

The complex
relationship between
shrink management &
on-shelf availability:
Finding the balance to
drive incremental sales

Whitepaper by
David Haylings

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Overview

Inventory loss (also known as ‘shrink’) is an acute and increasing problem for physical retailers, estimated widely as 2.0-2.5% of total sales across the store.

Macro economic challenges and the emergence of Organised Retail Crime have driven the level of shoplifting to new heights, with high risk categories often seeing shrink increase to double digit percentages. The need for staff safety and the impact on bottom line profit naturally leads stores towards ever-more prohibitive theft prevention strategies. Commonly, high value categories such as shaving, alcohol and cosmetics are affected. But increasingly, stores need to protect traditionally low shrink fixtures like cleaning products, energy drinks & chilled meat.

In parallel to the Shrink dynamic, the modern shopper has a base expectation for full availability of the shelf. Brand loyalty erodes

where fixtures are consistently out of stock. Shoppers avoid visiting stores where poor On-Shelf Availability is common, with almost 2/3 of shoppers claiming to have left a store with no purchase when their brand is not in stock. It's well accepted that OSA drives Sales at a minimum 3:1 ratio – where a 3% drop in product availability has a massive 1% impact on Sales. However, in a world where excess inventory is commercially prohibitive, the solution to the OSA challenge is not simply overstocking.

Unsurprisingly, categories where shoplifting is a factor commonly see a correspondingly low OSA. It's not uncommon for stores to see availabilities of less than 50% across high risk fixtures. There are multiple complex causes for this dynamic, ranging from actual theft through to the increased operational costs needed operate the theft prevention tools & keep the shelves full. In a world where OSA has such a huge impact on actual sales & revenue, finding the balance between effective shrink protection and high availability is acute.

SHRINK ➤ **OSA** ➤ **SALES**

Retail Crime is rapidly increasing, putting a huge cost pressure on brands and retailers

More than ever, today's shopper expects the product to be present ready for a quick purchase

In a highly competitive market, excellent OSA and a positive shopping experience are key

Closed Vs. open sales - The ultimate deterrent?

Where levels of theft have become unsustainable, a store manager often resorts to taking products out of Open Sale. Packs may be stored in locked cabinets, behind counter or even replaced on shelf with dummy cards requiring an assistant to swap for the real product at point of sale. These closed Sale solutions generally eliminate shoplifting from front of store, but are hugely labor intensive for the retailer to administrate. The shopping experience & sales closure is also negatively impacted.

The impact on category sales can be huge when moving away from the expected open sale environment. The mode of closed sale implemented also has an impact on OSA; dummy card solutions at main fixture typically erode sales by up to 30%, but the behind counter solutions where shoppers are unaware of the brand presence often impact sales by more than 50%. In either case, closed sale solutions are truly the last commercial resort given their huge impact on revenue, increased complexity & operating costs.

Relocating stock behind counter can hurt sales by

50%

Dummy solutions erode sales by up to

30%

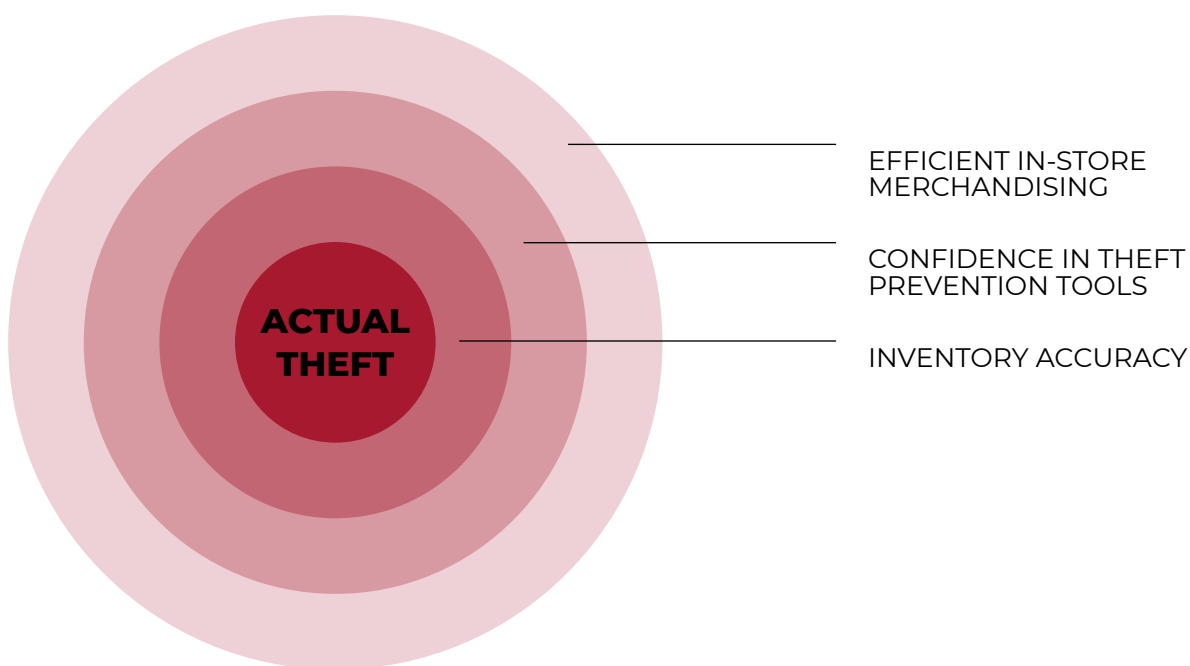


Whilst closed sale is an effective deterrent for both shoplifters and genuine shoppers alike, proportionate open sale protection can offer a positive balance. The holy grail is in specifying a successful end-to-end theft prevention strategy which is zero friction for store staff and shoppers, whilst offering a complete deterrent to theft. This is a tough challenge, with no single silver bullet. The various elements of an effective loss prevention strategy need to be tuned to the category, store environment and local risk dynamic. However with advances in technology and improved cost effectiveness of scalable solutions, carefully curated open sale solutions are still viable for the majority of category/store combinations. Working closely with brands and progressive loss prevention integrators is crucial to deliver these right-sized solutions.

Open sale availability - The 'Core OSA' model

Across the retail store a small 'background' Shrink level of around 1.5-2.0% will be present, due to process errors and other non-physical systems losses.

For high risk brands which are frequently subject to shoplifting, this Shrink number will be greatly inflated, often exceeding 10-20% on individual sku families. Most retailers & brands target OSAs of 95%+. For high Shrink items, the availability will be far lower, primarily due to the direct & indirect impact of actual theft. Its not uncommon for Open Sale high loss categories to experience availability sub 50% in individual stores.



Actual theft - at the core of the OSA Challenge

For mass Organised Crime thefts - where fixtures are completely cleared of high value items – there is a direct immediate impact on availability. The out of stock will affect the entire range, existing until the shelf is refilled in part or in full. This may require an unforecasted and unplanned replenishment from the distribution centre, who may not have sufficient stock on hand to replace. Lower level personal theft can also create a short term OSA issue, especially where the product is listed as a single facing or has a restricted depth of fill. However, the real impact of the theft incident on long term macro Availability lies more in the indirect fallout, in the outer rings of the CORE OSA model.

Inventory record accuracy

Stock file accuracy is the difference between the system stock at sku level in comparison to the actual physical stock in store.

Where accuracy drifts over time, 'phantom inventory' is created. This is commonly corrected by the store via periodic stock takes or point-in-time gap-scans. Where a shoplifting event takes place, the inventory accuracy is immediately impacted. However if the theft is not noticed or hard to quantify (as in the case of a low level personal shoplifting), the phantom inventory is accelerated and will be invisible to store staff.

Importantly, system inventory is commonly used to automatically replenish store stock from the

distribution centre network when the stock level drops below a safety stock level. Where the scale of any stock inaccuracy exceeds the safety stock trigger to restock, the system will not automatically reorder. The algorithm believes the item is still safely in stock, but in reality the inventory level is heading toward zero and a genuine long term physical out of stock.

The move towards RFID and other digital technologies does help to self correct any IRA drift. However, for the majority of stores and skus, the capital costs and complexities of such systems are still prohibitive.

The majority of retailers continue to rely on manual gap-scanning to detect & rectify, but this is liable to error and non-compliance due to headcount pressure.



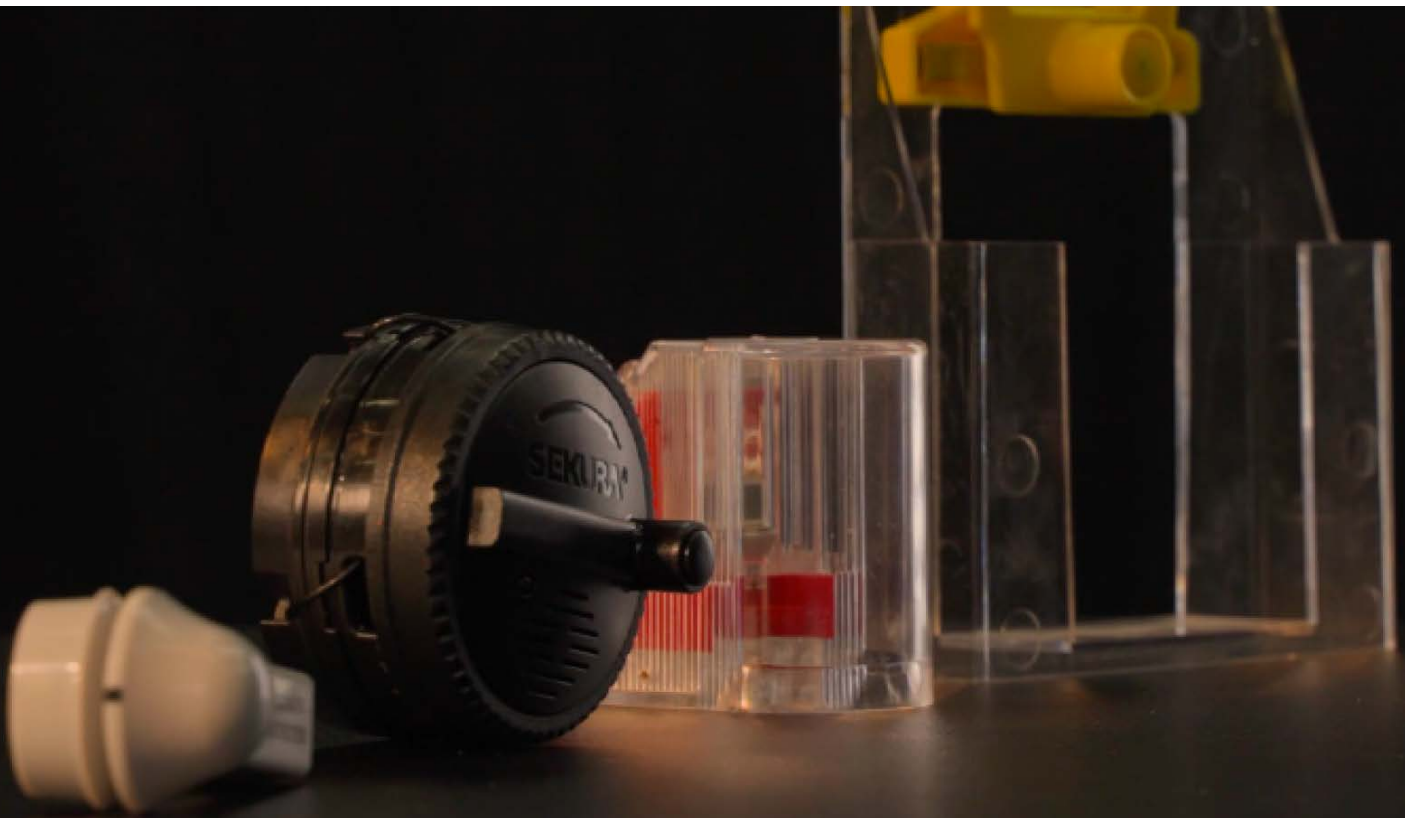
Confidence in the specified anti-theft regime

Increasingly, multiple methods of asset protection exists across the store.

When they are well integrated with a high degree of operational compliance, these touch-points can provide an effective deterrent. The environment may consist of store-wide solutions such as guarding & EAS protection, through to pack or fixture-specific solutions such as security tagging or local camera placement.

Coupled with background theft concerns, the belief of the staff in the efficacy of these technologies define how the store behaves toward the maintenance and replenishment of

the fixture. At worst this could be a risk-averse retreat into Closed sale, with a corresponding sales drop. More commonly the impact is seen on OSA. The fill levels may be restricted to limit mass losses exposed by a sweeping event. Planograms may be locally adjusted to reduce the number of facings of the highest shrink skus. Stores may see protection compliance issues or selective overprotection. The bottom line is that the number of packs replenished per colleague restocking visit will be lower. Assuming a constant rate of sale and with limited store hour resource, the chances of an out of stock are greatly amplified. This leads to a systemic cycle of OSA decline, often seen on the fastest moving skus most acutely.



Efficient in-store merchandising

Most product and fixture protection methods require additional resource and have a negative impact on the retailers cost to serve.

If packs are not source-tagged, the in-store usage is often inefficient, unless rapid application has been incorporated into the design. The removal and recycling of product protection needs extra store hours. The pre-sorting and storage of tags and safer cases is often not well managed, leading to additional inefficiencies at point of restocking.

Unless intelligently designed for rapid replenishment, anti-sweep fixture protection is also often less efficient to restock. On average in a modern large grocery store, around a quarter of stock is held in the back-room and many sites will have a secure stockroom with limited access and lack of inventory organization. This is another layer of complexity requiring resource and time to manage.

Unchecked, the net effect of the protection regime is again to increase the number of store

hours required per unit replenishment. In a physical retail world with less staff, this leads to less frequent shelf restocking. This further exposes OSA, particularly affecting the fast selling high risk ranges. In comparison to this in-store inefficiency is the 'zero loss mentality' used in LEAN manufacturing where every component and process is designed and synchronised to minimize line changeover times. In motor racing where milliseconds are critical to success, replenishment events (such as tyre changes) are designed for resource efficiency and speed. This same design-led efficiency should exist in store process and security design.

Supporting OSA & Sales in physical retail, any aspect of an asset protection regime which has the potential to add complexity or reduce efficiency needs to be designed out. The ideal state is an effective set of tools which are virtually frictionless to store staff. Historically this effort has been focused more on upstream activities such as source-tagging, but much more can be done to improve efficiencies and speed in-store replenishment and rapid stock location for goods and their product protection.

The customer is boss - frictionless shopping

In addition to the operational inefficiencies, many asset protection tools result in inconvenience and frustration to the shopper.

In Closed sale scenarios, requiring staff to open locked cabinets or exchange dummy cards drives a negative reaction to the browsing & engaging store environment intended. Overt overhead screens, camera systems or non-intuitive anti-sweep hooks and shelving often force customers to abandon the sale, or even take their entire shopping cart elsewhere.

Over and above the OSA impact, the Shopper friction often drives a surprisingly large sales decline as an indirect impact of theft concerns. Where a well-stocked Open sale anti-theft regime is hard to shop, a sales decline of over 10% is not uncommon. The key to a well designed suite of deterrents is to introduce appropriate friction to the shoplifter, but remain invisible to the genuine customer. Each has a different set of needs and motivations, and so identifying & focusing on these unique levers is key. Co-creation between retailers, brands and loss prevention providers is critical to find the right balance, versus retrospectively bolted on anti-theft tools.

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Summary take-outs.

- Maintaining high risk categories in Open sale vs. Closed sale can lead to up to **50% in incremental sales.**
- At least One percentage point of Sales decline is caused by a 3 points drop in **On Shelf Availability.**
- The OSA for high risk items in Open sale can commonly dip below 50%. **This is the equivalent of almost 20% sales decline.**
- Concerns over Theft (vs. the actual theft event) drives up to **50% of On Shelf Availability issues** seen on high risk categories.
- A further **30-40% of OSA issues are driven by the operational inefficiencies** caused by poorly designed product and fixture protection.
- A typical open sale fixture which causes serious friction for the genuine customer can drive an additional **10% of Sales decline.**
- With considered co-design, the needs of the store staff (operational efficiency) and customer (frictionless shopping) can be addressed, whilst still providing an appropriate theft deterrent tailored to the local retail environment and category.