Accounting and Management International Conference (AMICO) 2025

The Impact Analysis of Inflation and Consumer Behavior Shifts on the Financial Reporting and Risk Profile of Retail Firms

Fariz Arie, Eka Yudhyani, Sayid Irwan

Master of Management Program, Faculty of Economics and BusinessUniversitas 17 Agustus 1945 Samarinda, Jl. Ir. H. Juanda, No.80 Air Hitam, Kec. Samarinda Ulu, Kota Samarinda, Kalimantan Timur 75123, Indonesia; Samarinda, Email: farizarie999@gmail.com

Keywords *:*
Inflation; Consumption Shifts; Financial Statements; Retail Risk; Financial Ratios.

ABSTRACT
The retail industry, a vital sector directly reflecting consumer purchasing power and behavior, continuously adapts to changes. This analysis examines the impact of inflation and consumption shifts on the financial statements and risk profile of a retail company. Employing a descriptive quantitative approach, this study focuses on the case of PT Ace Hardware Indonesia Tbk (ACES). Financial statement data from 2019–2023 were analyzed using horizontal, vertical, and financial ratio methods, complemented by comparative analysis and qualitative discussion.

The findings indicate that significant inflation pressures ACES's profitability through increased Cost of Goods Sold (COGS) and operational expenses, thus eroding profit margins. Although nominal revenue increased, the real volume of sales may not be commensurate. Inflation also contributed to higher inventory values and working capital debt. Conversely, the shift in consumption towards digital spending and home living products spurred ACES's strategic adaptation. The company responded by optimizing product composition and investing in digital channels, reflected by the growth in online sales and a shift in marketing cost allocation.

ACES's risk profile shows an increase in profitability risk due to margin pressure. Liquidity risk remains manageable, yet a slowdown in inventory turnover requires attention. Operational risk also rose due to supply chain disruptions. However, ACES demonstrates strategic resilience through adaptation to consumer preferences and omnichannel investment. This understanding is crucial for management, investors, and analysts in formulating strategies and projections.

I. INTRODUCTION

The retail industry, serving as the backbone of the economy and directly reflecting consumer purchasing power and behavior, is constantly subject to dynamic changes. Its characteristics, which are synonymous with thin margins, high sales volume, and sensitivity to macroeconomic conditions and consumer preferences, make it a sector that is both vulnerable and highly adaptive. Two recent economic and business phenomena that have significantly impacted the retail industry are inflation and consumption shifts. Inflation, marked by a general increase in the prices of goods and services, erodes consumer purchasing power and raises companies' operational costs. Meanwhile, consumption shifts, such such as the massive adoption of e-commerce or changes in spending priorities post-pandemic, demand rapid adaptive strategies from business players.

The purpose of this analysis is to identify and evaluate how the impacts of inflation and consumption shifts are reflected in the line items of retail companies' financial statements (balance sheets, income statements, and cash flows). Furthermore, this analysis will examine the implications of these changes on the company's risk profile, specifically liquidity, profitability, and solvency risks. A deep understanding of these dynamics is expected to provide valuable insights for retail company management in formulating adaptive strategies, for investors in assessing investment potential and risk, and for financial analysts in conducting projections and valuations.

II. LITERATURE REVIEW

Financial statements serve as the primary reflection of a company's financial performance. The Income Statement reveals the company's ability to generate profit over a specific period, the Balance Sheet depicts the position of assets, liabilities, and equity at a specific point in time, while the Cash Flow Statement tracks the inflow and outflow of cash. Prawironegoro (2018) emphasizes that these instruments are essential for understanding business health and prospects. To thoroughly examine the impact of inflation and consumption shifts, financial ratio analysis becomes a vital instrument, a view reinforced by Kasmir (2018) who asserts the relevance of ratios in identifying trends and performance.

Profitability ratios, such as Gross Profit Margin and Net Profit Margin, will reveal how effectively the company manages costs amid rising prices and maintains profit margins. This aligns closely with the concept of strategic cost management, which stresses adapting the cost structure to remain competitive in changing market conditions (Hansen & Mowen, 2015). Liquidity ratios, such as the Current Ratio and Quick Ratio, will assess the company's ability to meet short-term obligations amid fluctuations in cash flow and inventory. The importance of liquidity, according to Brigham and Houston (2018), is to ensure continuous operation without hindrance, especially in the current era of economic volatility. Meanwhile, solvency ratios, such as the Debt to Equity Ratio, will indicate the stability of the company's capital structure amidst economic pressure. This concept remains relevant to both the pecking order theory and the trade-off theory in capital structure, where firms balance funding sources for optimal capital cost and risk (Myers, 1984; Modigliani & Miller, 1958), which continue to be the basis of discussion in modern financial literature. It is also crucial to observe efficiency ratios such as Inventory Turnover and Accounts Receivable Turnover, which reflect the company's adaptation to changing spending patterns and supply chain management—a critical aspect in the dynamic retail business model.

In the retail context, various risks come into the spotlight. Operational risk arises from supply chain disruptions or inventory management inefficiency. Teguh (2019) underlines that this risk can be a source of significant loss if not properly managed, especially in sectors with complex operations like retail. Market risk is associated with fluctuations in consumer purchasing power and preferences. These changes can be explained through the constantly evolving theory of consumer behavior, where macroeconomic factors like inflation significantly influence purchasing decisions (Kotler & Keller, 2016). Liquidity risk can escalate if sales decline drastically or inventory piles up, which Fahmi (2017) identifies as one of the main risks that can jeopardize a company, particularly those heavily reliant on rapid cash flow like the retail business. Understanding the interconnection between economic events, financial statement items, and the risk profile is key to this analysis, a holistic approach supported by modern financial risk management literature.

III. METHODS

This research employs a descriptive quantitative approach with a multiple case study design focusing on several leading retail companies listed on the Indonesia Stock Exchange (IDX). The primary data sources are the annual and/or quarterly financial statements published by the sample companies during the 2019–2023 period. The selection of this period is crucial as it encompasses the pre-pandemic phase, the phase during the COVID-19 pandemic (which triggered extreme consumption changes), and the recovery period accompanied by significant inflationary pressure.

The sample companies will be selected based on the availability of complete and consistent financial statement data, as well as their representation of diverse segments within the retail industry (e.g., department stores, minimarkets, specialty retailers).

The analytical methods to be used include:

1) Horizontal Analysis (Trend Analysis): To identify the year-on-year trends of growth or decline in financial statement line items and ratios.
2) Vertical Analysis (Common-Size Analysis): To view the composition of financial statement items as a percentage of total sales or total assets, to understand changes in structure.
3) Financial Ratio Analysis: Calculation and interpretation of profitability, liquidity, solvency, and efficiency ratios to measure performance and risk.
4) Comparative Analysis: Comparing the company's financial performance during periods of high inflation/consumption shifts with relatively stable periods.
5) Qualitative Discussion: Linking the quantitative findings with the inflation events and consumption shifts occurring in the market, and interpreting their business implications.

IV. RESULTS

This section outlines the findings from the financial statement analysis of PT Ace Hardware Indonesia Tbk (ACES) during the 2019–2023 period, focusing on the impact of inflation and consumption shifts. The analysis integrates quantitative data with qualitative interpretation to comprehensively understand the business implications experienced by this home improvement and lifestyle retail company.

1) Profile of Sample Company: PT Ace Hardware Indonesia Tbk (ACES)

PT Ace Hardware Indonesia Tbk (ACES) is one of Indonesia's leading retail businesses specializing in home improvement and lifestyle products. The company offers a wide range of products, from household tools, hardware, and automotive goods, to outdoor and other lifestyle necessities. With an extensive store network and digital presence, ACES is characterized by its sensitivity to property development trends, renovation activities, and changes in household spending priorities and consumer purchasing power. Fluctuations in global commodity and logistics prices also significantly affect its operational costs.

2) Impact of Inflation on ACES's Financial Statements

Inflation, which increased significantly, especially post-pandemic, placed immense pressure on ACES's operational cost structure and consumer purchasing power, reflected in its financial statement line items.

2.1. Income Statement Analysis

- Sales Revenue:

During periods of high inflation, such as 2022–2023, ACES's sales revenue showed an increase. This rise was partly due to adjustments in the product selling price to offset cost increases. However, volume sales data (if available) needs to be examined to confirm whether the revenue growth is solely price-driven or supported by significant volume growth. Consumer purchasing power, eroded by inflation, can lead consumers to postpone purchases of non-essential items or seek cheaper alternatives, potentially affecting ACES's real sales volume.

- Cost of Goods Sold (COGS):

ACES's COGS increased sharply in 2022, surpassing sales growth. This directly pressured the Gross Profit Margin. This pressure primarily originated from the rising cost of procuring merchandise, much of which is imported, as well as surging logistics costs due to global inflation. ACES faced the challenge of passing all cost increases on to consumers without sacrificing sales volume.

- Operating Expenses:

ACES's operating expenses, including energy and logistics costs for product distribution to its stores, also showed an increase in 2023. This rise is a direct reflection of inflationary pressure on utility costs, transportation, and employee wages. ACES management needed to undertake strict operational efficiency efforts, such as optimizing delivery routes or renegotiating supplier contracts, to curb the rate of these expense increases.

- Net Income and Net Profit Margin:

As a consequence of the pressure on COGS and operating expenses, ACES's Net Profit Margin declined in 2021 and 2022. Although the company may still record a profit, ACES's ability to efficiently maintain its profitability was eroded by inflation. This highlights the importance of responsive pricing strategies and adaptive cost management in an inflationary environment.

2.2. Balance Sheet Analysis

- Inventory:

The value of ACES's inventory increased at the end of 2023. This increase was largely due to the inflation of merchandise acquisition costs. Although the inventory value rose, analysis of the inventory turnover ratio indicates a slight slowdown, suggesting a potential risk of inventory piling up if consumer purchasing power does not recover or if the company is too aggressive in stockpiling in anticipation of further price increases.

- Fixed Assets:

During this period, there was no significant impact on the value of fixed assets that were extensively revalued by ACES. However, it should be noted that the acquisition cost of new assets (e.g., building new stores or investing in store equipment) tends to be higher due to inflation in building materials and construction services. This can affect the company's long-term investment decisions.

- Debt:

ACES's Debt to Equity Ratio showed a slight increase in 2022–2023. This indicates that the company might be taking on more debt to fund the increased working capital needs resulting from higher operational costs, or to finance expansion and investment amid inflationary pressures. This increase in debt needs to be monitored so as not to overburden the company's capital structure.

2.3. Cash Flow Statement Analysis

- Cash Flow from Operating Activities (CFO):

Despite inflationary pressure on costs, ACES's CFO showed a relatively stable or slightly positive trend. This suggests that the company's cash management is effective in managing receivables from sales and and payments to suppliers/employees. However, an increase in payments to suppliers (due to COGS inflation) may reduce the net cash generated from core operations.

- Cash Flow for Investing and Financing Activities:

ACES's cash flow from investing activities (CFI) showed a significant increase in 2023 for new store expansion and system upgrades. This reflects the company's commitment to continue investing in long-term growth despite inflationary pressure. The financing for these investments largely came from operating cash and a slight addition of debt (CFF), indicating a balanced approach to the funding structure.

3. Impact of Consumption Shifts on ACES's Financial Statements

Changes in consumer behavior and preferences, particularly towards digital channels and post-pandemic priority shifts, also left their mark on ACES's financial statements.

3.1. Income Statement

- Revenue Composition:

The shift in consumer preference during the pandemic, such as increased home-based activities, led to a significant rise in sales of DIY (Do-It-Yourself) and home living products at ACES. Conversely, some product categories less relevant to the stay-at-home trend might have experienced sales decline. Furthermore, sales through ACES's digital channels showed rapid growth, indicating successful adaptation to the consumption shift toward e-commerce.

- Marketing Expenses:

ACES's marketing expense allocation showed a shift in focus toward digital promotion and application-based loyalty programs. Although the total marketing expense might not have changed drastically, this investment in the digital sphere reflects the company's effort to reach modern, tech-savvy consumers.

3.2. Balance Sheet

- Inventory Composition:

There was an adjustment in the types of goods stored in ACES’s warehouses. The company focused more on stocking products relevant to work-from-home or home-based activities, such as gardening tools, kitchenware, or small furniture. This affects the composition of inventory value recorded on the balance sheet.

3.3. Cash Flow Statement

- Cash Flow from Investing Activities (CFI):

ACES's investment in e-commerce platform development, improved logistics systems for online delivery, and technology infrastructure upgrades during the 2020–2022 period are visible from the increase in cash outflows for investing activities. This demonstrates the company’s commitment to adapting to the omnichannel business model and meeting digital consumer expectations.

4. Implications for ACES's Risk Profile

This analysis reveals how inflationary pressures and consumption shifts have altered ACES’s risk profile.

- Liquidity Risk:

ACES's current ratio slightly declined in 2022. Although still within safe limits, this indicates potential liquidity pressure due to inventory accumulation (in terms of value and volume) and rising COGS requiring larger working capital. Close monitoring of the cash cycle and management of accounts receivable/payable are essential.

- Profitability Risk:

The pressure on Gross Profit Margin and Net Profit Margin caused by inflation directly increases ACES's profitability risk. ACES’s ROA (Return on Asset) decreased in 2022, indicating that the company's ability to generate profit from its assets was pressured by operational costs and inflation eroding margins. The company must be cautious in balancing price adjustments and sales volume to maintain profitability.

- Solvency Risk:

The increase in ACES's Debt to Equity Ratio (although small) needs to be monitored. If inflationary pressure persists and requires the company to take on more debt for financing, solvency risk could increase. However, so far, ACES's capital structure remains relatively healthy, demonstrating the company's ability to manage its debt.

- Operational Risk:

  Global supply chain disruptions, particularly in 2021–2022, directly impacted the stock availability of imported goods for ACES. This led to some stock-outs and potential lost sales, which are manifestations of increased operational risk. The company must invest in supplier diversification and more resilient inventory management systems.

- Strategic Risk:

  ACES's ability to adapt to consumption shifts through strengthening its digital platform and adjusting product categories is key to mitigating strategic risk. Success in its omnichannel strategy and product innovation aligned with trends will determine the company's long-term relevance and competitiveness in an ever-changing market.

V. CONCLUSIONS

Based on the analysis of the financial statements of PT Ace Hardware Indonesia Tbk (ACES) during the 2019–2023 period, it can be concluded that inflation and consumption shifts have had a significant impact on the company's financial performance and risk profile.

In general, inflation has pressured ACES's profitability through increases in the Cost of Goods Sold (COGS) and operational expenses, which eroded both the Gross Profit Margin and Net Profit Margin. Although sales revenue may show a nominal increase, this is often driven by price adjustments and does not always reflect an increase in real sales volume due to the erosion of consumer purchasing power. The impact of inflation is also visible in the increase in inventory value and a slight rise in debt for working capital. ACES's operating cash flow showed resilience but requires efficient management to cope with rising costs.

Meanwhile, consumption shifts, particularly the adoption of online shopping and the change in preferences towards home living and DIY products, have prompted ACES to adapt strategically. The company successfully responded by optimizing its product composition and investing more in digital channels, reflected in the growth of online sales and a shift in marketing cost allocation. However, these investments also demanded significant cash outflows.

The implications for ACES's risk profile indicate that the company faces increased profitability risk due to margin pressure. Although liquidity risk remains manageable, the slowdown in inventory turnover and the need for higher working capital require vigilant monitoring. Operational risk has also increased due to global supply chain disruptions that affect stock availability. Nevertheless, ACES demonstrates strategic resilience through its adaptive capacity to changing consumer preferences and its investment in the omnichannel ecosystem.

Recommendations

To address the ongoing challenges of inflation and consumption shifts, PT Ace Hardware Indonesia Tbk is recommended to take the following steps:

- More Aggressive Cost Management:

  The company needs to continuously seek strict cost efficiency strategies, especially in COGS and logistics management, to protect profit margins amid rising prices. This may include renegotiating contracts with suppliers, diversifying supply sources to reduce reliance on imports that are vulnerable to exchange rate fluctuations, and optimizing operational processes to minimize waste.

- Inventory Management Optimization:

  Given the potential risk of inventory accumulation and shifting preferences, ACES must implement a more adaptive and data-driven inventory management system. This will help in predicting demand more accurately, reducing holding costs, and ensuring the availability of products aligned with changing consumer trends.

- Strengthening Omnichannel Strategy:

Continued investment in digital platforms and online-offline integration will be key. The focus should be on seamless customer experience across all channels, digital loyalty programs, and data analytics of online shopping behavior to customize product offerings and marketing strategies.

- Product Innovation and Diversification:

Continue to innovate and adjust the product portfolio to remain relevant to changing lifestyles and consumer spending priorities. This may involve expanding offerings in product categories that are more inflation-resistant or those that become consumer priorities amid economic pressure.

- Prudent Cash Flow Management:

Although ACES's operating cash flow is relatively healthy, inflationary pressure can increase working capital needs. The company needs to maintain an efficient cash conversion cycle and carefully manage accounts receivable and payable to ensure sufficient cash availability for operations and investments.

For Investors, it is important not only to look at sales figures but also to analyze ACES's profit margins, operational efficiency, and adaptability to market dynamics and macroeconomic changes. Companies that are able to maintain margins and innovate their business models will demonstrate long-term resilience.

Suggestions for Further Research

Further research can explore the specific impact of retail companies' pricing strategies during periods of high inflation, or a more in-depth comparison of the performance between conventional retail versus online retail, including a comparison of the profitability and cost structure of each channel. Additionally, studies on the effectiveness of technology investments in mitigating operational risk and enhancing efficiency within the retail sector would also be highly relevant.

REFERENCES

Brigham, E. F., & Houston, J. F. (2018). *Fundamentals of Financial Management* (15th ed.), Cengage Learning.

Fahmi, I. (2017). *Analisis Kinerja Keuangan*. Alfabeta.

Hansen, D. R., & Mowen, M. M. (2015). *Managerial Accounting* (10th ed.). Cengage Learning.

Kasmir. (2018). *Analisis Laporan Keuangan* (Edisi Revisi).

Rajawali Pers. Kotler, P., & Keller, K. L. (2016). *Marketing Management* (15th ed.). Pearson Education.

Modigliani, F., & Miller, M. H. (1958). The Cost of Capital, Corporation Finance and the Theory of Investment. *The American Economic Review*, 48(3), 261-297.

Myers, S. C. (1984). The Capital Structure Puzzle. *The Journal of Finance*, 39(3), 575- 592.

Prawironegoro, D. (2018). *Manajemen Keuangan Perusahaan*. Mitra Wacana Media. Teguh, M. (2019). *Manajemen Risiko Bisnis*. Gramedia Pustaka Utama.