

# Consumer Products Rating Methodology

Corporates

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## 1. Introduction

This methodology is the latest update of the Consumer Products Rating Methodology, which details Scope Ratings' approach to rating consumer product companies and complements the [General Corporate Rating Methodology](#). More specifically, it provides guidance on how we analyse business risks specific to consumer product companies. The financial risk profile assessment remains based on the metrics set out in our General Corporate Rating Methodology.

This year's update only contains non-material changes:

- Enhancement of the description of volatility when assessing profitability;
- Refinement of the volatility assessment into more granular categories;
- Further guidance on the main factors considered in sustainable growth when assessing brand strength;
- Editorial changes.

Outstanding ratings are not affected by the changes.

We define consumer product corporates as those that generate the majority of revenue and cash flow from the manufacturing of consumer products, primarily by selling to wholesalers or retailers and in some instances directly to consumers<sup>1</sup>. Consumer products can be discretionary or non-discretionary. We define discretionary products as non-essential consumer items that are generally used repeatedly for more than a year. Conversely, non-discretionary products address basic needs, are purchased frequently and are usually made for single use (or consumed over a short period). Unlike most non-discretionary products, discretionary products may also be rented or leased.

This methodology covers manufacturers of consumer products which operate their own retail networks to sell products. Excluded from this methodology are companies that primarily buy and sell finished products that they did not produce themselves; such companies are covered in Scope's [Retail and Wholesale Rating Methodology](#). Also excluded are consumer products related to the automotive industry, for which we apply the [Automotive and Commercial Vehicle Manufacturers Rating Methodology](#).

This methodology is applicably globally.

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<sup>1</sup> This could also include companies that outsource significant manufacturing activities but rely heavily on their branding and intellectual property for operations.

## 2. The consumer products industry

The consumer products industry is a broad sector, including both discretionary and non-discretionary products<sup>2</sup>. These products are bought (or rented/leased) by individuals or households for personal use, and demand is affected by demographics, income development, consumer confidence and consumer needs/preferences. The industry has changed dramatically over the last two decades, with the internet having a significant impact on the ways products are manufactured, marketed, distributed and sold. This is an ongoing adaptation with increasing consumer transparency. Given the broad nature of the products made and sold, careful attention must be given to company-specific factors in order to better understand individual issues during the rating process.

**Figure 1 – Product examples with discretionary and non-discretionary consumer products**

	Discretionary consumer products	Non-discretionary consumer products
<b>Product examples (not limited to)</b>	Clothing and wearables Household products (including furniture and electrical equipment) Sport and leisure equipment	Food (excluding agribusiness) Beverages (including alcohol) Tobacco Care products (home, hygiene, health, beauty)

On the supply side, consumer products are offered by a broad spectrum of companies, ranging from niche players serving specific market segments with bespoke products to global players providing low-cost products with economies of scale. Typical sub-categories for discretionary consumer products are clothing and wearables (including jewellery), household products (appliances, furnishings, textiles, toys and electrical equipment), and sport/leisure equipment. Non-discretionary consumer products include food (including condiments), beverages (including alcohol), tobacco, and care products (including cosmetics, personal beauty, hygiene and cleaning products). Non-discretionary products serve necessary needs, resulting in more inelastic spending.

Business models in the consumer product industry vary widely, depending on a company's product portfolio, size, operational exposure to regulation (food, tobacco, alcoholic beverages, in particular), horizontal and vertical integration, as well as the degree that business cycles affect both the markets and the industry. Market participants range from very large multinationals with strong brands to sole-trader bespoke producers. While many participants limit themselves to national or local markets to use their comparative advantages, multinationals provide mass-market products, taking advantage of economies of scale to establish pricing power and its branding. The degree of industry fragmentation is often lower for discretionary products than for non-discretionary products. The latter segment particularly has many local SMEs, which face strong competitive pressures from pricing, product development, and consumer sentiment and preference.

As with other broadly defined industries, cyclicity differs among the sub-segments. Overall, non-discretionary products are less cyclical than discretionary products. Some products could be classified as non-durable if they are purchased frequently (e.g. packaged food) while durable goods tend to be consumed over a longer period (e.g. luxury items), which also affects cyclicity. Some parts of the industry are also subject to clear seasonal effects, which may need to be included in our assessment as well.

Branding is a key aspect of product differentiation and identification in the consumer product industry and hence an important component of our analysis. A company's ability to maintain commercial success hinges on its brand strength. At the individual company level, we monitor and assess intangible assets on the balance sheet to recognise a company's potential vulnerability to changes in brand perception and/or to the emergence of alternative brands and products that may better meet consumer needs.

Companies in the consumer goods sectors are heavy users of advertising to inform and attract consumers, helping them to set their products apart from others to maintain or even gain market share or create new markets. The consumer goods sector is characterised by fierce competition for consumer spending, constantly shifting consumer preferences, and entries of alternative goods. Competition is on both price and quality, underscoring the importance of brand identification and clear product differentiation.

<sup>2</sup> For the purpose of this methodology, we use the terms products and goods interchangeably.

Generally, consumer product companies with strong market positions are more resilient during economic downturns. Such companies are not only large with high market shares but are also favourably positioned in supply and distribution chains, with a low dependence on any specific distribution channel or customer. This strengthens purchasing power with major suppliers and facilitates becoming a price-setter in the market.

We recognise the constantly changing nature of the industry. We believe more consumer product manufacturers will expand their business-to-consumer sales where appropriate and/or increase their use of online channels (which are increasingly creating disruptive effects for many retailers). In addition, factory automation and integrated supply chains allow smaller company brands to be highly responsive to consumer demand and effectively provide bespoke products at mass-production prices.

Distribution channels and the position within supply chains are important aspects of company performance. Technological advances, such as additive manufacturing, 3-D printing and computerised bespoke manufacturing, have the potential to bring significant changes to consumer goods manufacturing as these technologies mature and become commercially feasible, providing high degrees of efficiency and a fast turn-around for mass production.

The sustainability of products and processes is gaining importance in the consumer product industry as well. This means tighter control of the value chain, from the procurements of raw materials to the final product. Brand building and communication with consumers are also increasingly being incorporated into social media channels. Companies must be able to use not only traditional distribution channels, but also social media to successfully engage with younger and more tech-savvy consumers.

While capex in the consumer goods sector is generally moderate, we recognise that some companies will require substantial operating expenses to maintain competitive positioning, increase product differentiation and expand product portfolios. Reported assets may be largely intangible (brand recognition, goodwill, trademarks), which means fair values could come under pressure in a stressed scenario, affecting expected recovery rates. We expect cash flow generation to be less volatile among producers of essential non-discretionary consumer goods as these products are always in demand, but more volatile among companies making more discretionary, durable consumer goods. With respect to the latter, inventory risk is high for products not meeting customer requirements or technological standards (consumer electronics products, in particular).

Generally, parameters that would qualify a consumer products company for an investment grade rating are a strong brand name and sizeable market share, which translate into price-setting power that enables the company to generate sufficient profitability and cash flow with medium/low volatility. Further, investment grade companies should be broadly diversified in terms of geographies, distribution channels, product portfolios and customer bases, as well as reporting good-to-strong credit metrics over a sustained period. Companies with a non-investment grade rating will generally lack adequate financial depth and have more volatile revenues and profitability, with balance sheets more exposed to negative developments.

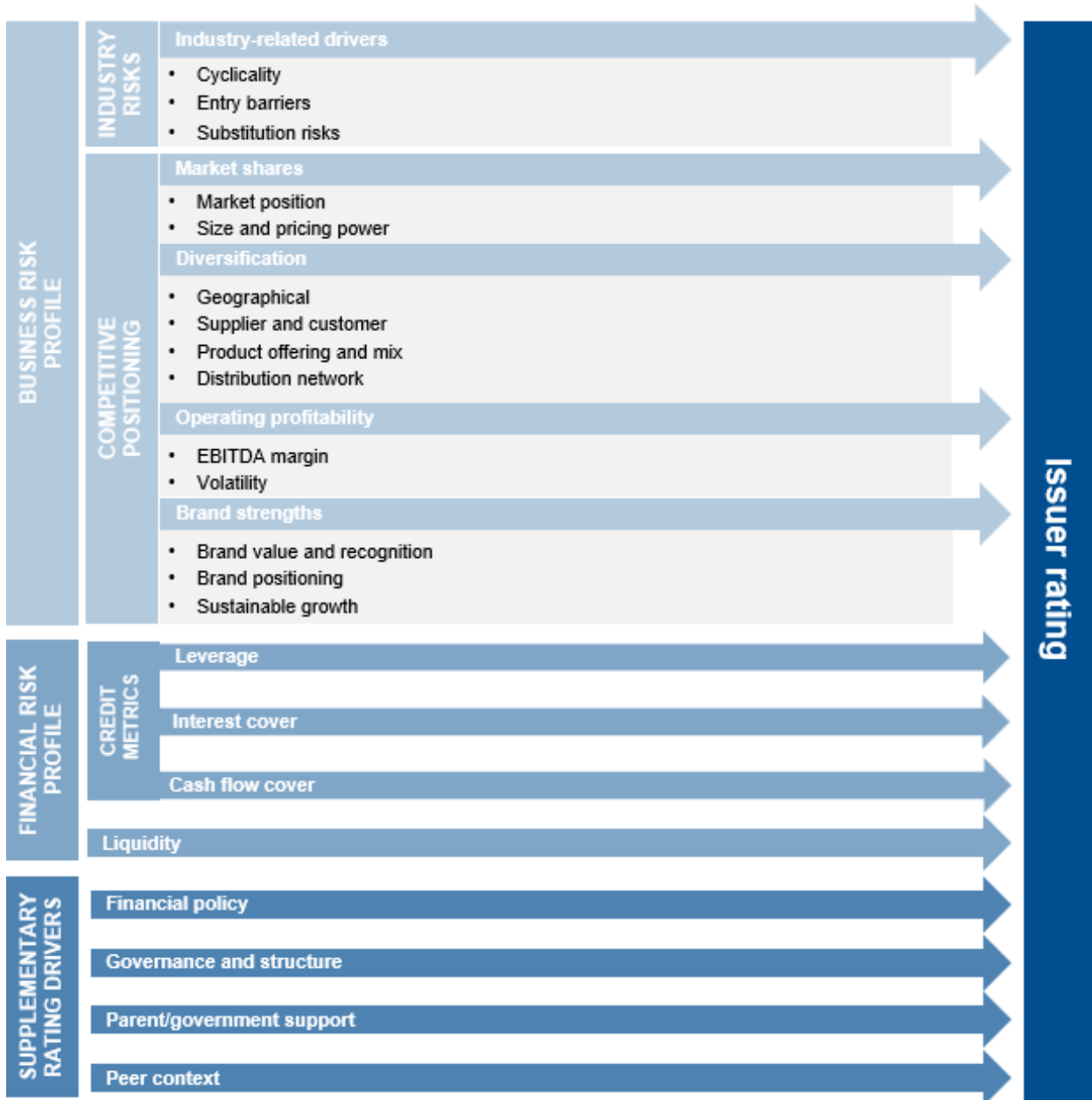
Product quality also represents a factor. This is because significant investment is needed to produce products with a high quality and broad brand recognition, which elevates barriers to entry and results in good profitability. A high quality of products and operations also lessens the risk of product recalls (or even litigations from consumers), which could strengthen an issuer's brand, reputation, cash flow and profitability.

Size alone is therefore not an absolute rating criterion. Small regional companies (or specialised niche producers with strong brands) with non-discretionary and high-quality products, flexible and scalable cost structures, and low debt financing may receive a high rating, whereas larger companies lacking the above could see the opposite.

### 3. Rating drivers

This methodology is applied as outlined in Figure 2. The rating analysis specific to consumer products companies addresses factors specific to their industry. This methodology should be read in conjunction with the General Corporate Rating Methodology, which provides rating factors common to all industries such as management, liquidity, legal structure, governance and country risks. The following business risk indicators are non-exhaustive and may overlap; some may not apply to certain corporates. We may add issuer-specific rating factors. A rated entity’s business model determines the applicable indicators. No rating driver has a fixed weight in the assessment.

**Figure 2 – Scope’s general rating grid for consumer products**



#### 3.1 Business risk profile

When evaluating a company’s business risk profile, we analyse the industry dynamics and business drivers which are unique to consumer product companies. Our two-fold approach analyses the business risks for the industry and the competitive positioning of the company. For smaller companies, the overall industry rating is less important when assessing the business risk profile.

### 3.1.1 Industry-related drivers

Three elements constitute our assessment of the industry fundamentals of consumer product corporates:

- Cyclicalities
- Entry barriers
- Substitution risks

#### Cyclicalities

We consider the cyclicalities of demand for non-discretionary consumer products to be low. This is based on historical sector trends and datasets that include the 2008/2009 Global Financial Crisis, the 2020-2021 Covid crisis and the high inflation of 2022. The average peak-to-trough cycle and observed volatility in revenue and profitability for non-discretionary goods companies are less than overall economic cyclicalities. Further, we see consumer spending on essential food and beverages to be less susceptible to macroeconomic drivers and changes in consumer confidence. For the discretionary consumer goods sector, we assess cyclicalities as medium, due to the higher degree of discretionary spending on these products. During challenging economic periods, the peak-to-trough decline was close to that of the overall economic development and thus was more cyclical than for non-discretionary consumer goods. Consumption of discretionary products tends to be pro-cyclical and more volatile compared to non-discretionary products. At the same time, consumers might postpone their purchase during hard times.

#### Entry barriers

We view barriers to entry as medium for both discretionary and non-discretionary consumer product companies. While companies can normally enter consumer product markets with relative ease, government regulations for food, tobacco and alcohol, for instance, raise barriers. New entrants often lack pricing power as well as manufacturing and distribution expertise, which limits their opportunities against established market participants, particularly the large incumbents. While there are few material barriers to market entry and capital investment is generally moderate, it is a more difficult task to attain the required economies of scale and establishing a broad customer base.

#### Substitution risk

We assess substitution risk for the non-discretionary segment as low, reflecting the general nature of consumer products. This is particularly true for food and beverages, despite large differences regarding quality, brand and price. For the discretionary segment, we assess substitution risk as medium as products are more replaceable/postponeable in nature. We view substitution risk to be tied to consumer choice regarding discretionary purchases: consumer preferences and a marginal inclination to purchase discretionary goods compete with substituting activities. In other words, when confronted with limited available income, a consumer would choose amongst different and unrelated discretionary items (e.g. choice between a new television or a new luxury bag).

**Figure 3 – Scope’s industry risk assessment for consumer product companies**

Cyclicalities \ Entry barriers	Low	Medium	High
High	CCC/B	B/BB	BB/BBB
Medium	B/BB	<b>BB/BBB</b>	BBB/A
Low	BB/BBB	<b>BBB/A</b>	A/AA

Using the three industry drivers, our two main industry groups for consumer products are defined and rated as:

- **Discretionary:** medium cyclicalities, medium entry barriers and medium substitution risk – leading to a BB industry rating
- **Non-discretionary:** low cyclicalities, medium entry barriers and low substitution risk – leading to an A industry rating

We apply a blended industry risk profile when a consumer product company is exposed to several sectors. We usually derive this assessment based on the recurring proportion contributed to EBITDA.

### 3.1.2 Competitive positioning

We assess the competitive positioning of consumer product corporates by examining the following risk drivers:

- Market shares
- Diversification
- Operating profitability
- Brand strength

For certain sub-assessments of the above-mentioned risk drivers, we provide a classification that spans over multiple rating categories. To position the issuer into a single rating category, we additionally apply a peer/relative analysis.

#### Market shares

We generally view strong market shares in a product category as positive but note that a large market share does not necessarily translate into price protection. Hence, we review market share and pricing power separately. Market leaders, for instance, may be challenged by smaller players taking advantage of new technologies or a higher flexibility in meeting market needs, putting pressure on market prices. Nonetheless, companies with large, stable market shares have an advantage over smaller ones, as they have better control over distribution channels and volume effects, which generally creates more stable operational profitability. In addition, a company's size affects its purchasing power with key suppliers and negotiating position within various distribution channels. Smaller regional companies may have an acceptable market share and pricing power in a specific region that could mitigate to some extent concerns about its absolute size and diversification.

**Figure 4 – Market shares by rating category**

Market shares	AA and above	A	BBB	BB	B	CCC and below
<b>Market positioning *</b>	Global market leader positions	High international market shares (top three) in all product categories	Good international market shares (top 10) in most product categories	High domestic market shares in most product categories	Low market shares in most product categories	Weak market shares in all product categories
<b>Size and pricing power</b>	Very large comparative size (revenue over EUR 25bn), very strong purchasing/bargaining power and price-setting ability	Large comparative size (revenue EUR 5bn-25bn), strong purchasing/bargaining power and price-setting ability	Medium-size company (revenue EUR 1bn-5bn), and/or good purchasing/bargaining power	Below-average size (revenue EUR 250m-1bn), and/or adequate purchasing/bargaining power	Small comparative size (revenue under EUR 250m), somewhat weak purchasing/bargaining power and/or limited ability to set prices	

\* The importance of a market is considered, including size and structure (e.g. developed vs. emerging economies).

#### Diversification

We review four diversification categories: i) geographical; ii) supplier and customer; iii) product offering and mix; and iv) distribution networks. Strong geographical diversification can help to mitigate the impact from adverse regional economic conditions and is thus essential in our analysis. The degree of supplier and customer diversification helps to describe the vulnerability/strength of the business model or its operations. The company's distribution network is also linked to this assessment, as companies using multiple channels are more robust during downturns. Companies using e-commerce platforms in conjunction with more traditional marketing and distribution, for instance, will have significantly better and faster geographical access to customers than companies using primarily traditional retail distribution models.

Diversification by product category is also essential in our risk assessment. Companies with a presence in numerous product categories, with a product portfolio addressing different sub-segments within a category, as well as a high share of non-discretionary products tend to have more stable sales and profits over time. Conversely, a highly concentrated product portfolio primarily based on a single discretionary product category is more vulnerable to economic downturns and changes in consumer preferences. Overall, diversification across product categories reduces volatility and supports corporate profitability. Companies with only one brand can still be strongly diversified across geographies and product categories.



We generally use the product categories as defined by the issuer but may group some categories together if we deem them to be too narrowly defined (e.g. limited risk diversification). As examples: within dairy products, we can differentiate between milk, cheese or yoghurt product categories; within meat, we differentiate between chicken, beef or pork; within apparel (which differentiates between clothing, footwear, accessories, etc.) categorisation by gender or age can be relevant. Producing the same type of products under different price categories also improves diversification.

**Figure 5 – Diversification by rating category**

Diversification	AA and above	A	BBB	BB	B	CCC and below
<b>Geographical</b>	Global presence; leading player worldwide	Strong international presence; major player in different continents	Adequate international presence; operating in many countries, regions and locations	Moderate diversification by country, region and location	Low diversification by country, region and location	Single country; weak diversification by region or location
<b>Supplier and customer</b>	Broadly diversified regarding number of customers and suppliers		Adequately diversified regarding number of customers and suppliers	Some dependence on certain customers and/or suppliers	Heavy dependence on single customer and/or supplier	
<b>Product offering and mix</b>	Presence in numerous product categories (above 10); high share of non-cyclical products		Balanced presence in several product categories; predominance of non-cyclical products	Presence in few product categories; predominance of cyclical products	Concentration in one product category	Single cyclical product category
<b>Distribution network<sup>3</sup></b>	Broadly diversified regarding number of well-established distribution channels		Adequately diversified regarding number of well-established distribution channels	Concentration in few distribution channels	Heavy dependency on a single distribution channel	

### Operating profitability

We use EBITDA margin as a measure to assess profitability and operating efficiency. Successful companies have stronger and more stable margins. Large companies often invest in new product developments and mergers & acquisitions to improve their product mix, seeking better growth and profitability.

Volatility in raw material/input costs as well as currencies may affect margins. High volatility is often linked to limited ability to pass-through higher cost to customers or a less controllable cost structure due to limited diversification. Our operating profitability assessment may apply a more conservative approach if we observe a volatile EBITDA margin over a five-year period. In such scenarios, an issuer's business model is more likely to be vulnerable to internal and external elements that put pressure on not only the stability of its internal financing but also its long-term growth. Our analysis takes into account hedging activities to mitigate some of this volatility. We also favour variable cost structures, the ability to reduce operating costs through productivity and efficiency measures and the ability to adapt to market conditions during downturns.

Given the broad spectrum of sub-industries within consumer products, the assessment of profitability could slightly deviate for specific categories. For example, apparel companies (excluding luxury) tend to have lower profitability, partly due by the additional costs of operating physical stores. As a result, the profitability assessment might also take into account peer comparison considerations within the specific sub-industry.

**Figure 6 – Operating profitability by rating category**

Profitability	AA and above	A	BBB	BB	B	CCC and below
<b>Scope-adjusted EBITDA margin</b>	>30%	20%-30%	15%-20%	5%-15%	0%-5%	Negative
<b>Volatility</b>	Low		Medium		High	

<sup>3</sup> Diversification of distribution channels includes various retail formats, own stores (if applicable), wholesalers and online sales.

## Brand strength

Brand strength is a key factor in our assessment of consumer product companies' competitive position. Companies with strong brands generally have greater customer loyalty, lower price-sensitivity, higher bargaining power and a greater ability to set prices, allowing them to charge a premium.

We assess brand value and recognition by looking at a company's geographical presence, history, market shares and media/commercial footprint. When a company has several brands, we look at the combined strength and value of the portfolio. To achieve high brand recognition usually takes a long time and is a form of entry barrier, as brands with a strong image are usually foremost in a consumer's mind when making a purchase. In the digital era, forms of brand recognition may include regularly featuring as the top recommendation for a specific product/category or scoring high in customer reviews. Consumer brands with a long history are usually associated with higher value as this may indicate not only customer loyalty and brand recognition but also product quality and operating performance over time. Whilst established brands serve as an entry barrier, their importance has lately been declining as digital marketing opens new channels. Digital marketing has created new and easier connections between companies and consumers, with strong feedback channels for both established companies and new entrants. We believe that successful consumer product companies generally have very good market intelligence that allows them to understand consumers and their needs. Successful brands actively seek to influence the behaviour of customers and engage closely with them; customers in turn can have a strong influence on branding and demand.

Brand positioning is also a driver of brand strength, since higher-priced brands such as luxury items are generally associated with higher brand value and superior quality features. This is because reaching such a status requires high investment, including operational efforts to provide consistently superior quality as well as recurrent, successful marketing campaigns. Some brands greatly benefit from their product being scarce (such as limited collections) or having few alternatives, which is generally associated with high quality. The other side of the rating category includes discount brands or brands competing primarily on cost, which are generally associated with lower quality or less added value.

Our analysis also distinguishes between traditional brands and private-label (or white-label)<sup>4</sup>. Compared to established traditional brands, private labels are usually coupled with lower value. This is because they charge lower prices (partly justified by their low marketing spend) and tend to be less innovative, which could ultimately affect their competitiveness. Moreover, private labels have higher replacement risk as customer loyalty for them tends to be low. Still, some private-label producers can have long and important relations with their retailer customers, which indicate sustained quality. These brands could also be well-known in various markets.

Achieving sustainable brand growth is crucial for driving long-term profit expansion. Investing in advertising, marketing, innovation, and sustainability is crucial for brand strength and long-term growth. However, critical factors for our assessment include i) the brand's intrinsic long-term revenue growth relative to the markets it operates in (peer benchmarking), typically driven by marketing efforts and innovative practices; ii) the brand's economic sustainability and its alignment with ESG principles, as well as its capability to respond to consumer trends and market demands.

Investment levels in advertising and R&D, compared to peers in the same product categories, can partly predict if a company will gain or maintain market share. However, this alone is insufficient for determining the sustainable growth score. For investments to be deemed sustainable, they must be sufficiently rewarded by future returns; hence, the approach of pursuing 'growth at any cost' is generally viewed as unsustainable. In mature markets, some brands are so well-established that they may not need to invest as heavily as smaller competitors to maintain superior organic growth. Therefore, the features of the market, such as its growth potential, competitive dynamics, and consumer behaviour, are also important.

As previously noted, we also evaluate the sustainability aspects of the products offered and the overall business model: brands with a robust ESG proposition benefit in terms of reputation and are more likely to be preferred by consumers over

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<sup>4</sup> A private label generally refers to a product for which the marketer (e.g. a retail store or fast-food chain) outsources all or part of the production and then trademarks the product. White-label products are produced by a third party and then rebranded by the marketer as its own and released onto the market. The main difference between the two is that a private label product is produced under the specification set by the marketer – i.e. it is exclusive for that specific client. Conversely, a white label is generally not produced for a specific marketer and can be sold to many of them, which they would in turn apply their own brand. Nevertheless, private and white labels sometimes overlap, for example, a white label product may be subject to some customizations.

time. For consumer products, key sustainability attributes include the efficient use of natural resources, circular processes (such as recyclability), product safety, innovation (addressing evolving consumer trends like healthier food options), and responsible supply chain management. In this context, both reputation and the frequency or magnitude of product recalls can also play significant roles.

**Figure 7 – Brand strength by rating category**

Brand strength	AA and above	A	BBB	BB	B	CCC and below
<b>Brand value and recognition</b>	Portfolio of several globally well-known brands with a long tradition	Global brand and/or portfolio of international and long-established brands	International well-established brands	Domestically well-known brands or still developing international brands	Domestically known regionally well-known brands	Domestically less-known brands (including third-party producers)
<b>Brand positioning</b>	Luxury brands; scarce or hard-to-replace products	Premium segment, reflecting generally very high-quality attributes	Mid-to-upper price levels, usually reflecting good-quality attributes	Mid-to-low price levels, reflecting average-quality attributes	Low price levels, reflecting generally low-quality attributes or easily replaceable products	
<b>Sustainable growth</b>	Strong long-term profitable growth prospects, above reference market. This is typically supported by consistently high investments (in relation to sales) in brand development, including advertising, innovations, and ESG.		Good growth prospects, above reference market, and sustained profitability. Above-average investments in advertising, innovations, ESG.	Moderate growth prospects, in line or below reference market. Moderate investments in advertising, innovations, ESG.	Modest growth prospects generally below reference market. Low investments in advertising, innovations, ESG.	Heavily declining revenues/profits. No investment in advertising, innovations, ESG; and/or negative public recognition

## 3.2 Financial risk profile

Our assessment of a consumer products company's financial risk profile follows the general guidance in our General Corporate Rating Methodology. We focus on recent and forward-looking financial data. Key parameters include leverage, interest cover and cash flow. Liquidity is also assessed and is central to our analysis of non-investment grade issuers.

The financial risk profile indicates a company's financial flexibility and viability in the short to medium term. A company with a strong financial risk profile is more likely to be resilient to economic downturns, adverse industry dynamics, unfavourable regulation or an unexpected loss of a revenue source. The ability to retain financial flexibility during an economic downturn is a rating driver for consumer products companies as it indicates an ability to invest at all phases of the economic cycle.

### 3.2.1 Credit metrics

We assess the financial risk profile of consumer product companies using the same four credit metrics in the [General Corporate Rating Methodology](#).

### 3.2.2 Liquidity

Our general liquidity assessment is outlined in the [General Corporate Rating Methodology](#).

## 3.3 Supplementary rating drivers

### 3.3.1 Financial policy

Our assessment of supplementary rating drivers is described in the [General Corporate Rating Methodology](#).

### 3.3.2 Governance and structure

Our assessment of supplementary rating drivers is described in the [General Corporate Rating Methodology](#).

### 3.3.3 Parent/government support

Our assessment of parent support is described in the [General Corporate Rating Methodology](#). When assessing the credit quality of a consumer products company that may benefit from government support, we incorporate the sovereign's or

sub-sovereign's capacity and willingness to bail out a utility in financial distress, as laid out in [Scope's Government Related Entities Rating Methodology](#).

### 3.3.4 Peer context

Our assessment of supplementary rating drivers is described in the [General Corporate Rating Methodology](#).

## 3.4 Environmental, social and governance assessment

Credit-relevant environmental and social factors are implicitly captured in the rating process, while corporate governance is explicitly captured at the 'governance and structure' analytical stage (see 3.3.4).

The rating analysis focuses on credit quality and credit assessment drivers. An ESG factor is only credit-relevant when it has a discernible and material impact on the issuer's cash flow, and, by extension, its overall credit quality.

Credit-relevant ESG factors can directly and indirectly affect all elements of the business risk profile, financial risk profile and supplementary rating drivers. This is in contrast to ESG ratings, which are largely based on quantitative scores on various rating dimensions.

The corporate rating process implicitly captures environmental, social and governance (ESG) factors that have a material credit impact. Consumer sentiment and awareness of ESG topics are increasingly affecting the consumer products industry, exposing companies to ESG risks both direct and indirect (through the value chain). Consumer products companies are increasingly focusing on environmental factors such as optimising the use of natural resources in production (including water, raw materials and energy) and reducing product waste through solutions such as investments into circular economy. Similarly, increasing importance is given to sustainable packaging, green labelling and product traceability.

Social factors in the consumer products industry primarily relate to supply chain oversight and relations with local communities (especially in emerging countries), with increasing scrutiny on ensuring human rights are respected and local resources are not exploited. Companies failing to consider ESG factors within their strategy may be subject to reputational risk that could also significantly harm their brand. Minimising these risks requires sound governance, including independent and external bodies that monitor risk management, incidences of bribery and corruption, and financial disclosures, all while applying transparent communication towards all stakeholders.

The [General Corporate Rating Methodology](#) provides further detail on how ESG factors and supplementary rating drivers are incorporated in the credit analysis.

## 4. Issuer rating

The final issuer rating is based on our analysis of the business risk profile, financial risk profile and supplementary rating drivers. The rating committee decides on the relative importance of each rating driver. The business risk profile and financial risk profile are generally weighted equally for companies that are perceived as crossover credits between investment-grade and non-investment-grade. The business risk profile is typically emphasised for investment-grade companies, while the financial risk profile is mostly the focus for non-investment grade companies. However, the latter also depends on the level of the financial risk profile. Less focus is granted to strong financial risk profiles of companies showing a weak/vulnerable business risk profile (in the B or low BB category) since for such companies the financial risk profile is subject to higher volatility. This takes into account that the credit rating of companies with business risks that reflect weak or moderate credit quality should not be bolstered by a temporarily strong financial risk profile. Hence, the weighting between the business risk and financial risk profiles is adapted to each issuer's business model and market(s).

## 5. Additional methodology factors

For more details on our rating Outlooks for issuer ratings, long-term and short-term debt ratings, the recovery analysis see the [General Corporate Rating Methodology](#).

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## 6. Appendix

### 6.1 Related documents

For more information, please refer to the following documents:

- [General Corporate Rating Methodology](#)
- [Government Related Entities Rating Methodology](#)
- [Credit Rating Definitions](#)
- [Retail and Wholesale Rating Methodology](#)
- [Automotive and Commercial Vehicle Manufacturers Rating Methodology](#)

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