

Consumer Goods

Key Sustainability Factors For ESG Evaluations

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Approach

Our key sustainability factors identify the most material environmental and social risks assessed in our ESG Evaluation. We assess the materiality¹ of those risks across the industry's value chain and reflect them in the weighting of our environmental and social factors. We also provide the quantitative indicators² used to assess a company's performance relative to its industry peers on each of those factors. For further information, please refer to our ["Environmental, Social, And Governance Evaluation: Analytical Approach."](#)

Scope

The consumer goods sector covers a wide variety of companies in the durable and non-durable space, both branded and private labels. It includes companies producing alcoholic and nonalcoholic beverages, packaged food, luxury, apparel, household and personal care, and white-goods products.

Material Environmental Risks





Consumer goods companies are exposed to material environmental risks across their value chain:

- **Waste management:** waste associated with the end of life of the product and its packaging is likely to drive new regulation and result in substantial compliance costs.
- **Environmental impact in the supply chain:** the sector sources its raw materials from the agricultural, mining, forestry, chemicals, and oil and gas supply chains, which have significant land, water, emissions, and pollution effects.
- **Environmental impact associated with product manufacturing, distribution, and use:** these activities may result in significant water consumption, pollution, and energy use. The nature and scale of the impact largely depends on the nature of the product sold. New regulation may incentivize companies to reduce single-use products, switch to low-carbon freight, and develop energy- and water-efficient products and processes.

Environmental Factors: Weighting And KPIs

The higher weight on waste and pollution primarily reflects the regulatory risks associated with the management of end-of-life products and packaging, in particular plastic. We apply an equal weighting to the three other factors (water, land use and biodiversity, and greenhouse gas emissions) to reflect the other multiple environmental effects across the industry's value chain.

In our ESG Evaluation, we use qualitative and quantitative indicators to inform our opinion on an entity's management of its environmental impact relative to industry peers. Examples of qualitative indicators include an entity's policies and commitments to ensure sustainable agriculture practices in its supply chain. The main quantitative performance indicators are listed in the table below.

Factor	Weight	Key performance indicators	Other performance indicators
 Waste and pollution	40%	<ul style="list-style-type: none"> – Total waste (tonnes [t] of waste, by revenues and by volume) – % of waste that is recycled/reused/recovered – % of waste that is hazardous 	<ul style="list-style-type: none"> – % packaging (including plastic) and end-of-life materials that are recycled/reused/recovered – % of recycled materials in the products and in packaging (including plastic)
 Water	20%	<ul style="list-style-type: none"> – Water use intensity (cubic meters [m3] by revenues and by volume) – Operations exposed to water-stressed regions (as % of cost of goods sold and plant locations) – Net fresh water consumption (m3) 	<ul style="list-style-type: none"> – Sustainable sourcing of main water-intensive raw materials (third-party certification) – Source of material water impact across the value chain
 Land use and biodiversity	20%	<ul style="list-style-type: none"> – Sustainable sourcing of main raw materials (third-party certification) 	<ul style="list-style-type: none"> – Traceability and third-party certification of commodities with high deforestation risks (e.g. palm oil, soybeans)
 Greenhouse gas emissions	20%	<ul style="list-style-type: none"> – Scope 1 emissions intensity (tonnes of carbon dioxide equivalent [tCo2e], by revenues and by volume) – Scope 2 emissions intensity (tCo2e, by revenues and by volume) – Energy intensity 	<ul style="list-style-type: none"> – % of energy that is sourced from renewable sources – Source and amount of material Scope 3 emissions

Material Social Risks





Consumer goods companies are exposed to material social risks across their value chain:

- **Fast-changing consumer preferences:** innovation and product development are critical factors to navigate changing consumer preferences, support brand value, and maintain high levels of customer satisfaction and retention. In particular, we expect growing demand for sustainable products, transparent labelling and responsible advertising to continue and to push the industry to transition toward purpose-led brands.
- **Product safety:** the manufacturing and use of unsafe products, due to harmful components or product malfunction, can put the health of employees and users at risk, and result in substantial reputational and financial costs.
- **Working conditions:** the manufacturing and distribution of consumer goods, as well as the sourcing of raw materials, rely on a complex and global value chain. This exposes consumer goods companies to human rights breaches and poor working conditions, especially if their suppliers operate in regions with lower labor standards.

Social Factors: Weighting And KPIs

We place a higher weight on customer engagement due to the consumer-facing nature of the industry and the resulting exposure to changing consumer preferences and high public scrutiny. We apply an equal weighting to safety management, communities, and workforce and diversity because the mismanagement of product safety, human rights, and sustainability could significantly damage the brands, financial performance, and reputation of companies in the industry.

In our ESG Evaluation, we use qualitative and quantitative indicators to inform our opinion on an entity's management of its social impact relative to industry peers. Examples of qualitative indicators include the quality and effectiveness of an entity's policies on responsible advertising and transparent labelling. The main quantitative performance indicators are listed in the table below.

Factor	Weight	Key Performance Indicators	Other performance indicators
 Customer engagement	40%	<ul style="list-style-type: none"> – % satisfied customers (out of total customers responding to company's survey) – R&D spending as % of revenues – Newly commercialized products or services launched during the previous years as % of revenues 	<ul style="list-style-type: none"> – % of total customers using the company's online services solutions/sales platform, or % of revenues generated online – % of distributors who have formal training by the company on quality – Alignment of sustainability and brand strategy
 Safety management	20%	<ul style="list-style-type: none"> – Lost time injury frequency rate (LTIF) – Number of fatalities – Number and cost of product recalls as % of annual revenues 	<ul style="list-style-type: none"> – % of revenues of consumer products that include increased nutritional ingredients; are lowered in saturated fat, trans fats, sodium or added sugars; are reformulated/renovated – Occupational injury frequency rate (OIFR)
 Communities	20%	<ul style="list-style-type: none"> – % of own operations, Tier 1 suppliers, and joint ventures assessed for human rights issues – Amount of cash contributions, employee volunteering, and in-kind giving converted in reporting currency 	<ul style="list-style-type: none"> – Sustainable sourcing of main raw materials (third-party certification)
 Workforce and diversity	20%	<ul style="list-style-type: none"> – Voluntary/involuntary turnover rate (%) – % of woman in total workforce, junior and senior management positions, and in revenue-generating functions – Average amount spent per full-time-equivalent (FTE) employee on training and development 	<ul style="list-style-type: none"> – % of employees taking part in the employee survey – Gender pay gap – Average hours per FTE employee on training and development – Benefits offered to workforce

Submit Feedback

You can submit your feedback [online](#), by email, or telephone.

Please specify which sector you are commenting on when submitting feedback.

We would particularly like to hear from you regarding:

1. Which risks are missing or not relevant?
2. Which KPIs are missing, could be enhanced, or are not relevant?
3. What views do you have on the suggested factor weights for the environmental and social analysis?
4. Do you have additional feedback(s) on this document?

Endnotes

¹ Events and issues are material for the ESG Evaluation when in our view they could meaningfully affect the entity's business operations, cash flows, legal or regulatory liabilities, access to capital, reputation, or relationships with key stakeholders and society more generally, either directly or through its value chain (upstream or downstream).

² We are mindful that some may be produced using different methodologies and scopes.

Related Research

- [“The ESG Risk Atlas: Sector And Regional Rationales And Scores.”](#) published July 22, 2020
- [“Our Updated ESG Risk Atlas And Key Sustainability Factors: A Companion Guide.”](#) published July 22, 2020
- [“Environmental, Social, And Governance Evaluation: Analytical Approach.”](#) published June 17, 2020
- [“How We Apply Our ESG Evaluation Analytical Approach: Part 2.”](#) published June 17, 2020
- [“ESG Evaluation: Unilever PLC/N.V..”](#) published Dec. 10, 2019

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