

What You Don't Know: The Hidden Profit Leaks in FMCG

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Executive summary

FMCG and retail leaders are losing profit in places their dashboards cannot see. The metrics they trust most, such as a healthy stock-turn average, a market benchmark or a price increase that looks safe on paper, can hide the very losses they need to find. Four blind spots recur:

1. **The shelf.** About 8.3% of items shoppers want are out of stock worldwide. Structural columns break the floor into disjointed spaces, so stock that is present is often hard to find.
2. **The averages.** Out-of-stocks and overstocks cancel out in a blended turn rate. Globally they cost retailers \$1.7 trillion a year, or 6.2% of sales.
3. **The price.** A 1% price rise can lift operating profit about 8%, but only if volume holds. A 50% rise set without knowing product-level elasticity is a guess with large consequences.
4. **The culture.** 78% of financial executives say they would sacrifice economic value to smooth earnings. In a culture that punishes mistakes, the people who can see the problem stay silent.

The remedy is not more technology. It is structure before intelligence: measuring at the shelf and the SKU, testing before betting, and making it safe to surface what leadership does not yet know.

Blind spot 1: The shelf the customer actually sees

One in twelve items a shopper looks for is not on the shelf. The largest worldwide study of out-of-stocks, drawing on 52 studies, put the global average out-of-stock rate at 8.3% ([Gruen, Corsten & Bharadwaj, GMA 2002](#)).

The authors' Harvard Business Review study of more than 600 outlets found stock-outs are "far more costly than most companies imagine" ([Corsten & Gruen, HBR, May 2004](#)).

Structural columns compound the problem. Load-bearing columns are fixed constraints, so the floor becomes a set of disjointed spaces rather than one continuous layout. Aisles and displays are forced to work around them, related products get separated, and sightlines break. When stock is then constantly moved and replaced to fit those

fragmented spaces, regular customers lose their mental map of the store. The product may be in the building, but if the customer cannot find it, the sale is lost exactly as if it were missing.

And the system often cannot see the gap. In a study of nearly 370,000 inventory records across 37 stores, 65% were wrong: the system count did not match what was on the shelf, by an average of about 35% of actual stock ([DeHoratius & Raman, Management Science, 2008](#)). A system that believes stock is present will not reorder it. ECR Retail Loss has since measured sales gains of up to 8% from simply correcting inventory records ([ECR Retail Loss](#)).

The question for leaders: do you know your on-shelf availability, measured at the shelf, by store and by SKU, or only what the system believes is there?

Blind spot 2: The averages that hide the losses

A healthy average can conceal two expensive problems at once. Consider a category reported at eight stock turns a year, a figure most boards would call strong. That single number blends fast movers that run out with slow movers that sit, and the two errors cancel each other on the dashboard while both cost money in the store.

The global evidence shows both errors running at scale simultaneously. IHL Group's 2026 study puts worldwide inventory distortion at \$1.7 trillion, equal to 6.2% of global retail sales ([IHL Group, 2026 Inventory Distortion Study](#)). Its 2025 breakdown splits that into about \$1.2 trillion of out-of-stocks and \$572 billion of overstocks, and attributes \$145.2 billion to product location failures alone: stock that exists but cannot be found ([IHL Group, Fixing Inventory Distortion 2025](#)).

An average turn rate cannot distinguish a category that is uniformly healthy from one that is half starved and half bloated. Neither can a syndicated market benchmark, which tells you how you compare with competitors, not where your own profit is leaking.

What the average says	What it can hide
8 turns a year: efficient	Top SKUs out of stock every weekend; tail SKUs holding months of cover
Category sales up	Growth coming from price, while volume and shoppers decline
System stock looks fine	Records wrong for most SKUs (see Blind spot 1)

The question for leaders: which ten SKUs lost the most margin last quarter to being out of stock, and which ten tied up the most cash in excess stock? If the answer takes more than a day to produce, the average is doing your thinking for you.

Blind spot 3: The price rise nobody modelled

Price is the most powerful profit lever a business has, which is exactly why guessing at it is so dangerous. McKinsey's analysis of S&P 1500 economics found that a 1% price rise, with volume held steady, lifts operating profit by about 8%, more than three times the effect of a 1% volume gain ([McKinsey, The Power of Pricing](#)). The same lever works in reverse: in that model, volume must rise 18.7% just to offset a 5% price cut.

The catch is the phrase "with volume held steady." A 50% increase is far outside the range where that assumption holds. How much volume a product can lose before the increase destroys value depends on its margin:

$$\text{Break-even volume change} = -\frac{\Delta P}{m + \Delta P}$$

Here ΔP is the price change and m is the contribution margin, both as a share of the old price. At a 30% margin, a 50% increase breaks even if volume falls by no more than 62.5%. On paper, that looks safe. In practice, the business rarely knows whether the true loss will be 20% or 70%, because it has never tested prices that far from today's.

Elasticity is not a constant, and today's shopper is more elastic than the data suggests.

Two current signals from the market:

- 53% of global shoppers say they are buying more private label ([NielsenIQ, 2025 Global Outlook on Private Label, 17,000+ respondents in 25 countries](#)).
- 60% say they will buy fewer snacks and confectionery if prices stay high, the highest drop-out response of any category surveyed ([NielsenIQ, Mid-Year Consumer Outlook: Guide to 2025](#)).

The hidden cost sits outside the product. A shopper who walks away from a repriced staple may take the whole basket to a competitor. A category-level P&L will not show that loss.

The question for leaders: before the next major price move, do you know the elasticity of each affected SKU, measured from your own data, and what the basket loss looks like if you are wrong?

Blind spot 4: The culture that keeps it hidden

The first three blind spots persist for a reason: in most organisations, surfacing them is personally risky and fixing them is not rewarded. Leaders rarely lack the data. They lack a culture in which bad news travels upward and experiments are safe to run.

Shareholder pressure trains managers to protect the quarter. In a survey of 401 financial executives, 78% said they would give up economic value to deliver smooth earnings, and 55% would avoid a very positive-NPV project if it meant missing the current quarter's consensus ([Graham, Harvey & Rajgopal, NBER Working Paper 10550](#)). The researchers found that CFOs "do not like the system, but they are forced to play the game" ([Duke Fuqua](#)).

The pressure is getting worse, not better. In a McKinsey survey of more than 1,000 executives and board members, the share feeling pressure to deliver strong results within two years rose from 79% to 87% ([Koller, Manyika & Ramaswamy, Milken Institute Review](#)).

Yet the long view pays. Across 615 large and mid-cap US companies from 2001 to 2014, firms McKinsey classified as long-term grew revenue 47% more and earnings 36% more than the rest ([McKinsey Global Institute, Measuring the Economic Impact of Short-Termism](#)).

Fear of mistakes silences the people who can see the problem. Google's Project Aristotle, a two-year study of its own teams, found psychological safety was the most important factor in team effectiveness. The re:Work guide measures it partly by whether a mistake "is often held against you" ([Google re:Work](#)). Store managers and planners see the empty shelves and wrong counts every day. If reporting them looks like admitting failure, the numbers the board sees stay clean while the store stays broken.

Cultural signal	What it hides from leadership
Fear of making a mistake	Stock-outs, record errors and failed promotions go unreported
Shareholder earnings pressure	Pricing and ranging bets are judged on this quarter, not on lifetime value
No reward for taking a risk	Nobody runs the price or layout test that would reveal the truth

The question for leaders: when did someone last bring you a problem nobody had asked about, and what happened to them afterwards?

Why no new ideas emerge, and what to do about it

Most organisations do not lack ideas. They lack a mechanism that reliably produces, tests and protects them.

Without that mechanism, new ideas depend on individuals willing to take a personal risk, which is exactly what the culture in Blind spot 4 discourages.

First principles is the discipline that turns blind spots into ideas. Reasoning by analogy asks "what does the benchmark say?" Reasoning from first principles asks "what must be true, in our own data, for this to work?" Applied to the blind spots above, it produces sharper questions:

Reasoning by analogy	Reasoning from first principles
"Our stock turn beats the market benchmark."	"Which SKUs, in which stores, are losing sales today?"
"Competitors raised prices, so we can too."	"How do our shoppers respond to price, product by product?"
"We reset the store to follow best practice."	"Can our regular customers still find what they came for?"
"The system says we have stock."	"Does the shelf agree with the system?"

Why an outside enabler helps. An internal team inherits the culture described in Blind spot 4. An external challenger can ask the uncomfortable question without career risk, bring the discipline of first-principles questioning, and hand ownership of the resulting ideas back to the team. The role is to enable ideas, not to supply them.

flowchart LR

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A[Ask: what don't<br/>we know?] --> B[Test against<br/>shelf-level data]
B --> C[Run a small,<br/>safe experiment]
C --> D[Share the result,<br/>good or bad]
D --> A

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The loop only works if step four is safe. A failed experiment that is shared is worth more than a hidden one that repeats.

What leaders should do in the next 90 days

None of these steps requires new technology. Each requires leadership to look below the average and make it safe for others to do the same.

Timing	Action	What it reveals
Days 1–30	Count the shelf, not the system, for your top 100 SKUs in a sample of stores	The real gap between recorded stock and available stock
Days 1–30	Replace the category turn average with a SKU-level view of out-of-stocks and excess cover	Where the average is hiding lost sales and trapped cash
Days 31–60	Before any large price move, run a controlled price test in a few stores or regions	Actual elasticity, including basket loss, from your own shoppers
Days 31–60	Walk the store with loyal customers after the next layout reset	Whether regular shoppers can still find what they came for
Days 61–90	Hold a "what we don't know" review in which surfacing a problem is explicitly rewarded	Issues the dashboard does not show
Days 61–90	Agree with the board that a set share of experiments is expected to fail	Permission to learn, protected from quarterly pressure

The common thread is structure before intelligence. Analytics and AI can only work on the truth that the organisation is willing to measure and to hear.

Sources and verification notes

Source	Used for
Gruen, Corsten & Bharadwaj, Retail Out-of-Stocks (GMA, 2002)	8.3% global out-of-stock rate
Corsten & Gruen, "Stock-Outs Cause Walkouts" (HBR, May 2004)	Cost of stock-outs
DeHoratius & Raman, Management Science (2008)	65% of inventory records inaccurate
ECR Retail Loss, Improving Inventory Records	Up to 8% sales gain from accurate records
IHL Group, 2026 Inventory Distortion Study	\$1.7 trillion, 6.2% of retail sales

Source	Used for
IHL Group, Fixing Inventory Distortion 2025	Out-of-stock, overstock and location-failure split
McKinsey, The Power of Pricing (2003)	1% price = 8% operating profit
NielsenIQ, 2025 Global Outlook on Private Label	53% buying more private label
NielsenIQ, Mid-Year Consumer Outlook: Guide to 2025	60% would buy fewer snacks
Graham, Harvey & Rajgopal, NBER w10550	78% would sacrifice value; 55% would skip positive-NPV project
Duke Fuqua	CFO interview quote
Milken Institute Review (McKinsey authors)	Short-term pressure up from 79% to 87%
McKinsey Global Institute, short-termism	Long-term firms +47% revenue
Google re:Work, Team Effectiveness	Psychological safety

Note: The "8 stock turns" figure is an illustrative benchmark attributed to AC Nielsen and has not been independently verified. The out-of-stock and inventory-accuracy studies date from 2002 to 2008. They remain the standard references, and IHL Group's 2026 data confirms the problem persists.