

McKinsey Center for Future Mobility

# Moving forward: How COVID-19 will affect mobility in the United Kingdom

COVID-19 is changing transportation patterns worldwide. Here's what mobility players need to know about the market in the United Kingdom.

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**During the initial shock of COVID-19 and global lockdowns**, business leaders rallied to save their companies, protect workers, and keep supply chains moving. Now, while the world is still reckoning with the human and economic toll of the coronavirus, they are trying to chart a path to the next normal despite the many unknowns ahead. Never in modern times have so many industries faced such uncertainty.

growing environmental concerns, changing customer preferences, and the growth of shared mobility were altering long-standing demand patterns (see sidebar, “The first challenges of 2020,” for more information on these trends). OEMs faced intense financial pressure because of declining sales, higher R&D costs, and increased tariffs. Globally, OEM profit margins had decreased from 6 percent in 2018 to 3 percent in early 2020.

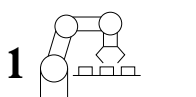
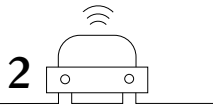
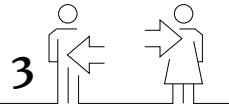
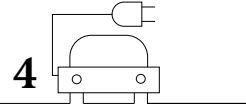
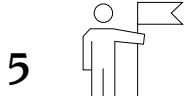



For mobility players in the United Kingdom (UK), COVID-19 emerged at a challenging time. In January 2020, international trading relationships were in flux as the terms—and tariffs—of Brexit were being defined. The sector was being disrupted by new technologies, including automation, electrification, connectivity, and artificial intelligence. Meanwhile,

Against this backdrop, we analysed how COVID-19 might alter the UK mobility sector, looking at major trends, shifts in the mobility mix, and the strategic and operational actions that can help companies emerge stronger in the next normal. In this article, we focus on eight of our most important findings (Exhibit 1).

Exhibit 1

## UK mobility stakeholders can benefit from considering eight issues as they plan their strategy.

### Major trends and developments

<p><b>1</b></p> 	<p><b>2</b></p> 	<p><b>3</b></p> 	<p><b>4</b></p> 
<p>COVID-19 will have an impact on the UK mobility sector for more than 2 years</p>	<p>COVID-19 will have different impacts on new car sales, used-car sales and aftersales and servicing revenue</p>	<p>Physical-distancing requirements will permanently change the mobility mix in large cities but have a more limited impact in nonurban areas</p>	<p>COVID-19 creates new operational challenges for all industry stakeholders but will also increase innovation in product and service delivery from UK companies</p>
<p><b>5</b></p> 	<p><b>6</b></p> 	<p><b>7</b></p> 	<p><b>8</b></p> 
<p>Although mobility leaders will benefit from protecting cash, they should not ignore the chance to reinvent core operations and pursue M&amp;A opportunities</p>	<p>The impact of the coronavirus crisis on automotive "megatrends" in the UK will depend on the industry and government response</p>	<p>Government interventions to mitigate the economic crisis will have an outsize impact if they are aimed at creating a cleaner and more robust mobility industry</p>	<p>Automotive players, already under pressure from Brexit, must once again reinvent their operating model</p>

## The first challenges of 2020

**As 2020 began**, leaders of the UK mobility sector were closely monitoring major developments on multiple fronts. Beyond the slowdown in auto sales and the obvious tariff concerns arising from Brexit, they were trying to keep pace with technological advances and changing customer preferences, including some specific to the UK market. Consider a few examples:

- Within the customer base, demand is increasingly stratified. In the mass-mobility market, vehicles are rapidly becoming commoditised. In the premium sector, the basis for differentiation is evolving, with

connectivity and design as the new Nürburgring lap-times benchmark.<sup>1</sup> Greater than 40 percent of premium customers globally would switch brands to obtain better connectivity. Brand strength primarily prevails in the luxury segment.

- Age and location now play a greater role in customer purchase decisions. For example, many millennials who lived in cities favoured shared-mobility platforms over car ownership before COVID-19 hit.
- With concern about global warming mounting, consumers are

increasingly interested in electric vehicles and hybrids. They are also taking a closer look at other aspects of the automotive industry, including the disposal of scrapped cars.

- Even before COVID-19, Brexit was eroding UK consumer confidence because of uncertainty about the terms and the approaching end of the transition period. These sentiments could persist beyond 2020.
- Consumer purchasing behaviour has changed, with 68 percent of UK consumers saying that they preferred an online purchasing model, up from 15 percent only a few years ago.

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<sup>1</sup> Nürburgring lap time refers to a testing site for lap times for cars in production.

### 1. COVID-19 will have an impact on the UK mobility sector for more than two years

Before COVID-19, mobility players were betting on future growth in the United Kingdom. Since 2010, investors have provided about \$34 billion to UK-based mobility companies, putting them behind only the United States (\$84 billion) and China (\$51 billion). Industry trends suggested that they were making the right decision, since the number of passenger-kilometres travelled by car, van, and taxi have been increasing by about 0.5 percent annually in the United Kingdom.

While the UK mobility sector was experiencing strong growth, the automotive market was lagging. UK sales of new and used vehicles peaked at 10.8 million units in 2017 and have since been

dropping by about 4 percent annually. This shift partly resulted from several country-specific transportation trends that were changing attitudes to vehicle ownership before COVID-19. In the part of Central London where private vehicles face a congestion charge, traffic has fallen 30 percent since 2007. In 2019, the creation of the ultralow-emission zone in Central London reduced the number of vehicles driving in the city on a typical day during congestion-charge hours by 13 percent from 2017.

While the recent decline in sales was obviously concerning, COVID-19 has dealt a far greater blow than any force in recent memory. Year-on-year new car sales in the United Kingdom were down 46 percent in March 2020 and 97 percent in April 2020. If economic troubles persist, UK automotive

sales could continue to languish. To estimate how they might evolve, we examined nine scenarios that we developed to estimate gross domestic product (GDP) over the next few years. We focused on two of the most likely scenarios. Under the first, termed A3, the coronavirus is contained relatively quickly. Although UK GDP decreases by 5 percent in 2020, it rebounds to 2019 levels by the first quarter of 2021. In the second scenario, termed A1, UK GDP falls 9 percent in 2020 and does not return to 2019 levels until the second quarter of 2023. If that scenario materialises, UK automotive sales will not return to their 2019 levels for more than two years.

There will still be some bright spots and continuing innovation within the UK mobility sector, even if car sales decline and investment drops. The government has long encouraged innovation within transportation—for instance, by passing a bill that allows insurers to issue policies for automated vehicles—and this support should continue even in a prolonged economic downturn. Electric vehicles (EVs) could also represent a strong opportunity for

OEMs. Tesla's Model 3 accounted for almost 15 percent of UK sales in April 2020 and became the country's best-selling car. Because of COVID-19, European sales of EVs could be well above the 14 percent estimated by the McKinsey Centre for Future Mobility in 2022.

## 2. COVID-19 will have different impacts on new-car sales, used-car sales, and aftersales and servicing revenue

We analysed trends for car sales and aftersales separately, since COVID-19 has had a different impact on these segments in countries that are further along in their recovery from the pandemic.

### New- and used-car sales

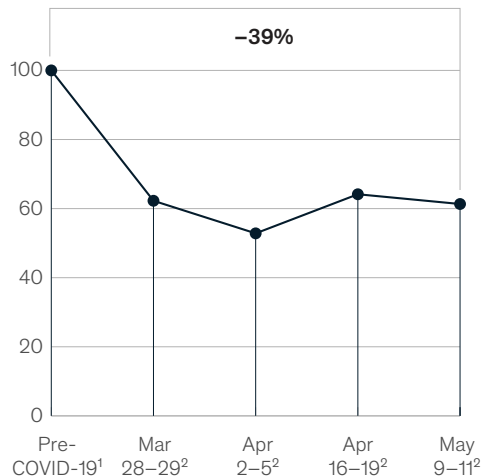
McKinsey's Global COVID-19 Automotive Consumer Survey, conducted in May 2020, shows that the pandemic reduced the number of people in the United Kingdom who were likely or very likely to purchase a new or used car by 39 percent (Exhibit 2). Two-thirds of potential buyers stated

Exhibit 2

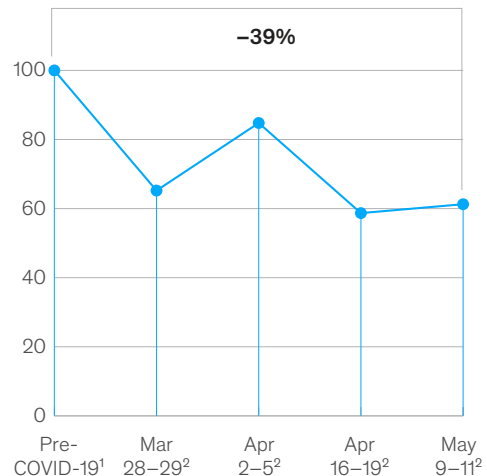
## Short-term car-purchase intent has decreased almost 40 percent in the United Kingdom because of the pandemic.

### Vehicle-purchase intent vs pre-COVID-19 level

Likely or very likely to buy a new car, index (pre-COVID-19 = 100)



Likely or very likely to buy a used car, index (pre-COVID-19 = 100)



<sup>1</sup>Question: Before the coronavirus (COVID-19) crisis started, how likely were you to purchase or lease a new or used vehicle within the next 12 months?

<sup>2</sup>Question: Given today's situation, how likely are you to purchase or lease a new or used vehicle within the next 12 months?

Source: Annual reports; central banks; Panorama by McKinsey; McKinsey Global Institute analysis

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that they were likely to delay their purchase by four to six months or even longer, generally citing health or economic concerns.

As they attempt to stimulate sales, dealers and OEMs can learn from the financial crisis from 2008 through 2009. During that period, customers often traded down to smaller cars and more basic models. With the economic implications of COVID-19 decreasing the purchasing power of many British consumers, we may see similar trends. In the recent McKinsey Global COVID-19 Automotive Consumer Survey, 27 percent of UK consumers stated that they planned to spend less for their next car purchase. (There is not yet a clear trend showing that consumers are trading down from new cars to used cars, or between segments.)

White-collar workers are the most likely to preserve their purchasing power during and after the pandemic. They are also the most likely to have a remote-work option, which could decrease their need for private vehicles. Meanwhile, people in other occupations, such as hospitality or restaurant workers, may have an increased need for private transportation, especially if they want to avoid public transport. But the current crisis and the aftereffects, may significantly decrease their purchasing power.

To offload stocks, dealers and OEMs could follow the example of their counterparts in other countries by heavily discounting new cars as soon as the lockdown lifts. In France, for instance, many new cars are discounted by 30 percent or more, creating a temporary spike in sales. Over the medium term, however, used cars could be in greater demand if

consumers have less purchasing power. Dealers might see relatively low revenue in this segment if used-car prices remain stagnant for the next two or three years—a pattern seen after the last three recessions.

## **Aftersales and servicing**

Although COVID-19 is expected to reduce aftersales and servicing revenue from the second quarter of 2020 through the end of the year, it may not fall to the same extent as sales revenue. Miles driven and number of collisions have decreased since the start of lockdown (for example, motor-vehicle usage declined 60 percent in London), but many cars still require time-based servicing. Beneficially for aftersales, private-car usage is also beginning to trend upwards, increasing over 10 percent in April. The United Kingdom has been in lockdown for several months, the number of coronavirus cases is down from its initial peak, and inhabitants of large metropolitan areas remain reluctant to use public transport. Bus usage is down over 80 percent from precrisis levels and rail usage over 90 percent.

Through 2021, aftermarket revenues will still likely be lower than they were in 2019. Over the long term, the outlook will depend on counteracting macro trends. For instance, vehicle miles travelled (VMT) might fall if remote work continues. But this trend will have less impact if more people move from cities to suburbs—thereby increasing VMT—because they believe it will lower the chance of catching COVID-19.

Many dealers closed their sales operations when COVID-19 emerged, but some have kept service garages at 80 percent capacity by providing an



# For people who must use transport, there could be a notable shift away from shared-mobility solutions and public transit, especially in urban areas.

at-home pick-up option. They are also finding that they can uphold physical-distancing requirements during repairs and maintenance with relatively little effort. In the luxury segment, some dealers have taken this a step further by offering mobile servicing solutions at customer homes. These efforts may be essential to their financial well-being—or even their survival—since aftersales and servicing remain high-margin activities.

### **3. Physical-distancing requirements will permanently change the mobility mix in large cities but have a more limited impact in nonurban areas**

Physical-distancing requirements will change the mobility mix, consumer behaviour, and transportation needs, perhaps permanently. Consider remote work. Many businesses have developed effective work-from-home setups and are not pressing for a return to former patterns. In fact, some are only aiming to have 10 to 30 percent of critical employees return to on-site work, and often only part-time or in rotating shifts. Over the short term, this will result in fewer commuters and decreased transportation needs, especially at hours that have traditionally seen the most work travel.

For people who must use transport, there could be a notable shift away from shared-mobility solutions and public transit, especially in urban areas. Two factors are behind this change: reduced capacity, as subways and other vehicles lower passenger

limits to allow physical distancing, and reduced demand, as people seek to reduce exposure by avoiding crowds.

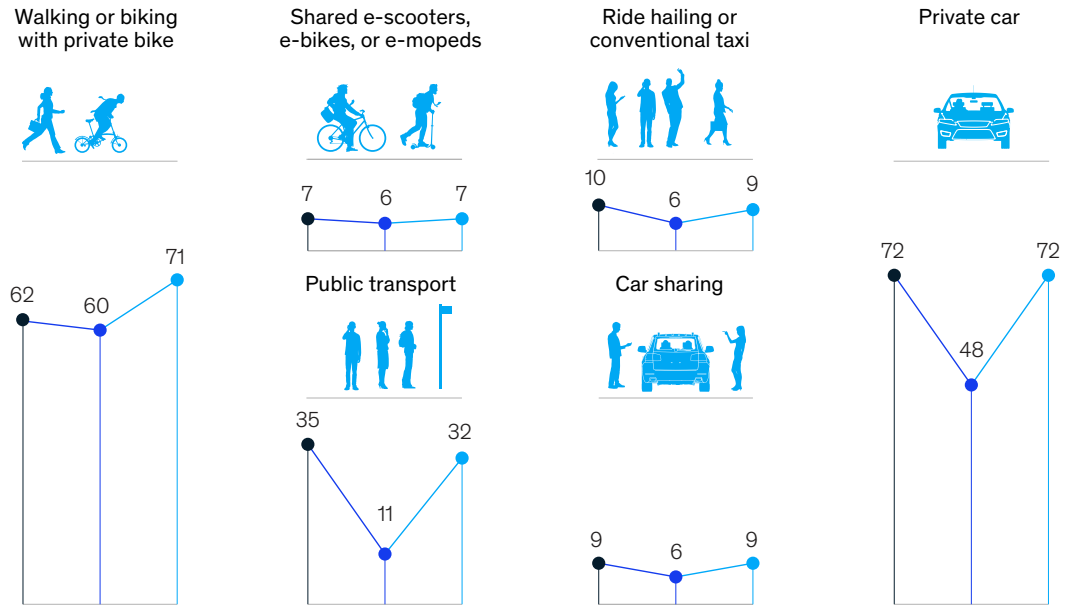
We expect to see various mobility solutions emerge because the response to COVID-19 varies across the United Kingdom. These differences will be the most apparent in London and other large metropolitan areas that offer numerous transportation options, since even two areas with a similar population, industrial base, demographics, and transportation needs could have a very different mobility mix. Outside of dense urban centres, our survey shows that most UK residents expect their mobility mix to be similar to what it was before COVID-19.

The survey also reveals that walking and cycling might become potential “winners.” While 62 percent of respondents frequently used these forms of transit before COVID-19, 71 percent expect to do so in the next normal (Exhibit 3). Meanwhile, other transportation modes (private car, public transport, car sharing, ride hailing) will remain broadly flat. Halfords, the United Kingdom’s biggest bicycle retailer, saw a 500 percent increase in sales of some cycling equipment at the start of lockdown, as people began to ride more. New bicycle sales were also double the normal level for May. The preference for active transport may continue, especially since the government recently created a £2 billion program designed to encourage cycling and walking,

Exhibit 3

**The UK mobility mix will shift in the next normal.**

Use of transport modes<sup>1</sup>, % of respondents ● Pre-COVID-19 ● 2 weeks ago ● Return to "normal life"



<sup>1</sup>Question: Before/today/when you return to "normal life," how often did/do you/do you expect to use the following modes of transportation? Results for May 9–18, 2020.  
Source: Annual reports; central banks; Panorama by McKinsey; McKinsey Global Institute analysis

partly by increasing bike lanes and making other infrastructure improvements.

E-scooters may also become more common, since the government began an urgent e-scooter consultation in March, and four local authorities have agreed to accelerate their trials, which will now begin in June 2020, rather than in 2021.

In the cases when active transport is not feasible for local to mid-distance destinations, private cars may become the preferred option. This pattern has already been seen in countries where the pandemic peaked early, including China, where a study by Ipsos found that preference for private-car transport jumped from third to first place after the COVID-19 outbreak. In the United Kingdom, private-car transport might gain traction because government officials recently advised residents to drive, rather than take public transport. Some

urban residents who do not currently own cars might purchase one—a trend that could favour used vehicles, unless government-subsidy programs specifically target new-car purchases.

**Long-range travel**

Few people are now traveling long distances. Rail-passenger journeys were increasing by about 3 percent annually before the pandemic; now they are down 95 percent from prelockdown levels. Worldwide airline travel was down 70 to 80 percent in April 2020 compared with April 2019. In the medium term, consumers indicate that they might change their habits in the next normal for long-range travel, with 43 percent of respondents expecting to decrease aeroplane flights and 27 percent expecting to decrease rail travel. Meanwhile, 22 percent of respondents expected to use private vehicles more frequently.

Even when more travellers begin to consider extensive journeys, they may find limited options because physical-distancing regulations may reduce rail capacity by up to 90 percent. For domestic air travel, where physical-distancing measures and other requirements are still under discussion, the recovery prospects are uncertain.

#### **4. COVID-19 creates new operational challenges for all industry stakeholders but will also increase innovation in product and service delivery from UK companies**

Whilst COVID-19 has created common challenges for mobility players, some issues are also specific to different groups—OEMs, dealers, retailers, and suppliers—and require immediate attention.

For automotive OEMs, employee safety is the top concern. Although their back-office and support staff can continue to work remotely, some employees must be on-site to ramp up production, and the need for physical distancing could create complications. For example, plant managers will need to implement staggered shifts or segregate teams to mitigate cross-employee infection. As they ramp up, OEMs must decide how far they should go and set production targets—a challenging task in the current environment.

The impact of COVID-19 on OEM-supplier capacity varies by region, making it difficult to anticipate disruptions and mitigate their effects. Some UK OEMs had already begun thinking of domestic alternatives to international suppliers before the pandemic, since Brexit may result in tariffs on imported components, and COVID-19 is making this more urgent.

OEMs and dealers should consider how COVID-19 is affecting potential buyers and adapt their marketing mix, just as other consumer-facing companies have done. With many people still in quarantine or facing other restrictions, social media will become an increasingly important marketing tool. And with showroom traffic down, OEMs and dealers will

benefit from enhancing their online and mobile-sales channels.

Beyond the immediate shifts in dealership layout to minimise physical contact, businesses must make long-term operational shifts, such as allowing buyers to take test drives at home, or collecting cars from homes for servicing in a way that allows them to make a profit. OEMs and dealers that make these shifts will likely outperform those that retain their traditional marketing and sales practices. The survey shows that over 40 percent of UK consumers stated that they would consider online purchases and were interested in contact-free sales; 35 percent would also consider contact-free service. Dealers should consider these shifts when managing existing inventory, as well as the impact of new-model launches and broader industry trends.

Retailers must create a safe, potentially contact-free, method for selling cars. If customers have concerns about hygiene and cleanliness, they might hesitate to make a purchase, especially if they are considering used cars. In addition to these basic issues, dealers must learn how the automotive landscape is evolving and reinvent themselves by embracing online technology more fully, diversifying the business to decrease dependence on aftersales revenue, and taking a new look at their relationships with OEMs. With the recent increase in data availability in the sales process, it will become increasingly important to discuss issues related to the ownership and control of this information.

#### **5. Although mobility leaders will benefit from protecting cash, they should not ignore the chance to reinvent core operations and pursue M&A opportunities**

Until rules for physical distancing are lifted and automotive stakeholders return to business at scale, executives will focus on ensuring their company's survival. But they might also pursue opportunities to reinvent their core business operations. For instance, companies that want to create new technologies may find opportunities by



forming unconventional partnerships, such as those between OEMs and energy providers.

COVID-19 could transform many basic processes and strategic planning within automotive stakeholders. Given the possibility of a second spike in coronavirus cases, businesses should launch a “plan ahead” team that determines how they should proceed. Among other benefits, such teams can help them protect their future cash position and adopt agile operations that allow them to make rapid decisions and quickly iterate solutions under uncertain conditions. In addition to developing scenarios, plan-ahead teams must identify the trigger points that move them to action.

Business leaders might want to reconsider possible mergers, acquisitions, or partnerships, both from an offensive and defensive perspective. More resilient companies, investment activists, and private-equity funds could benefit from exploring acquisitions, especially since experience shows that many companies are more open to deals during difficult economic times, when the separation between top and bottom performers becomes more obvious.

## **6. The impact of the coronavirus crisis on automotive ‘megatrends’ in the UK will depend on the industry and government response**

The automotive megatrends that were occurring before COVID-19 are still relevant, and automotive executives should consider them when planning for the next normal. But COVID-19 will accelerate some trends and slow others. For instance, COVID-19 might accelerate vehicle electrification as governments create incentives to purchase these vehicles as part of their recovery plans. Governments might also incentivise OEMs to create EVs. In contrast, shared-mobility solutions, which were experiencing strong growth before the crisis, will now see slower uptake, especially over the short term. Demand has already collapsed because of physical-distancing requirements, and consumer fears of infection could continue to decrease car sharing. Furthermore, some cities may limit the

number of private vehicles on the road because the pandemic has demonstrated how lower traffic improves air quality. Both Milan and Paris are now considering whether they should permanently reallocate space from cars to pedestrians or bicyclists, as they have done during the pandemic. Development of autonomous cars will likely slow because of lower investment and temporary suspensions of testing programs. OEMs should consider how to maintain the early momentum of these programmes, however, since autonomous capabilities have the potential to emerge as a critical advantage in the mobility space in the 2020s.

To increase supply-chain productivity, OEMs may look carefully at any vertical integration to ensure that they have an optimal setup. They could then move some production in house, which reduces risks associated with international suppliers, while continuing to outsource other activities. Digitisation is already transforming factories and reshaping both supply and demand, and this could enable OEMs to overcome previous cost obstacles.

## **7. Government interventions to mitigate the economic crisis will have an outside impact if they are aimed at creating a cleaner and more robust mobility industry**

European governments are extensively funding emergency programmes, such as those designed to help furloughed workers. In the United Kingdom, this funding is currently expected to end in October, when the investment focus will shift to measures that will boost jobs and mitigate the recession. If governments do not take such steps, consumer behaviour and business actions will dictate how countries emerge from the crisis.

EVs could gain traction more quickly as the next normal emerges because of new measures announced by the UK government and local officials. The company-car tax for fully electric vehicles was eliminated for the tax year, and the government recently announced an additional £10 million in funding for the installation of on-street charging

points. Further government steps that would stimulate EV purchase and the removal of older, more polluting vehicles could include scrappage incentive schemes (even if the scheme does not have a “green” angle). Countries that link early scrappage programs with EV promotion will help accelerate the EV transition and create knock-on benefits for air quality in cities and the wider country.

At the city level, local authorities may provide funding to promote shifts within the mobility mix. Some city governments have already begun to move more rapidly on new mobility initiatives and regulations that they had planned before COVID-19, including those discussed earlier for promoting walking and cycling, encouraging EV purchases, and accelerating e-scooter trials. They may complement these initiatives with similar programs. The congestion charge in London will increase after the designated zone reopens to traffic.

## **8. Automotive players, already under pressure from Brexit, must once again reinvent their operating model**

As automotive OEMs ramp up their business, they should ensure that their operating model is not only efficient but also resilient. This was already a heady challenge with Brexit underway, but now in the post-COVID-19 world, companies must—more than ever—increase their resilience and protect against future disruptions by reviewing the “just-in-time model” for supply chains and challenging assumptions to mitigate major risks.

On the investment side, OEMs should adjust their portfolios and strategy to reflect new realities. They

must adapt to changing customer behaviours and factor in the impact of government interventions—not only those that influence car purchases but also those that may shift operations. For instance, governments may provide incentives for companies to accelerate digitisation and automation.

As discussed earlier, retailers need to accelerate digitising and automating their operating models to allow for an end-to-end digital customer journey. Retailers must also consider how to diversify their businesses to avoid dependence on aftersales revenue and rethink their relationships with OEMs, especially around data ownership and control.

Government interventions may help drive long-term outcomes that accelerate the shift to sustainable mobility. At a city level, interventions may involve increased spending on EV infrastructure, increased congestion and clean air charges, or developing scrappage-incentive schemes, including those designed to promote EV use.

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Winston Churchill once said, “If you’re going through hell, keep going.” These words may resonate with UK mobility leaders, since COVID-19 is the defining crisis of our times. For OEMs, dealers, suppliers, and other stakeholders, the pandemic is creating challenges that could reduce revenue for years. But as with any crisis, companies may also emerge stronger into the next normal if they adapt quickly and take calculated risks to drive innovation and growth. While UK mobility players still face many pressing issues, they should also begin revising their operational models and long-term strategies to position themselves for growth.

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The authors wish to thank Colin Shaw, Yoshi Taknuki, and Andreas Tschiesner for their contributions to this article.

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