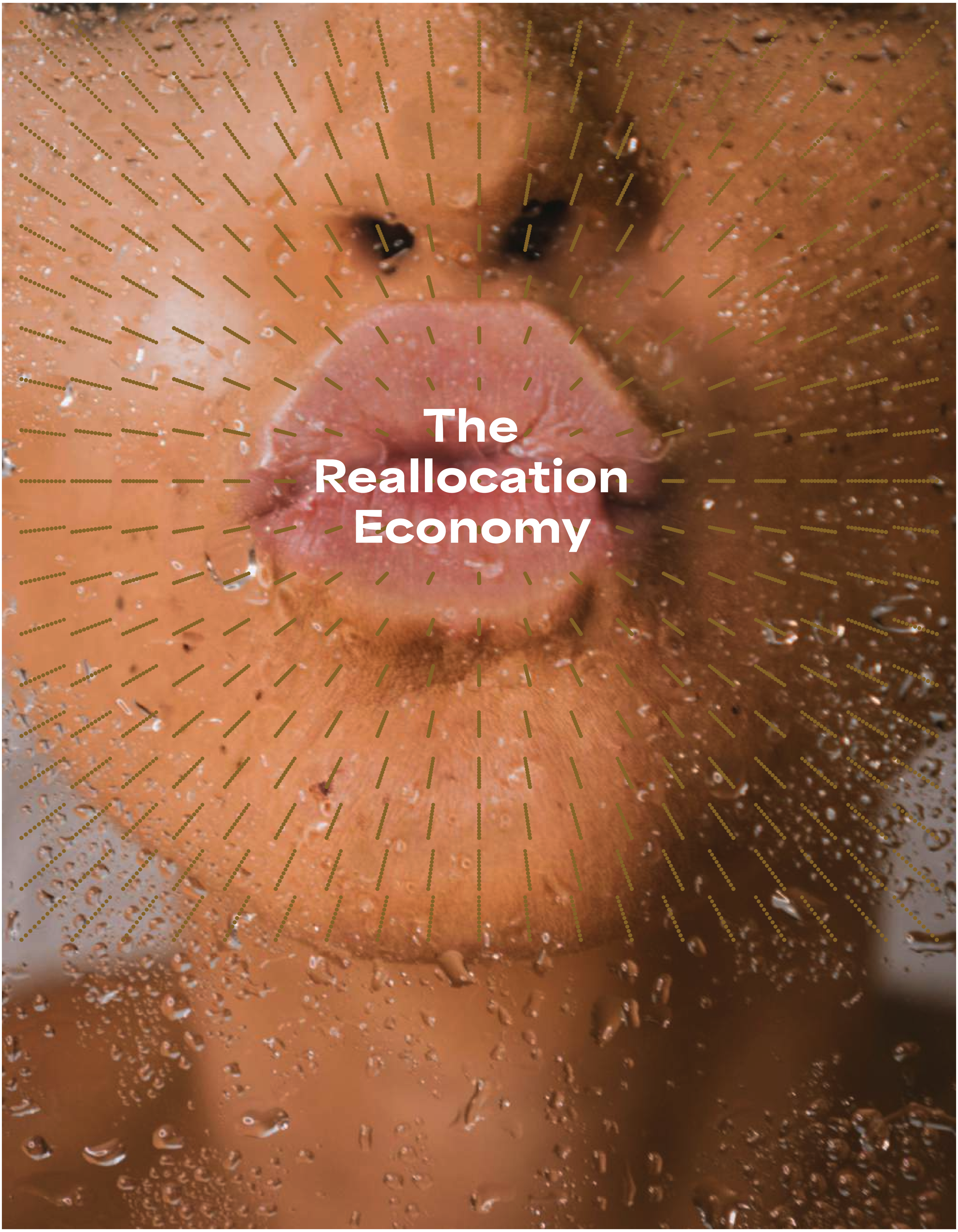


The Reallocation Economy

PULL LONDON™

Consumers are not spending less.

They are spending differently.

For years, brands have interpreted economic pressure as a simple story.

Consumers have less money.
Therefore they buy less.

But the evidence tells a different story.

Global consumer spending continues to grow.

The IMF estimates global consumer expenditure exceeded

$55 trillion in 2024

and continues to rise despite inflation and economic uncertainty.

Understanding where money is moving is now more valuable than understanding how much consumers earn.

Consumers are not exiting the market.

They are reallocating.

Money moves between categories depending on what people decide matters most.

Some categories collapse.

Others grow explosively at the same moment.

Understanding **where money is moving** is now more valuable than understanding **how much consumers earn.**

Consumers are not spending less.

Despite persistent inflation, consumer spending has proven resilient.

According to McKinsey Global Consumer Sentiment research (2023-2024):

70% of consumers say they are trading down in some categories

Yet 50% say they are simultaneously trading up in others

In other words, consumers are cutting and upgrading at the same time.

They are not retreating from spending.

They are reallocating it.

The reallocation principle

When financial pressure increases,
three behaviours consistently emerge.

- **Consumers cut what feels unnecessary.**
- **They trade down where quality is invisible.**
- **They trade up where identity, performance or pleasure is visible.**

This pattern appears across almost every developed market.

The result is not reduced spending.

It is redistributed spending.

The smart spending shift

Inflation has not made consumers stop buying.

It has made them **more deliberate buyers.**

Consumers increasingly want to avoid purchases that feel wasteful or pointless.

They want purchases that feel intelligent.

They want to buy **smart, not simply buy more.**

A global Deloitte Consumer Signals study (2024) found:

63% of consumers say they think harder about purchases than they did five years ago

58 percent say they prefer buying fewer but better products

Consumers are not abandoning consumption.

They are upgrading decision making.

The Rolex and no deodorant effect

One of the most striking consequences of reallocation is how comfortable consumers are making extreme trade offs.

A consumer may:

Wear a £10,000 Rolex
Buy supermarket clothing
Drive an older car

Another consumer may:

Own very few luxury goods
Spend heavily on fitness, wellness and organic food

Another might:

Wear basic clothing
Spend £4,000 on a road bike

These choices are not irrational.

They are prioritisation.

Consumers protect spending where it delivers the most identity, satisfaction or performance.

Everything else becomes negotiable.

Categories winning the reallocation

Across markets, spending is concentrating into fewer categories.

These categories typically share three characteristics.

They reinforce identity.

They produce visible outcomes.

They deliver emotional reward.

Examples include:

Identity categories
Fashion
Watches
Sneakers
Beauty

The global luxury goods market exceeded **$362 billion in 2023** according to Bain & Company.

Despite inflation, luxury demand remained strong.

Experience categories
Travel
Dining
Events

Global travel spending surpassed **pre pandemic levels in 2023**, reaching over **$1.5 trillion**, according to the World Travel and Tourism Council.

Consumers consistently prioritise experiences over goods.

Self improvement categories
Fitness
Supplements
Wellness
Coaching

The global wellness economy reached **$5.6 trillion** according to the Global Wellness Institute.

Growth continues to outpace many traditional consumer sectors.

Convenience categories
Subscriptions
Delivery
Digital services

The subscription economy has grown more than **400 percent in the past decade**, according to Zuora.

Consumers increasingly pay for time saving services.

Categories losing the reallocation

At the same time, spending declines in categories perceived as replaceable.

Consumers increasingly ask a simple question.

“Does anyone notice this?”

If the answer is no, spending becomes vulnerable.

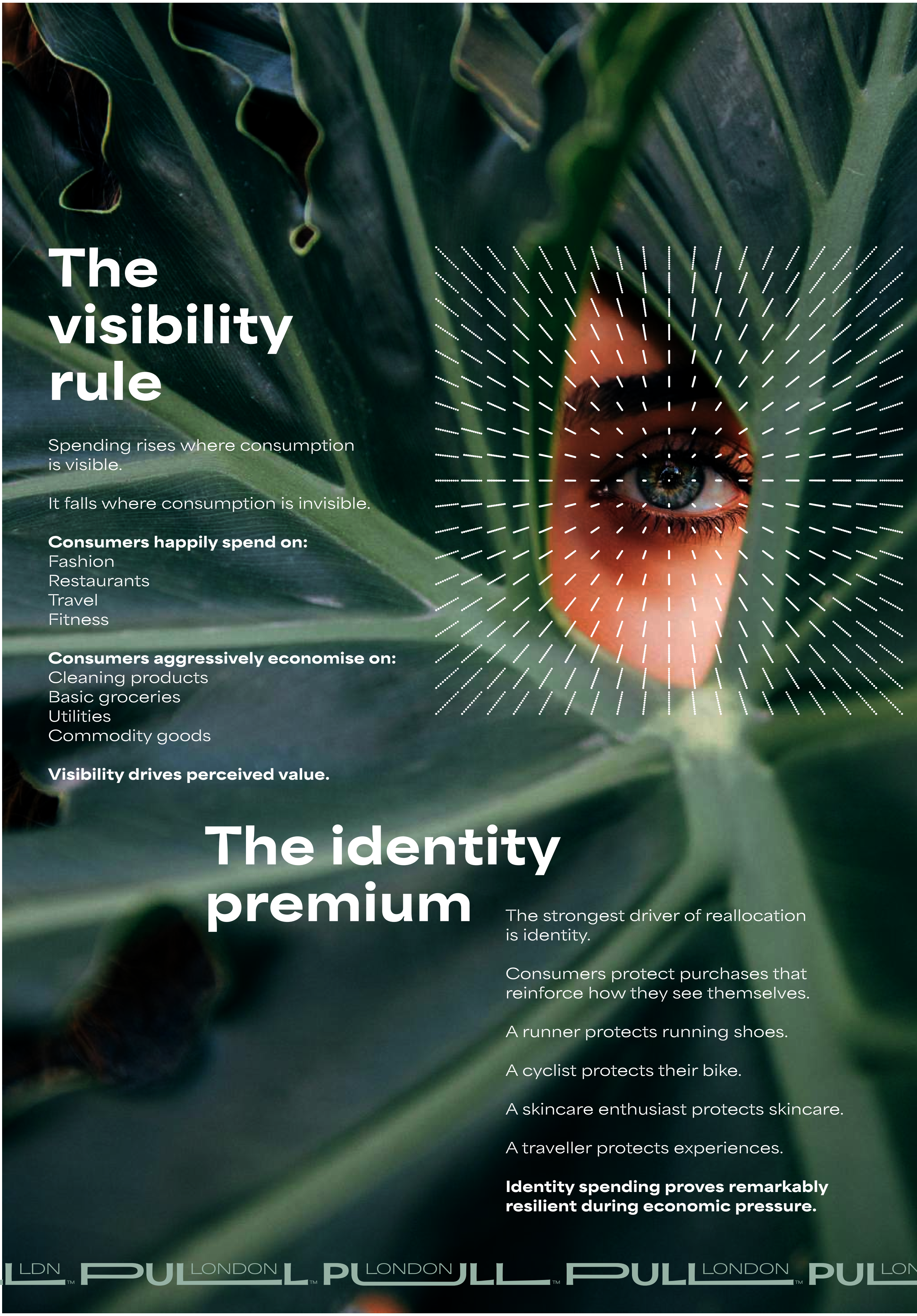
Categories under pressure often include:

Commodity groceries
Household staples
Low differentiation retail
Basic packaged goods

In these markets consumers aggressively trade down.

Private label products have grown rapidly across Europe.

According to **NielsenIQ**, private label market share in many European grocery sectors now exceeds **40 percent.**



The visibility rule

Spending rises where consumption is visible.

It falls where consumption is invisible.

Consumers happily spend on:
Fashion
Restaurants
Travel
Fitness

Consumers aggressively economise on:
Cleaning products
Basic groceries
Utilities
Commodity goods

Visibility drives perceived value.

The identity premium

The strongest driver of reallocation is identity.

Consumers protect purchases that reinforce how they see themselves.

A runner protects running shoes.

A cyclist protects their bike.

A skincare enthusiast protects skincare.

A traveller protects experiences.

Identity spending proves remarkably resilient during economic pressure.

The social media amplifier

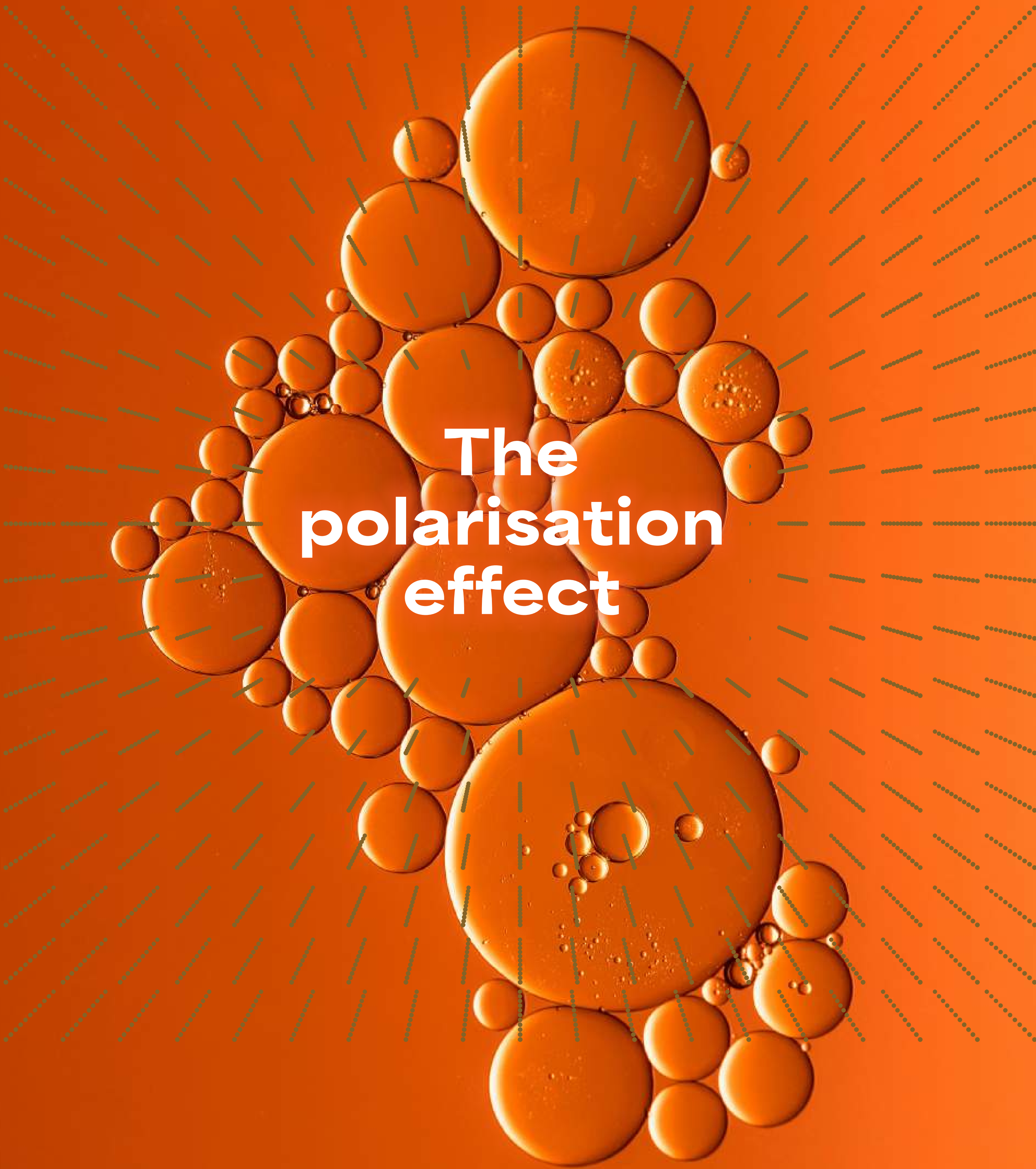
Digital culture has accelerated this behaviour.

Social platforms reward visible consumption.

Experiences, fashion and transformation become shareable moments.

According to **Meta consumer trend analysis, over 60 percent of Gen Z consumers say social media influences their spending decisions.**

Spending shifts toward purchases that can be seen and shared.



The polarisation effect

Reallocation creates polarised markets.

The middle becomes fragile.

Markets split between:

- **Premium brands worth paying for.**
- **Value brands cheap enough to justify.**
- **Brands stuck in the middle struggle.**

This pattern is visible in:

Fashion
Automotive
Beauty
Electronics
Food retail

Premium brands justify price.

Value brands justify efficiency.

The middle often struggles to explain itself.

Case studies of reallocation

COS

COS proved that accessible fashion could feel premium through design restraint and brand clarity.

By elevating design language, COS captured consumers trading up from fast fashion while remaining accessible.

e.l.f. Beauty

e.l.f. demonstrated that affordability does not have to feel cheap.

Strong branding, cultural relevance and social media presence allowed the brand to grow rapidly while remaining accessible.

The Ordinary

The Ordinary transformed skincare by offering transparent formulations at radically accessible prices.

Consumers perceived intelligence and honesty.

The result was explosive growth and industry disruption.

The strategic question for brands

The key question is no longer simply:

How do we increase demand?

The real question is:

Why would consumers protect spending in our category?

Brands must answer three questions.

Does the purchase express identity?

Is the outcome visible or meaningful?

Does it deliver emotional reward?

If the answer is no, the category becomes vulnerable to price competition.

Strategic Responses

Brands facing reallocation pressure typically have three choices.

Become a protected category
Increase emotional value and identity relevance

Become the value leader
Win through operational excellence and price leadership.

Redefine the category
Reframe the product into a more meaningful space.

Coffee becomes experience.

Shoes become performance technology.

Skincare becomes wellness.

The Strategic Opportunity

Reallocation creates disruption.

But disruption creates opportunity.

Brands that understand where money is moving can grow rapidly while competitors shrink.

The winners are rarely those with the largest budgets.

They are the ones who understand what consumers refuse to give up.

The future of consumer spending
Consumers are not becoming less aspirational.
They are becoming more selective.
They want fewer purchases that matter more.
They want to buy intelligently rather than impulsively.
They want purchases that feel meaningful rather than disposable.
Consumers are not spending less.
They are **spending differently.**
They are reallocating.
And the brands that understand where that money moves will define the next decade of growth.

The Reallocation Economy

The one chart that explains everything:

	Visible Outcome	Invisible Outcome
High Identity Value	Protected Spend	Selective Spend
Low Identity Value	Occasional Spend	Cut or Trade Down

How it works

Protected Spend
Consumers defend this spending even in downturns.

Examples:
Luxury watches
Fashion
Fitness
Beauty
Travel

Selective Spend
Consumers still spend, but become highly discerning.

Examples:
Technology
Home upgrades
Furniture
Health products
Fragrance

Occasional Spend
Purchased less often or delayed.

Examples:
Electronics upgrades
Mid range fashion
Lifestyle accessories

Cut or Trade Down
Price pressure dominates.

Examples:
Cleaning products
Basic groceries
Household commodities

The Smart Spend Filter

Modern consumers run purchases through three subconscious questions.

Does this express who I am?

Will anyone notice it?

Will I feel good about buying it?

If the answer to all three is no, spending collapses.

The Reallocation Flow

Economic pressure triggers a predictable consumer process.

Pressure increases.

Consumers audit spending.

They identify categories that matter.

They cut categories that do not.

Money flows into fewer, more meaningful purchases.

The Spend Concentration Effect

Across categories, consumer budgets are concentrating into fewer areas.

Typical consumer spending now falls into five defended zones.

Identity
Self improvement
Experiences
Convenience
Status

Everything else competes for what remains.

Three forces driving reallocation

Inflation

Higher prices force consumers to question habitual purchases.

According to OECD consumer research, over 60 percent of consumers now actively review discretionary spending categories.

Digital visibility

Social media amplifies visible consumption.

Purchases become signals.

Status, experience and transformation become more valuable than basic ownership.

Value intelligence

Consumers now have near perfect information.

Price comparison tools
Product reviews
Influencers
Reddit and forums

Poor value is exposed instantly

Market evidence

Luxury growth
The global luxury goods market grew to over **$362 billion in 2023** according to Bain.

Luxury has outperformed many mid market categories.

Private label expansion
Private label grocery products now represent **over 40 percent of sales** in several European markets according to NielsenIQ.

Consumers trade down aggressively in invisible categories.

Experience spending
Travel spending surpassed **$1.5 trillion globally** in 2023 according to the World Travel and Tourism Council.

Experiences outperform many physical goods sectors.

The Brand Survival Test

Brands should stress test themselves against three questions.

Would consumers defend this purchase?

Would consumers notice if this disappeared?

Would consumers feel proud owning it?

If the answer to all three is unclear, the category is vulnerable.

Strategic moves brands are making

Successful brands are responding in three ways.

Premiumisation

Increase emotional meaning and perceived value.

Example
COS elevating accessible fashion through design and restraint.

Radical Value

Deliver strong performance at dramatically lower cost.

Example
The Ordinary simplifying skincare with transparent pricing.

Category Reinvention

Reframe the product entirely.

Example
Running shoes repositioned as performance technology rather than footwear.

The key strategic insight

Consumers are **not** becoming less aspirational.

They are becoming **more selective.**

They want **fewer purchases that matter more.**

They want to **buy smart rather than simply buy more.**

The brands that succeed will not be those that ask consumers to spend more.

They will be the brands that convince consumers:

This is worth protecting

Summary

Consumers are not spending less.

They are reallocating.

Money flows toward purchases that deliver identity, visibility or emotional reward.

Everything else becomes negotiable.

Brands must either become **protected spending or undeniable value.**

The middle is disappearing.