that leveraging digital tools during disruptions enabled businesses to access underserved markets and sustain profitability despite reduced foot traffic. These platforms not only bridged the gap between businesses and customers but also enabled bakers to explore new markets and reach underserved areas. Additionally, some businesses creatively diversified their distribution methods, such as using consignment models to expand their presence in canteens and snack bars. This flexibility underscores the findings of Saad *et al.* (2022), who emphasized that adaptability in distribution strategies is crucial for MSMEs to ensure resilience and business continuity. However, Haris (2024) argued that overreliance on digital tools may alienate less tech-savvy customers, particularly in rural settings. In this study, respondents highlighted that balancing traditional and innovative methods remains essential for addressing diverse customer needs.

Innovation was equally pivotal in driving the growth of MSME bakeries and enhancing the effectiveness of distribution channels. Product innovation emerged as a key theme, with businesses leveraging customer feedback and market trends to develop seasonal offerings and trendy products. Respondents highlighted the success of introducing items such as ube cheese pandesal and bento cakes, which were created in response to customer demand and social media trends. These findings align with Boukid (2022) who noted that customer-driven product innovation helps businesses capitalize on emerging trends and strengthen brand loyalty. Similarly, Mickiewicz and Susilawati (2024) observed that products tailored to evolving consumer preferences, especially in niche markets, lead to sustained growth and competitive advantage. These innovations not only attracted new customers but also reinforced brand loyalty among existing clientele. Additionally, the integration of process innovations, such as imposing production quotas and accurately measuring ingredients, improved efficiency by reducing waste and ensuring consistency in product quality. This is consistent with Domnich (2022) who asserted that process improvements enhance both operational efficiency and customer satisfaction. However, Vasconcellos *et al.* (2017) cautioned that process-focused innovations may be limited in impact if businesses fail to align them with broader strategic goals, such as market expansion and cost optimization. In contrast, the findings of this study demonstrated that operational improvements directly supported distribution efforts, as maintaining freshness and quality is critical in ensuring customer satisfaction across different channels.

Technological advancements also played a significant role in enhancing both innovation and distribution capabilities. Respondents shared how investments in modern equipment, such as electric ovens, bread slicers, and proofing cabinets, improved production capacity and reduced manual labor. These upgrades allowed businesses to scale operations efficiently while maintaining high-quality standards, particularly when expanding into new markets or launching additional outlets. This result aligns with Riptanti *et al.* (2022), who posited that technological upgrades enable small businesses to enhance productivity and meet increasing market demands. For instance, one respondent noted how an electric mixer enabled them to produce larger batches of dough, which was instrumental in meeting the increased demand during peak seasons. This observation supports Surya *et al.* (2021) who emphasized the role of modern equipment in achieving operational scalability for MSMEs. However, Anggadwita *et al.* (2021) argued that limited

access to capital often constrains small businesses from adopting advanced technologies, creating a disparity in growth potential. While some respondents acknowledged financial challenges, the alignment between innovation in equipment and strategic distribution enabled many businesses in this study to optimize costs, meet customer expectations, and scale effectively.

Finally, the respondents were asked about the changes in their sales, number of employees, income and assets based on year-on-year starting 2018 until 2024.

From their responses there were three (3) essential themes that emerged, as shown in Table 20, which are:

- (1) An increasing trend in 2018 to 2019 for sales and number of employees,
- (2) Recipe and Process Modification to Improve Income
- (3) Upgrade on equipment and store expansion starting to happen in 2022. Then the subthemes were then made based on the main themes.

Table 3: Themes and Core Ideas on Business Growth in terms of Changes of Sales, Number of Employees, Income and Assets

THEMES
Theme 1: An increasing trend in 2018 to 2019 for sales and number of employees
Subtheme 1.1: Increasing Sales in 2018 – 2019
Exemplars: Respondent 1: “Gasaka jud amoang halin atong sugod 2016 taman 2019 mao tong pasugod sa akoang baker na kugi kayo mag himo ug bag ong klase sa pan”. (Our sales really increased from 2016 to 2019. This coincided with the time I hired a new baker who’s very creative in developing new bread varieties.) Respondent 2: “Daghan to gapangumptra sa amoa dati. Wala pa pud ng bakery dinha sa unahan atong 2019”. (We had a lot of regular customers back then. There wasn’t another bakery nearby in 2019.) Respondent 3: “Kusog man jud mi kay ilado na amoang bakery dinhi sa among lugar labaw na atong ning daog ko sa 2018 barangay elections”. (Our sales were definitely high because our bakery is well-known in the area. It was especially good after I won the barangay elections in 2018.) Respondent 5: “Malakas naman talaga ang benta nung since pagbukas namin nung 2015 until before pandemic”. (Our sales were strong since we opened in 2015 until before the pandemic.) Respondent 6: “We introduced several new products during the pre-pandemic period as part of our 5-year strategy, which helped boost our sales”. Respondent 8: “Daghan gapalit sa amoa kay dako pa pud ug abot ang dagat. Kasagaran sa amoang customers kay mangingisda”. (We had a lot of customers before because the fishing industry, which is the main source of income here, was doing very well. Most of our customers were fishermen.)
THEMES
Subtheme 1.2: Increasing number of employees in 2018 – 2019
Exemplars: Respondent 2: “Atong nag open mi sa Initao, nag hire mig mga bakers kay dinhi man sa Manticao ltuon ang uban pan para idisplay didto”. (When we opened our branch in Initao, we hired more bakers because some of the breads that will be displayed there will be baked in Manticao.) Respondent 6: “We hired more employees since we opened several outlets”. Respondent 9: “Nag-hire ako ng isa pang baker para taga-gawa ng sliced breads” (I hired one more baker to make sliced breads.)
Theme 2: Recipe and Process Modification to Improve Income
Subtheme 2.1: Implementing Ingredient substitution
Exemplars: Respondent 1: “Ningmahal na man jud ang white sugar no, ga-washed sugar mi...para di jud mi mo-increase sa amoang price para daghan mupalit pero dili sad mi lugi...”. (When the price of white sugar went up, we switched to washed sugar...so we didn’t have to increase our prices much to keep customers buying but also avoid losses.) Respondent 3: “...we did partial replacement of the flour kanang mas barato tapos ang sugar pud gi-50-50 na”. (... we did a partial replacement of the flour with a cheaper option, and we also started using a 50-50 mix.)

THEMES
Theme 2: Recipe and Process Modification to Improve Income
Subtheme 2.2: Reduction of Dough Weight while Increasing the Price
<p>Exemplars:</p> <p>Respondent 2: "...so gipagamyang namo ang putol gikan sa 40 grams to 35 grams tapos patubuan ang dayon. Nagsaka pud mis presyo from 6 pesos to 7 pesos". (...so, we reduced the dough size from 40 grams to 35 grams and let it rise bigger. We also increased the price from 6 pesos to 7 pesos.)</p> <p>Respondent 9: "Mas pinalitan lang naming ang putol tapos increase ang price. Walang magagawa eh dapat kami kumita". (We just reduced the dough size and then increased the price. We don't have a choice; we need to make a profit.)</p> <p>Respondent 10: "We slightly reduced the dough weight and raised the price from 6 pesos to 7 pesos. However, we also introduced a promotion where customers can buy a minimum of 5 pieces for a discounted price, like 30 pesos for 5 pieces, which effectively keeps the price per piece at 6 pesos."</p>
Theme 3. Upgrade on equipment and store expansion starting to happen in 2022
<p>Exemplars:</p> <p>Respondent 1: "We bought a new oven in 2022..."</p> <p>Respondent 2: "Nag expand mi didto sa may Naawan atong 2022 lang jud. Naa siya daplin sa highway." (We expanded in Naawan last 2022. It's located near the highway.)</p> <p>Respondent 6: "I would say we acquired more equipment since 2022 because demand started to pick up as the pandemic subsided. We also opened several new outlets in the past two years."</p> <p>Respondent 7: "Kay arang arang naman pud ang daghan and daghan-daghan na pud akoang mga consignees ug mga regular customers dinhis bakery, nag add kog isa ka oven kay nahuman naman ang akoang gipatrabaho na extension sa lutuan". (Since sales are already getting better and I have more and more consignees and regular customers in my bakery, I added one oven because the extension of my bakery is also finished.)</p> <p>Respondent 10: "There were equipment due for replacement in 2023. We were also confident that we could recover our investment since the market started to pick up already".</p>

The interplay between innovation and distribution was evident in the sustained business growth reported by respondents. Businesses that strategically aligned innovative practices with optimized distribution systems were able to achieve higher customer retention, expand market reach, and generate increased revenue. For example, those that introduced unique products while leveraging digital and traditional channels captured larger market shares and established stronger brand recognition. This observation aligns with Yani *et al.* (2023), who argued that MSMEs benefit significantly from synergizing product innovation with diversified distribution strategies, especially during crises. Similarly, Waiganjo *et al.* (2021) highlighted that the ability to adapt distribution systems to evolving market demands is a crucial factor for ensuring operational resilience and revenue growth.

This synergy created a virtuous cycle where innovation enhanced product offerings, and distribution ensured these offerings reached the right customers efficiently. These findings are consistent with Santoso *et al.* (2023) who observed that MSMEs adopting innovative approaches and flexible distribution methods were better positioned to capture emerging market opportunities. However, Sutrisno *et al.* (2024) countered that while innovation drives product differentiation, its effectiveness is limited without robust infrastructure to support optimized distribution, especially in regions with logistical challenges. In this study, respondents demonstrated that balancing innovative products with efficient delivery systems allowed them to overcome such barriers and

build stronger customer relationships.

Moreover, the flexibility to adapt both innovation and distribution strategies to evolving market conditions, such as the challenges posed by the pandemic, positioned these businesses for long-term success. Kurniawati *et al.* (2021b) similarly emphasized the importance of adaptability in ensuring business continuity, noting that MSMEs that combined online and offline channels experienced improved market resilience during disruptions. In contrast, Anggadwita *et al.* (2021b) observed that limited digital adoption among small enterprises hindered their ability to fully capitalize on innovative opportunities during crises, particularly in less urbanized areas. This study's findings highlight that while challenges in technological adoption persist, businesses that invested in hybrid models—integrating traditional and digital platforms—were better able to navigate the pandemic's disruptions.

These findings emphasize the critical role of integrating innovation and distribution strategies to drive scalable and sustainable growth. MSME bakeries should continue to invest in both areas, leveraging customer insights to guide product development while diversifying their distribution channels to meet changing consumer preferences. Ali (2024) supported this perspective, emphasizing the value of customer-centric innovations and channel diversification as pathways to sustainable competitiveness. However, Buheji (2020) argued that overemphasis on innovation without proper market alignment may lead to increased operational costs without corresponding revenue gains. To address this, the findings of the current

study suggest that innovations must be tailored to market demands and supported by adaptive distribution strategies to ensure maximum impact.

Digital transformation, including improving digital literacy and adopting e-commerce tools, should be prioritized to address the challenges of limited internet connectivity and technological unfamiliarity. These recommendations align with Achmad (2023), who highlighted that improving digital capacities among MSMEs is critical for scaling operations and reaching underserved markets. Policymakers and industry stakeholders can support these efforts by providing training programs, financial incentives, and infrastructure improvements to bridge the digital divide and foster innovation among MSMEs. Moch Rifqi Shihabuddin Al Ubaidillah *et al.* (2024) similarly stressed the need for targeted government interventions to address systemic barriers such as limited technological infrastructure and capital constraints, which often hinder small businesses' growth.

By aligning innovation with effective distribution strategies, MSME bakeries can not only navigate competitive markets but also achieve significant growth, contributing to the broader economic development of their regions. This conclusion supports Boukid (2022) who underscored the role of innovation-led growth in driving regional economic development and enhancing the competitiveness of local enterprises.

CONCLUSION

This study highlights the strategic integration of innovation and distribution as a fundamental pillar for the sustainable growth of MSME bakeries. Rooted in customer-focused insights, businesses have effectively employed location-driven strategies, embraced digital transformation, and streamlined processes to overcome challenges related to market access and resource constraints. By establishing operations in high-traffic areas and ensuring product freshness and accessibility, bakeries have cultivated lasting customer loyalty, even as consumer preferences increasingly shift toward digital solutions. Innovations such as recipe adaptations, process optimizations, and investments in upgraded equipment have further empowered these businesses to scale operations efficiently while maintaining product quality and managing costs. The dual adoption of traditional and digital distribution channels during the pandemic not only allowed MSME bakeries to sustain operations during a period of unprecedented disruption but also served as a foundation for resilience and adaptability in the face of future challenges. While limited internet connectivity and gaps in digital literacy remain obstacles, the findings underscore the importance of hybrid distribution strategies and customer-driven product development in fostering competitive advantage. The synergistic relationship between innovation and distribution creates a positive feedback loop, with advances in one area amplifying the impact of the other, resulting in improved market access, stronger customer retention, and robust

revenue growth. This study reveals that MSME bakeries can achieve scalable and sustainable success by aligning their innovation efforts with diverse and adaptive distribution strategies. These findings underscore the broader implications of such practices, demonstrating their potential to drive regional economic growth, enhance competitiveness, and position MSMEs as resilient and forward-looking players within the evolving market landscape.

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