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Inflation, Consumer Purchasing Behavior, and Market Power: Explaining Corporate Profitability in Indonesia's Food Industry

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Abstract

This study examines how competitive position and aggregate purchasing conditions are associated with corporate profit in Indonesia's food industry during 2020–2024. A balanced panel of 12 listed companies provides 60 firm-year observations, combining financial statements with national Consumer Price Index (CPI) and GDP per capita data. Pooled, fixed-effects, and random-effects specifications are considered, with random effects retained as the reported baseline. Market share and log GDP per capita are positively associated with profit, whereas the CPI coefficient is negative and statistically insignificant. These estimates are consistent with a role for competitive position and aggregate demand conditions, but do not identify causal effects or demonstrate that market power cushions inflationary shocks. CPI measures the price level rather than the inflation rate, and market share does not directly measure pricing power. Moreover, the macroeconomic coefficients depend on only five annual observations repeated across firms. The study therefore provides conditional, exploratory evidence on corporate profit rather than a structural test of consumer behavior or firm resilience.

Keywords: Profitability, Inflation, Consumer Purchasing Conditions, Market Power, Food Industry

1. Introduction

Food producers operate at the intersection of cost pressures, pricing decisions, and consumer adjustment. Rising input costs can erode margins, yet passing those costs on to consumers may weaken demand as households reconsider what, how much, and where to buy. The Structure–Conduct–Performance (SCP) framework situates these decisions within the relationship between market structure, firm conduct, and financial performance (Bain, 1951; Yuliawati, 2017). However, a positive relationship between market concentration and profit need not imply restricted competition: it may also reflect differences in productive efficiency (Demsetz, 1973). Distinguishing these explanations motivates an examination of firm-level competitive position alongside the price and income conditions confronting Indonesian food producers.

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A precise definition of financial performance is central to this inquiry. Profit represents revenue less costs (Pindyck & Rubinfeld, 2018), whereas profitability ratios express earnings relative to sales, assets, or equity. This study examines net profit attributable to the parent entity and therefore measures the scale of earnings rather than a profit margin or rate of return. This distinction matters because larger firms may report both greater market shares and higher absolute profits without necessarily exercising greater pricing power or operating more efficiently.

The empirical analysis covers 12 listed firms—INDF, ICBP, CPIN, JPFA, MYOR, GOOD, ULTJ, STTP, ROTI, CMRY, ADES, and FOOD—during 2020–2024. Firms are selected on the basis of available sales and profit data, yielding a panel of 60 firm-year observations. The sample provides a defined setting in which to examine competitive and macroeconomic correlates of earnings, although its non-random composition limits generalisation to the broader population of Indonesian food producers.

Market share provides one perspective on a firm's competitive position. A larger sales presence may reflect advantages in production scale, distribution networks, brand recognition, or customer retention. Evidence from related Indonesian industries offers useful comparisons: Maharani et al. (2021) report a positive association between market share and profitability in textile and garment firms, while Setiawati and Hendra (2024) examine Islamic banking. Firdaus (2023) discusses monopoly and monopsony, and Yuliawati (2017) applies the SCP framework to food and beverages. International research likewise distinguishes the implications of market power for markups and aggregate outcomes (De Loecker et al., 2020) from the reallocation of sales towards highly productive firms (Autor et al., 2020). Together, these perspectives suggest that market share is an informative indicator of commercial position, but an insufficient measure of the mechanisms generating profit.

Consumer prices introduce a second dimension. Changes in prices can affect firms through both production costs and the demand for their products. Putri et al. (2025) examine inflation and food-sector profitability, while Salsabila and Hasni (2023) investigate consumer prices and food inflation. Pass-through theory indicates that the incidence of cost shocks depends on demand characteristics and competitive conditions (Weyl & Fabinger, 2013). The empirical interpretation nevertheless requires care: the consumer price index (CPI) measures the price level, whereas inflation measures its rate of change. Because the specification uses CPI in levels, its coefficient captures a conditional association between consumer prices and profit, rather than the effect of an increase in the inflation rate.

From a behavioural economics perspective, household adjustment is central to understanding why price pressures need not translate mechanically into firm-level outcomes. When nominal resources fail to keep pace with prices, consumers may alter purchase quantities, select different product qualities, or devote more effort to finding lower prices. Deaton (1988) distinguishes quality choices from price variation, while Aguiar and Hurst (2007) demonstrate the importance of shopping behaviour for prices paid. Hamanay et al. (2021) provide contextual evidence of income disruption in a tofu enterprise. These contributions motivate plausible demand channels,

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but do not establish how customers of the sampled firms actually responded. Similarly, although expectations can influence inflation dynamics (Coibion & Gorodnichenko, 2015), the present data contain no direct measures of expectations, shopping behaviour, or household consumption choices.

GDP per capita provides a third perspective by summarising aggregate income conditions. Its relevance lies in the potential relationship between household resources, consumption expenditure, and corporate earnings. Mutai (2024) examines income and bank performance, while Munthe and Harefa (2020) consider macroeconomic variables, profitability, and manufacturing share prices. Consumer demand theory distinguishes responses to prices from responses to expenditure (Deaton & Muellbauer, 1980), and nonlinear Engel curves indicate that consumption responses can vary across expenditure levels (Banks et al., 1997). Consequently, movements in average income need not produce uniform changes in food demand. GDP per capita also differs from household disposable income; when measured in nominal terms, it combines changes in prices with changes in real economic activity.

These considerations motivate a focused empirical question: how are competitive position, consumer prices, and aggregate income jointly associated with corporate profit? The study addresses this question through an additive panel regression relating earnings to market share, CPI, and the logarithm of GDP per capita. This specification estimates conditional associations among observed variables. It does not directly identify cost pass-through, consumer substitution, or differences in firms' exposure to price shocks; examining those mechanisms would require additional measures or an explicitly extended specification.

The study's contribution is to connect research on market structure and consumer demand with the cited Indonesian evidence within a common empirical framework. Rather than treating market share as synonymous with market power, or aggregate income as a direct measure of household purchasing capacity, the analysis makes their respective empirical roles explicit. This distinction supports an interpretation of corporate earnings that is informed by economic mechanisms while remaining proportionate to what the available data can establish.

The panel structure also imposes an important limit on inference. Although the dataset contains 60 firm-year observations, CPI and GDP per capita each vary across only five annual observations. Their repetition across firms does not generate additional independent macroeconomic variation. Common trends, omitted annual conditions, and dependence across observations may therefore affect both coefficient interpretation and conventional measures of statistical precision (Cameron & Miller, 2015). These constraints warrant particular caution when interpreting the macroeconomic coefficients.

Accordingly, the study addresses three questions aligned with its estimated specification:

1. How is the consumer price level associated with corporate profit, conditional on market share and GDP per capita?

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2. How is GDP per capita associated with corporate profit, conditional on market share and the consumer price level?
3. How is market share associated with corporate profit, conditional on the included macroeconomic indicators?

By answering these questions, the study provides evidence on the competitive and macroeconomic correlates of earnings among selected Indonesian food producers during 2020–2024. Its findings offer a basis for subsequent research linking firm performance to observed pricing decisions and household responses. The empirical contribution remains an assessment of conditional relationships, with behavioural and structural mechanisms guiding interpretation and future testing.

1.2 Literature Review and Hypotheses

Following the revenue–cost framework in Pindyck and Rubinfeld (2018), let economic profit be $\Pi_{it} = p_{it}q_{it} - C_{it}(q_{it})$, where p denotes price, q output, and C total cost. For a change in an aggregate condition z, differentiation gives $d\Pi/dz = q(dp/dz) + (p - MC)(dq/dz) - \partial C/\partial z$, where $MC = \partial C/\partial q$. This identity separates price adjustment, demand changes, and direct cost pressure. It is an explanatory framework, not an estimated structural equation; reported net profit additionally reflects financing, taxes, and accounting treatment.

The SCP perspective links competitive position to conduct and earnings (Yuliawati, 2017), but sales shares cannot separate efficiency from pricing power (Demsetz, 1973). For a single-product firm choosing price against differentiable demand, the first-order condition gives $(p - MC)/p = -1/\varepsilon$, where $\varepsilon < 0$ is own-price demand elasticity. Hall (1988) examines price–marginal-cost differences, and De Loecker and Warzynski (2012) develop production-based markup estimation. Both approaches require information beyond market share. Marginal costs and demand elasticities are unobserved in this study.

Maharani et al. (2021) and Setiawati and Hendra (2024) motivate a positive market-share–performance relationship, albeit in other sectors. The relationship may also reflect firm scale or reverse causality, since profitable firms can expand their sales presence. H1 therefore concerns a conditional association, not a causal markup effect:

H1: Market share is positively associated with corporate profit ($\beta_1 > 0$).

Higher consumer prices may coincide with rising costs and weaker real purchasing capacity (Putri et al., 2025; Salsabila & Hasni, 2023). The profit response depends on pass-through and demand curvature (Weyl & Fabinger, 2013). Nakamura and Zerom (2010) identify roles for local costs, markup adjustment, and pricing frictions in coffee; Goldberg and Hellerstein (2013) examine related mechanisms in beer. A negative association is expected when cost and demand pressures dominate revenue gains. H2 concerns the CPI level, not inflation:

H2: CPI is negatively associated with corporate profit ($\beta_2 < 0$).

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For normal goods, stronger income supports demand. The profit identity gives a positive demand contribution when dq/dY > 0 and p > MC, holding other channels constant. Demand systems allow substitution and income responses to differ across goods and households (Banks et al., 1997; Deaton & Muellbauer, 1980). Mutai (2024) and Munthe and Harefa (2020) motivate aggregate income as a corporate-performance correlate, although GDP per capita remains an imperfect purchasing-capacity proxy:

H3: GDP per capita is positively associated with corporate profit ($\beta_3 > 0$).

1.3 Conceptual Framework

Figure 1 distinguishes the variables included in the regression from the mechanisms proposed to interpret them. CPI may be associated with input costs and purchasing capacity; GDP per capita approximates aggregate demand conditions; and market share captures competitive position. Cost pass-through, consumer substitution, and pricing power are unobserved mechanisms. The estimated model includes additive associations and does not test mediation or moderation.

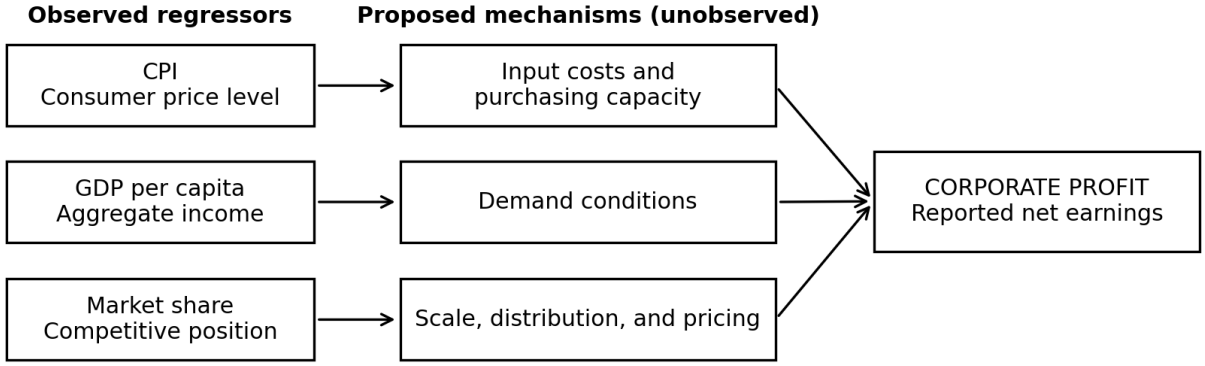


Figure 1. Conceptual Framework

The framework yields three directional hypotheses without imposing a causal sequence on the observed data. CPI and GDP per capita vary nationally over time, whereas market share varies across firms and years. Differences in profit may consequently reflect both competitive position and common economic conditions. The explanatory channels in Figure 1 guide interpretation; they are not separately identified by the regression.

2. Method

2.1 Research Design, Population, and Sample

This quantitative study uses a balanced panel of N = 12 firms over T = 5 years (2020–2024), yielding NT = 60 firm-year observations. Purposive selection follows data availability and sector relevance (Hardani et al., 2020; Susanto et al., 2024). The sampled firms are INDF, ICBP, CPIN, JPFA, MYOR, GOOD, ULTJ, STTP, ROTI, CMRY, ADES, and FOOD. The unit of analysis is

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the firm-year; national indicators are matched by calendar year. The inference population is the observed sample of listed food businesses, not all producers or households in Indonesia.

2.2 Data Sources and Variable Measurement

Firm sales and net profit are drawn from financial statements available through the Indonesia Stock Exchange; national CPI and GDP per capita are sourced from Statistics Indonesia (BPS). Table 1 defines the variables. Financial statement coverage, currency units, annual aggregation, and the distinction between consolidated and standalone accounts matter for comparability, especially where sampled businesses belong to the same corporate group.

Table 1. Operational Definitions and Variable Measurement

No.	Variable Name	Definition	Measurement	Unit/Scale	Source
1	Market Share (MS)	Observable indicator of competitive strength and potential market power.	$MS_{it} = 100 \times$ firm sales / relevant total sales; denominator coverage requires verification.	Percent (0–100)	Indonesia Stock Exchange (IDX)
2	Consumer Price Index (CPI)	Published consumer price level; distinct from the inflation rate.	BPS CPI series; a consistent base and annual aggregation are required.	Index points	Statistics Indonesia (BPS)
3	GDP Per Capita (GDPP)	Aggregate income indicator; not household disposable income.	$GDPP_t = GDP_t$ / $population_t$; $\ln(GDPP_t)$ enters the regression.	Thousand rupiah; log in model	Statistics Indonesia (BPS)
4	Corporate Profitability (PROF)	Net earnings level, not a margin or return ratio.	Net profit attributable to the parent entity as reported in financial statements.	Monetary scale not specified	Indonesia Stock Exchange (IDX)

Source: Processed by the researcher, 2026

Market share is $MS_{it} = 100S_{it}/S_t$, where S_{it} denotes firm sales and S_t the relevant sales denominator. If S_t contains only sampled firms, MS is a sample sales share rather than an industry-wide share. CPI is the published consumer price index; inflation would instead be $100(CPI_t/CPI_{t-1} - 1)$. Comparison over time requires a consistent CPI base. The source material does not establish the CPI linking procedure, whether GDP per capita is nominal or real, or the exact monetary scaling of PROF. These measurement details limit replication and numerical interpretation; they are not inferred from the coefficient magnitudes.

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2.3 Panel Data Regression

The baseline specification relates profit to market share and two common annual macroeconomic indicators. Pooled OLS, firm fixed effects, and firm random effects provide alternative treatments of persistent firm heterogeneity (Gujarati, 2003; Nurlela et al., 2024). The one-way error-components model is:

$$\mathrm{PROF}_{it} = \alpha + \beta_1 \mathrm{MS}_{it} + \beta_2 \mathrm{CPI}_t + \beta_3 \ln(\mathrm{GDPP}_t) + a_i + u_{it} \quad (1)$$

Here i = 1, …, 12 and t = 2020, …, 2024. PROF is the reported net-profit measure, MS is market share in percent, CPI is the national price index, and ln(GDPP) is log GDP per capita. The firm component a_i captures persistent unobserved heterogeneity; u_{it} is the idiosyncratic disturbance. CPI and GDPP carry only a time subscript because their values are common to all firms within each year.

Pooled OLS imposes $a_i = 0$. Fixed effects allow correlation between a_i and regressors and remove a_i by within-firm demeaning. Random effects retain between-firm variation but require orthogonality to the full regressor history X_i. Mundlak (1978) clarifies why modeling this correlation matters for pooled panel inference. The maintained moment conditions are:

$$E(u_{it} \mid X_i, a_i) = 0; \quad E(a_i \mid X_i) = 0. \quad (2)$$

Strict exogeneity rules out feedback from profit shocks to subsequent market share. This condition is substantive, since profitable firms may expand sales and omitted scale or efficiency may affect both variables. Under the conventional homoskedastic error-components structure, feasible GLS uses quasi-demeaned observations:

$$z_{it}^{*} = z_{it} - \theta \bar{z}_i; \quad \theta = 1 - \sqrt{\frac{\sigma_u^2}{\sigma_u^2 + T\sigma_a^2}}. \quad (3)$$

A bar denotes a firm-specific time mean; σ_u^2 and σ_a^2 are the idiosyncratic and firm-component variances. The transformation is applied to the outcome and each regressor, including the constant. It explains how REM combines within- and between-firm information; it does not resolve endogeneity.

2.4 Model Comparison and Statistical Inference

The firm-effects F-test tests equal firm intercepts against FE. The cross-section LM test evaluates H_0: $\sigma_a^2 = 0$ against RE (Breusch & Pagan, 1980). Hausman's (1978) specification test compares FE and RE slopes under the RE orthogonality restriction:

$$H = d'[V(\hat{\beta}_{FE}) - V(\hat{\beta}_{RE})]^{-1} d \rightarrow \chi^2(3). \quad (4)$$

Here $d = \beta\text{FE} - \beta\text{RE}$ and V denotes the estimated coefficient covariance matrix. The usual χ^2 reference requires a valid covariance difference. A reported H = 0 and p = 1 warrants checking the full output and any numerical warnings; non-rejection does not establish the RE assumptions. The reported REM is therefore treated as a baseline, not a validated causal model.

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Coefficient tests evaluate H_0: $\beta_j = 0$; the joint test evaluates H_0: $\beta_1 = \beta_2 = \beta_3 = 0$. The supplied output does not document robust covariance treatment. Arellano (1987) provides robust inference for within-group estimators; Cameron and Miller (2015) explain cluster dependence and few-cluster limitations. These are methodological considerations, not procedures claimed to have been implemented here. Five annual observations identify the macroeconomic associations; unrestricted year effects would absorb both national regressors. With PROF in levels, β_1 is the outcome-unit difference for one percentage point of MS, β_2 for one CPI point, and β_3 ln(1.01) for a 1% increase in GDPP, holding other regressors constant. These are not profit elasticities.

3. Results

3.1 Model Comparison

A. Chow Test

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	51.898275	(11,45)	0.0000
Cross-section Chi-square	156.983479	11	0.0000

Source: Research results, data processed by the researcher (2026)

The firm-effects test reports F = 51.898275 with degrees of freedom (11, 45) and $p < 0.0001$ (Table 2). The equal-intercept null is rejected, favoring firm fixed effects over pooled OLS in this comparison. This test does not establish whether fixed effects or random effects is preferable.

B. Hausman Test

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	3	1.0000

Source: Research results, data processed by the researcher (2026)

Table 3 reports a Hausman statistic of 0.000000 with three degrees of freedom and p = 1.0000. Taken at face value, this does not reject the RE restriction. However, the zero statistic requires verification against the full estimator output and covariance diagnostics. It cannot independently demonstrate that firm effects and regressors are uncorrelated.

C. Lagrange Multiplier Test

Table 4. Lagrange Multiplier Test

Test Hypothesis	Cross-section	Time	Both
Breusch-Pagan	98.69377	2.485937	101.1797
	(0.0000)	(0.1149)	(0.0000)

Source: Research results, data processed by the researcher (2026)

The cross-section LM statistic is 98.69377 with $p < 0.0001$ (Table 4), rejecting zero firm-effect variance relative to pooled OLS. Together with the reported Hausman result, this motivates retaining REM as the baseline, subject to the assumptions and diagnostic limitations stated in Section 2.

3.2 Regression Results

Table 5. Random Effects Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-16.14815	9.468304	-1.705495	0.0936
MARKETSHARE	0.136600	0.032573	4.193671	0.0001
CPI	-0.004406	0.008778	-0.501975	0.6177
LOGGDPPERCAPITA	4.035217	0.925929	4.358021	0.0001
Weighted Statistics				
R-squared	0.413613	Mean dependent var		3.642899
Adjusted R-squared	0.382200	S.D. dependent var		0.419160
S.E. of regression	0.329461	Sum squared resid		6.078507
F-statistic	13.16670	Durbin-Watson stat		1.524153
Prob(F-statistic)	0.000001			

Source: Research results, data processed by the researcher (2026)

Table 5 reports positive coefficients for market share (0.136600; $p = 0.0001$) and log GDP per capita (4.035217; $p = 0.0001$), and a negative CPI coefficient (−0.004406; $p = 0.6177$). The weighted R^2 is 0.413613 and adjusted R^2 is 0.382200; these describe fit in the GLS-transformed regression, not a causal allocation of profit variation. The joint F-statistic is 13.16670 ($p = 0.000001$), rejecting the null that all three slopes are zero. Joint significance does not imply that every variable is individually significant.

3.3 Hypothesis Testing

The reported estimates support the predicted directions and conventional significance of H1 and H3. H2 is not supported: its negative sign is consistent with the prediction, but the estimate is statistically indistinguishable from zero at the 5% level. These decisions are conditional on the

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supplied standard errors and the maintained specification. They do not establish the proposed cost, demand, or pricing mechanisms.

4. Discussion

4.1 Inflationary Pressure and Corporate Profitability

The CPI coefficient is negative (−0.004406) but statistically insignificant (p = 0.6177). Conditional on the included regressors, the sample therefore does not provide sufficient evidence of a nonzero price-level association with profit. The sign is compatible with cost pressure, but CPI measures consumer prices rather than firms' input costs. It cannot isolate raw-material, energy, packaging, or transport-cost transmission.

The insignificant CPI coefficient does not demonstrate successful inflation absorption. Pricing frictions and local costs can delay or attenuate pass-through (Goldberg & Hellerstein, 2013; Nakamura & Zerom, 2010). Gopinath and Itskhoki (2010) relate adjustment frequency to pass-through using import prices. These studies establish plausible mechanisms, not direct evidence for Indonesian food firms. Limited annual variation and measurement inconsistency remain alternative explanations.

Putri et al. (2025) and Salsabila and Hasni (2023) motivate attention to profitability and price dynamics, respectively. The present estimate adds a conditional CPI association, not evidence of household substitution, price expectations, or inflation resilience. Its interpretation is also sensitive to comparability of the CPI series across the observation period.

4.2 Consumer Purchasing Conditions and Corporate Profitability

Log GDP per capita has a positive coefficient of 4.035217 (p = 0.0001). Under the stated level–log specification, a 1% increase in GDP per capita corresponds to 4.035217 × ln(1.01), approximately 0.04015 units of the dependent variable, holding other regressors constant. This is not a 4.04% increase in profit. A monetary interpretation requires confirmation of the outcome's reporting scale.

The association is consistent with an aggregate-demand explanation, but does not directly measure household consumption. Mutai (2024) and Munthe and Harefa (2020) offer related evidence from banking and manufacturing settings. Because GDP per capita varies only by year, its coefficient may also capture omitted common economic conditions. If the series is nominal, part of its movement reflects prices rather than real purchasing capacity. The result cannot establish changes in brand switching or other individual purchasing decisions.

4.3 Competitive Strength, Market Share, and Corporate Resilience

Market share is positively associated with profit (β_1 = 0.136600; p = 0.0001). If MS is expressed from 0 to 100, a one-percentage-point increase corresponds to 0.136600 outcome units, conditional on the other regressors. Scale economies, distribution reach, and product

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differentiation could contribute to this pattern. However, larger firms can also have both greater sales shares and larger absolute profits without earning higher margins or returns.

The positive relationship accords with Maharani et al. (2021) and Setiawati and Hendra (2024), but sectors and outcome measures differ. The efficiency interpretation of Demsetz (1973) and the reallocation evidence of Autor et al. (2020) also caution against equating sales concentration with market power. Without marginal costs or demand elasticities, the regression cannot separate these explanations.

Reverse causality provides a further explanation: retained earnings may finance expansion and increase subsequent market share. Unobserved product quality or management may also affect both variables. Without controls or an identification strategy addressing these channels, the coefficient remains associational. Competitive resilience is a possible interpretation for future testing, not an outcome established by the reported model.

4.4 Joint Relationship Between Macroeconomic Pressure, Purchasing Conditions, and Competitive Strength

The joint test rejects zero slopes for market share, CPI, and log GDP per capita ($p = 0.000001$). The adjusted weighted R^2 is 0.382200. These statistics summarize the reported specification; they do not show that all relevant determinants have been included. Viyanis et al. (2023) discuss operational financial determinants of profitability, while Hasrah et al. (2025) consider economic factors in banking. Such determinants underline the potential relevance of omitted firm characteristics and sector-specific mechanisms.

The positive market-share and income coefficients coexist with an imprecise CPI estimate. This combination is compatible with competitive and demand-related explanations, but it does not reveal whether price pressure was offset by firm strategies. The model lacks direct cost, household-demand, and pricing measures. Moreover, its common macroeconomic regressors cannot separate the included variables from unrestricted annual shocks.

No CPI × market-share interaction is estimated, so the results do not test whether competitive position moderates price pressure. Even an interaction would require a credible identification strategy before supporting a causal resilience claim. The findings are best read as exploratory conditional relationships that motivate a longer panel, clearer measurement, firm-level controls, and explicit tests of cost pass-through and demand responses.

5. Conclusion

Among the 12 sampled firms during 2020–2024, market share and log GDP per capita are positively associated with reported corporate profit, whereas the CPI association is negative and statistically insignificant. These findings are consistent with competitive-position and aggregate-demand explanations, but do not establish causal effects, consumer behavioral responses, or market-power-based resilience. Interpretation is constrained by five years of macroeconomic

variation, proxy measurement, unspecified monetary scaling, potential endogeneity, and incomplete covariance diagnostics. Future research should verify variable construction, extend the time dimension, control for firm scale and financial characteristics, and test the proposed mechanisms directly. The estimates do not by themselves justify policies that encourage market concentration.

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