European Business and Consumer Services Rating Methodology

Corporates

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Table of contents

1. Introduction

This methodology is the latest update of the European Business and Consumer Services Rating Methodology, which details Scope's approach to rating business and consumer services companies. This methodology supplements our General Corporate Rating Methodology and supersedes it in case of conflict, inconsistency or ambiguity. This update will have no impact on outstanding ratings.

This update only contains the following non-material changes:

i) Addition of definitions of discretionary versus essential services as well as specialised versus non-specialised workforces

ii) Clarification of method to assess hybrid business models

iii) Further explanation on the assessment of entry barriers

iv) Additional guidance on the market share assessment

v) Clarification of method to measure profitability volatility

vi) Clarification of method to assess service strength

vii) Editorial changes

2. Scope of application

This methodology describes how we analyse the corporate credit risk of European business and consumer services companies based on our assessment of their business risk and financial risk profiles, which we complement with the analysis of supplementary rating drivers. Our financial risk profile assessment of services companies remains based on the metrics set out in our General Corporate Rating Methodology.

We define services companies as those that generate most of their revenue and cash flow from services provided to other businesses (B2B)[1] or directly to consumers (B2C). Business models in the services industry vary widely, depending on the company's service range, service strength (defined later in the methodology), service complexity, size, operational exposure to regulation, integration with the customer's business, and the cyclicality of its markets and industries. IT services companies are not covered in this methodology.

Services companies can be asset-light or asset-heavy, provide essential or discretionary services with a specialised or non-specialised workforce, as defined below.

Asset-light companies typically leverage their workforce and intangible assets (e.g. expertise, intellectual property, networks) to produce cash flow and include professional services firms that provide consultancy, audit, agency services or central support functions, or services that can be sold through a digital platform (called a marketplace of services). Asset-heavy companies produce cash flow using fixed assets and their services include mobility services, machinery rental and contract manufacturing, private/consumer services and environmental services such as waste management and recycling.

Essential or non-discretionary services are those that are critical for business continuity or basic consumer needs, with demand that remains relatively stable even during economic downturns. Examples include pest control, hygiene services and equipment maintenance. In contrast, discretionary services are those that businesses or consumers can defer, reduce or eliminate when budgets are tight and are typically associated with growth, enhancement or non-critical support functions such as consulting, marketing, non-essential facility management and leisure-related services.

A specialised workforce consists of employees whose work requires specific technical, intellectual or professional expertise, enabling differentiation in complex services such as engineering or consulting. A non-specialised workforce performs roles that rely on general skills, standard procedures or routine tasks and are used when the service is less differentiated and more easily replicated, such as cleaning, basic administrative support or frontline services.

This methodology can also be applied selectively to non-European issuers where appropriate.

[1] B2B services include outsourced central service functions.

3. The European business and consumer services industry

Introduction

The services industry is a broad sector, with many services available to both private consumers and businesses.

Demand for services is influenced by GDP growth, demographics, income development, consumer confidence and preferences, employment growth and governmental spending. The internet has changed the services industry dramatically over the last two decades, reshaping how services are designed, marketed and sold. This transformation has also enhanced transparency for consumers, giving them clearer insight into the options available and their prices.

Demand is growing for services. Consumers are moving away from owning assets and hiring employees, towards using machinery, flexibly adapting production staffing and contracting on-demand expertise and seasonally needed services.

Given the broad range of services offered, we carefully consider company-specific factors to better understand individual issues during the rating process.

Generally, a services company would qualify for an investment grade rating when it has a strong reputation with high service strength, a scalable business, services with good cross-selling potential, a high market share (which translates into reasonable price power that enables sufficient profitability) and cash flow with medium or low volatility. Investment grade companies should also be broadly diversified in terms of geographies, distribution channels, product portfolios and customer bases and be able to sustain strong credit metrics. 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.

Use of services

Customers commonly use a service when: i) the activity is not core to their operations; ii) internal capacity is constrained; iii) specialised workers or assets are needed; and iv) they have opted for a variable-cost model to ensure they can continue to scale up and/or improve operating efficiency.

Companies providing specialised labour and assets often develop their services by leveraging experience gained with multiple customers. Some providers cater to a niche market or meet local demand, for example, private services and specialised machinery rental. At the other end of the spectrum, large players provide bespoke, high-quality services on a global scale, maintaining consistent quality and reputation across regions. Examples include mobility services and professional services such as assurance and advisory.

Asset-light and asset-heavy business models

We differentiate between two business models in the services industry: asset-heavy and asset-light.

Asset-heavy services are often standardised and involve fixed assets supported by long-term contracts or recurring service arrangements. The services are often identical among providers because most consist of the rental of an asset or must meet regulatory requirements. A strong reputation is important as it means customers are likelier to use the service longer, which is developed by delivering a good quality of services and assets. Assets used for the services are also often repurposed for better-performing markets or services or even sold.

Asset-light services with specialised workforce tend to add value to customers by providing knowledge and human resources. With such services, switching to another provider is infrequent, costly and inconvenient. Examples are professional services or outsourced central services. Switching providers is easy in case the service is provided only once for a special purpose or for a limited timeframe and therefore switching costs would not apply.

We classify a company as asset-light or asset-heavy by looking at its balance sheet. We also classify business models as asset-heavy if they rely heavily on leased assets (if not accounted for under local GAAP), despite being light on capital expenditure. High lease commitments can materially increase a company's risk profile and affect its financial flexibility. This is often the case in sectors such as facility management and other service industries where leased properties, equipment or vehicles are integral to operations.

Specialised versus unspecialised workers in business models

We differentiate between business models that i) require specialised workers; and ii) use mainly unspecialised workers, have services that are operated by the customer, or have digitalised services.

Services not requiring a specialised workforce are generally more scalable but also easier to substitute. Service strength is therefore very important when scaling up a business.

Acquisition, training and retaining personnel is costly and time-consuming and hence companies employing a high share of specialised workers have lower growth prospects but have better-protected cash flows.

Further analytical considerations

We account for hybrid business models through an additional qualitative assessment. Many companies combine both asset-light and asset-heavy segments, as well as specialised and non-specialised workforces within the same organisation. In cases where a company has a mix of different business types, we focus on the prevalent[2] segments and blend the less prevalent into our assessment of the business risk profile, based on either the segments' relative contribution to revenue or EBITDA, or other relevant breakdown based on expert judgement.

Similarly, the presence of essential services may warrant a positive adjustment to the earnings stability assessment, which is reflected in our assessment of operating profitability and credit metrics.

Table 1: Examples of asset-heavy and asset-light services and the required workforce[3]

	Specialised workforce	Unspecialised workforce
Asset-heavy	Machinery rental and contract manufacturing[4]: forklifts-, cranes, speciality vehicles Environmental services: energy services	Mobility services: taxi, car rental, car/e-moped/e-scooter sharing Private/consumer services: physical fitness facilities, car washes, dry-cleaning Environmental services: recycling and waste management
Asset-light	Professional services: assurance, advisory, legal services Agency services: real estate agencies, travel agencies, concessions operators, fund managers (fee-linked services) Central support services: marketing, payroll, HR Facility services: repair and maintenance services (such as for equipment, heating, plumbing and air conditioning) Private/consumer services: for-profit education, childcare, consumer tax and legal services, product repair	Facility services: operation of premises, manned guarding, catering and cleaning Marketplace of services/platform[5]

Source: Scope Ratings

[2] Prevalent in terms of revenue and EBITDA contribution as well as strategic importance
[3] Not exhaustive
[4] Assets may be leased by the company. Nevertheless, this does not make the company's operations similar to those of asset-light companies.
[5] The marketplace of services includes smartphone apps for services such as local transport, home delivery, and handyman services that connect several available providers. We view this type of product similarly to agency services (asset-light) as their cash flow typically comes from a fee linked to sales.

4. Information/Data sources

In the analytical process we typically take into account the following sources of information. Not all of the listed information will be considered for every rated entity. Moreover, we may consider additional sources of information if necessary.

- Audited financial statements
- Unaudited interim financial statements
- Press releases
- Presentations and information from conference calls/capital market days
- Financial forecasts/budgeting of the rated entity, if available/accessible
- Research on the industry, rated entity and relevant jurisdictions
- Data from external data providers, e.g. consensus estimates, debt placements
- Management meeting (in case of issuer participation)
- Loan documentation, e.g. debt prospectuses, bank loan agreements
- Valuation reports from external assessors
- Scope internal data, e.g. spreading of historical financials and detailed forecasts for the next few years, peer group data, credit views on the captive finance business

5. Key components

This rating methodology is applied as outlined in Table 2. The rating analysis takes into account credit risk factors specific to European business and consumer services as specified in this sector methodology as well as factors common to all industries such as management, liquidity, legal structure, governance and country risks, which are explained in more detail in the General Corporate Rating Methodology. The following business risk and financial risk indicators are non-exhaustive and may overlap; some may not apply to certain corporates. We may add issuer-specific rating factors, and a company's business model is decisive for the applicable indicators. No rating driver has a fixed weight in the assessment. Please refer to the General Corporate Rating Methodology for more detail.

Table 2: General rating grid for European business and consumer services companies

Business risk profile	Industry risk	Industry-related drivers	• Cyclicality • Entry barriers • Substitution risks	Issuer rating
	Competitive positioning	Market shares	• Market dominance • Size and pricing power • Scalability of services	
		Diversification	• Geographical outreach • Customer granularity and supplier diversification • Service offering and cross selling potential • Distribution network	
		Operating profitability	• Scope-adjusted EBITDA margin • Scope-adjusted return on capital employed • Volatility	
		Service strength	• Service quality and reputation • Revenue stability and predictability • Service integration	
Financial risk profile	Credit metrics	Leverage		
		Interest cover		
		Cash flow cover		
	Liquidity			
Supplementary rating drivers	Financial policy			
	Governance and structure			
	Parent/government support			
	Peer context			

5.1 Business risk profile

When evaluating the business risk profile, we analyse the industry dynamics and business drivers that are unique to European business and consumer services companies. Our two-fold approach analyses the business risks for the industry and the competitive positioning of the company. The overall industry rating is less important for the business risk profiles of smaller companies.

5.1.1 Industry fundamentals

We assess the industry fundamentals of services companies by examining the following industry drivers:

- Cyclicality
- Entry barriers
- Substitution risks

Cyclicality

We consider the cyclicality of both B2B and B2C services industries as medium to high as their sensitivity to the economic cycle varies depending on criteria referred to above (i.e. specialised versus non-specialised workforce, asset intensity, and some considerations for discretionary versus essential services). For example, providers of advanced and personalised services, for which labour hoarding can be important, may operate differently from operational and standardised services companies, which can adjust workforce sizes more easily.

Asset-heavy companies with an unspecialised workforce show medium cyclicality. High fixed capital costs are partly offset by the ability to adjust labour costs through layoffs, which reduces earnings volatility over the cycle. In contrast, asset-heavy companies with a specialised workforce combine high operating leverage (where fixed costs make profits highly sensitive to demand) with labour hoarding; this limited cost flexibility further amplifies exposure to economic cycles.

Asset-light companies generally experience medium cyclicality even when they offer business-critical services. While essential services (for example, facility management services for critical operations such as security, cleaning and pest control) tend to have low cyclicality, they are often bundled with discretionary services that more likely to be scaled back quickly in a downturn.

Based on this combination of factors, we therefore view cyclicality in the overall industry as medium to high.

Entry barriers

Entry barriers for services companies can differ depending on the investments needed in the asset base and the specialisation of the workforce. Investments in the asset base may have to be financed, while putting together the right workforce and establishing teams can happen over a long period.

The asset-heavy services industry has medium to high entry barriers, depending on the size of the initial investment needed and workforce specialisation. The asset-light segment has low to medium entry barriers, which depends on the need to build up skilled staff, an extensive network and a good reputation. More importantly, the complexity of the service, typically linked to workforce specialisation, can increase entry barriers as this reduces the willingness to switch service providers, especially if the service is critical. In addition, services are often tendered for a long period and change will not always be immediate for companies with high service strength.

In addition, regulatory requirements, licensing and client-specific certifications can create significant entry barriers, particularly in sectors such as professional services, childcare, education and environmental services. Reputational and network effects can also reinforce barriers to entry, even in asset-light segments.

Substitution risk

Substitution risk varies depending on the investment needed in assets and workers, as well as the time needed to change providers. Basic services (such as cleaning), professional services (such as for-profit education and other specialised services with strong service strength) and the marketplace of services have medium substitution risk, whereas customer-operated asset-heavy services have medium to high substitution risk. Where asset investments are significant and local community approvals or licences are needed, e.g. for certain mobility services, substitution risk is medium.

Asset-heavy companies with a specialised workforce have low substitution risk because they usually provide tailored services and have significant inhouse expertise.

Industry risk classification

Barriers to entry and substitution risk are differentiating factors for the industry, which ultimately depends on the degree of the specialisation of the workforce and asset-intensity. We define the four main industry groups for services companies, giving each an industry risk rating based on their risk drivers:

1) **Asset-light** balance sheet and mainly **unspecialised workforce**: medium cyclicality, low entry barriers and medium substitution risk – leading to a **BB industry risk rating**.
2) **Asset-light** balance sheet and mainly **highly specialised workforce**: medium cyclicality, medium entry barriers and medium substitution risk – leading to a **BBB industry risk rating**.
3) **Asset-heavy** balance sheet and mainly **unspecialised workforce**: medium cyclicality, medium entry barriers and medium to high substitution risk – leading to a **BB industry risk rating**.
4) **Asset-heavy** balance sheet and mainly **highly specialised workforce**: high cyclicality, high entry barriers and low substitution risk – leading to a **BBB industry risk rating**.

Table 3: Scope industry matrix for European business and consumer services companies

Cyclicality \ Entry barriers	Low	Medium	High
High	CCC/B	B/BB	4 BB/**BBB**
Medium	1 B/**BB**	2+3 **BB/BBB**	BBB/A
Low	BB/BBB	BBB/A	A/AA

Source: Scope Ratings

We apply a blended industry risk assessment when a services company operates in several segments. This assessment is based either on the proportion that each segment contributes to revenue or EBITDA, or on expert judgement if a breakdown by segment is unavailable or limited.

5.1.2 Competitive positioning

We assess the competitive positioning of services companies by examining the following risk drivers:

- Market shares
- Diversification
- Operating profitability
- Service strength

For certain competitive positioning assessments, our classification spans multiple rating categories (e.g. AA and above; CCC and below). We then perform a peer comparison to position the issuer in a single rating category.

Market shares

We review three criteria to assess market shares: i) market dominance; ii) size and pricing power; and iii) scalability of services. We assess the first two separately because a large market share does not necessarily translate into pricing power. Scalability of services provides a forward-looking indicator on how market share can develop and is based on multiple factors such as permits required, workforce used, assets needed and level of digitalisation.

Market dominance

Market dominance is a function of the addressable end-market. It reflects a company's relative position within that market, which we measure as revenue relative to total market size and the company's ability to capture and maintain a leading share of demand, even when the overall market is relatively small. Market dominance is evidenced by factors such as scale relative to competitors, breadth of operations, pricing power and barriers to entry that limit competitive pressure.

Expert judgment is used when assessing competitive dynamics and the company's ability to maintain its market share. This evaluation goes beyond historical performance; it also considers the company's competitive advantages and unique selling points. These may include possession of an advanced technology, a strong reputation supported by high-quality services, or any other specific attributes that give the company an edge over its peers.

Additionally, a company could be dominant within a narrow niche but still face indirect competition from larger players in adjacent or overlapping segments. Such competitors may target the same end-customers, offer substitute products or services, or compete on pricing and service. As a result, the competitive landscape may, in reality, be broader than that suggested by the niche market alone.

Market shares of services companies are often lower than those of companies operating in other sectors. This is due to the service industry's large size and the multiple sub-segments within it. Additionally, entry barriers can be relatively low, particularly for asset-light business models. In contrast, segments involving production capacity typically require larger investments and face stricter regulation, resulting in less fragmentation and higher average market shares compared to the services sector.

Therefore, as service markets are often fragmented, a double-digit market share can translate into a high sub-score for market dominance. Large and medium-sized service entities often rely on mergers and acquisitions to diversify their services, gain market share and expand their client base. Top-tier providers have double-digit market shares and a visible, strong reputation for consistent quality. Mid-tier providers are usually secondary in terms of reputation, service range and market size. Local providers, which are less well known and hold single-digit market shares are therefore generally rated below investment grade.

Size and pricing power

Absolute company size is an important factor in evaluating market positioning. Larger scale enhances a company's resources, influence and operational resilience. For a company with modest size to score highly in this assessment, it must hold a dominant market position, operate in an end-market with solid growth prospects, and sustain a competitive advantage that protects its position over time and supports pricing power. This ensures that market leadership is meaningful and enduring, rather than a temporary outcome of a shrinking or stagnant market.

However, size alone is not an absolute rating criterion. A small regional provider can still be assigned a moderate assessment if it offers essential, scalable services or has a solid competitive advantage.

Dominance in a declining or obsolete end-market can be credit-negative. Even if a company maintains a leading share of demand, shrinking market size can constrain revenue growth, reduce profitability and increase pressure on cash flows.

Market fragmentation leads to strong competitive pressures in terms of pricing, services development, and consumer sentiment and preferences. To remain competitive, companies must actively manage prices and costs, be innovative, and create services and tools. Service providers with strong pricing power can differentiate themselves from competition, secure and renew large long-term tenders and provide services that are integrated into the customer's operations, making them harder to replace.

Scalability of services

Scalability of services often involves a local service provider acting as a franchisee or paying royalties to operate under a global brand that signals consistent service quality and operational standards. The entity owning the global brand does not guarantee the success or the debt repayment capability of the entity. Nevertheless, such arrangements ensure the service provided and the level of quality are the same across countries or even continents. This is often done through a network, which is a key advantage for local service providers. Economies of scale and digitalisation are therefore key in this regard as databases and IT tools make services scalable and cost-effective.

Asset-heavy companies can be scalable if the services can be provided under the same terms and conditions, which can include a minimum service quality, pricing formulas adapted to the market, similar insurances and warranties, and similar regulatory approvals.

Table 4: Market shares by rating category

Market shares	AA and above	A	BBB	BB	B	CCC and below
Market dominance	Dominant global position	Dominant international position	Good international position in most services categories (top-tier and mid-tier)	Moderate regional market shares; modest position in most service categories and/or high local market share	Weak, mostly local position in most service categories	Very weak and deteriorating market share
Size and pricing power	Revenues of over EUR 5bn; very strong bargaining power and price-setting ability	Revenues of EUR 2bn-5bn, strong bargaining power and price-setting ability	Revenues of EUR 1bn-2bn and/or good bargaining power	Revenues of EUR 250m-1bn and/or moderate bargaining power	Revenues of EUR 50m-250m and/or limited bargaining power	Revenues of under EUR 50m, weak bargaining power and/or price follower
Scalability of services	Highly scalable business across regions with low administrative entry barriers (digitalised services and/or mostly unspecialised workforce or operated by customer with some specialised workers)		Highly scalable business across regions with moderate administrative entry barriers (digitalised services and/or mostly unspecialised workforce or operated by customer)	Moderately scalable business across regions with some tenders/licences /administrative entry barriers (need for specialised workforce)	Specialised/ customised businesses with local character and significant adjustments needed across regions to the service composition as well as limited scalability	High share of discontinued operations and/or not scalable service

Diversification

We assess diversification over four categories: i) geographical; ii) customer granularity and supplier diversification; iii) service offering and cross-selling potential; and iv) distribution networks.

Strong geographical diversification can help to mitigate the impact from adverse regional economic conditions and is thus essential to our analysis. Offering a large range of services helps to diversify existing revenue sources and facilitate more services being sold to existing customers, enabling better business development.

The degree of a company's customer and supplier diversification indicates the vulnerability or strength of its business model or operations. The company's distribution network is also linked to this assessment, as companies using multiple channels are more robust during downturns. For instance, companies using a combination of e-commerce platforms, marketplaces and traditional marketing and distribution will have better and faster geographical access to customers than companies focused on traditional retail distribution models.

Asset-light services companies often need targeted communication with customers (conferences, referrals, tenders). However, a new service can be more easily sold to an existing, satisfied customer (cross-selling). In addition to traditional distribution channels, companies must be able use social media effectively to engage with younger and more tech-savvy consumers.

Table 5: Diversification by rating category

Diversification	AA and above	A	BBB	BB	B	CCC and below
Geographical outreach	Strong international presence; major player in many countries		International presence; operating in many countries	Limited diversification by countries	Only national presence with low growth opportunities	Purely local player in a shrinking market
Customer granularity and supplier diversification	Highly diversified regarding customers and suppliers (no significant dependence on large customers or suppliers)		Good diversification regarding customers and suppliers[6]	Some dependence on certain customers and/or suppliers	Heavy dependence on single customer and/or supplier	Loss of or high probability of losing main customer/ supplier
Service offering and cross-selling potential	Highly diversified service offering, large share of non-discretionary services and high cross-selling potential		Diversified service offering of non-discretionary and discretionary services and high cross-selling potential	Less diversified service offering with predominately discretionary services and moderate cross-selling potential	Highly concentrated service offering, primarily based on a single discretionary service and limited cross-selling potential	
Distribution network	Multiple well-established and robust distribution channels		Multiple distribution channels including third-party sales[7]	Concentrated distribution channels with low third-party sales	Single distribution channel[8]	

Operating profitability

We assess operating profitability based on three measures: i) the Scope-adjusted EBITDA margin; ii) the volatility of the Scope-adjusted EBITDA margin; and iii) Scope-adjusted return on capital employed.

High and stable profitability supports credit quality. This can be helped by variable-cost structures, the ability to reduce operating costs through productivity measures, digitalisation and the ability to adapt to market downturns. Profit margins of asset-light companies tend to be higher but also more volatile than those of asset-heavy companies.

A volatile Scope-adjusted EBITDA constitutes a risk. For example, sudden peaks in margins may be due to one-off revenues or success fees, whereas cost inflation that cannot be passed on to customers or the loss of key customers can cause a sudden drop.

Our analysis looks at both past and expected Scope-adjusted EBITDA volatility based on:

- Recurring service income: subscription-based services, contracts (minimum of one year)
- Non-recurring fees: single use of service, multi-usage (not pre-contracted)
- Initial or outcome-based service fees: one-off large project-based fees usually due at the start of the service as a set-up fee or at the end as an outcome-based fee or success fee

To enhance consistency in assessing the volatility of operating profitability, we consider the coefficient of variation (standard deviation divided by the average) of the EBITDA margin over the last five years.

When assessing profitability volatility, we also consider whether the services are discretionary or non-discretionary. Volatility can vary significantly even within the same industry. Companies with a higher share of non-discretionary services tend to exhibit lower volatility. Additionally, if historical data is insufficient to reliably calculate the coefficient of variation, we benchmark profitability volatility against the closest peer group, adjusting for differences in the share of discretionary versus essential services, as these factors materially influence volatility.

[6] No dependence on top 10 customers and a handful of alternative suppliers for each service category
[7] Multiple distribution channels usually refer to sales via physical sales/call centres, the internet through an own website/application, or third parties and their marketplace type application.
[8] A single distribution channel usually refers to sales via physical sales or call centres/virtual sales offices.

The Scope-adjusted return on capital employed is a financial ratio that we use to measure profitability and the efficiency with which a company uses funding to generate profits. Higher ratios are more appealing to both equity and debt investors.

Table 6: Operating profitability by rating category

Profitability	AA and above	A	BBB	BB	B	CCC and below
Scope-adjusted EBITDA margin	>30%	30.0% to 22.5%	22.5% to 15.0%	15.0% to 7.5%	7.5% to 0%	Negative
Volatility	Low		Medium		High	
Scope-adjusted return on capital employed	>40%	40% to 30%	30% to 20%	20% to 10%	10% to 0%	<0%

Service strength

Service strength is a key factor in our assessment of services companies' competitive positions. We examine this over three categories: i) service quality and reputation; ii) revenue stability and predictability; and iii) service integration.

Service quality and reputation

We evaluate the quality of services across both specialised and non-specialised segments. Specialised services offer greater differentiation due to the complexity of the service, whether in terms of technological capabilities or intellectual expertise. In non-specialised services, the quality and care provided by employees are less obvious but still critical, even in areas such as hygiene or human services.

In business and consumer services, reputation often matters more than traditional branding, particularly in B2B. Leading industry participants succeed largely by maintaining a solid reputation over time. Reputation is defined as how a company is perceived by its customers, partners and other industry stakeholders in terms of trustworthiness, credibility and consistently high service quality. A strong reputation supports customer loyalty, pricing power and resilience to operational or market challenges. Conversely, a weak reputation signals limited trust or inconsistent service delivery, increasing vulnerability to customer churn, pricing pressure and negative market perception, which can ultimately undermine business stability and creditworthiness.

Reputation is a key indicator of a company's market standing and operational reliability. At the strongest end of the scale, a global or international reputation reflects consistently high standards of service quality, underpinned by attributes that support sustainable delivery (such as robust operational controls, skilled resources and compliance frameworks). These companies are widely recognised across multiple regions and markets by customers, partners and industry stakeholders and demonstrate resilience to operational or market challenges, serving as the benchmark for the highest rating within the reputation dimension.

By contrast, a weak or deteriorating reputation is associated with poor quality standards, limited service capabilities, and a history of negative performance or ongoing reputational issues. Such companies may only be known in a limited market or region, face negative market perception and exhibit low stakeholder confidence, representing the benchmark for the lowest rating within the reputation dimension.

Our assessment of service quality and reputation considers both past performance and long-term sustainability. On the one hand, we examine the company's client relationships and operational record, including any history of service disruptions, delays or customer dissatisfaction. We further consider attributes that support service quality over time, such as technological innovation, ongoing investment in employee training, effective processes and adherence to industry best practices. We also consider how the service is differentiated in the market, whether through high quality, efficiency or uniqueness, since a solid competitive advantage is reflected not only in reliability but also in delivering a superior or distinct service.

Additionally, in today's dynamic market, good service quality may also require the ability to adapt to changing consumer preferences and competition. For example, companies in some sectors have had to adapt to consumers spending less or changing preferences. At the same time, offering tailor-made services enables businesses to capture new opportunities and stay relevant and competitive.

Advertising plays a limited role in the assessment of service quality and reputation, particularly in B2B services, where demand is driven primarily by long-standing client relationships, trust and word-of-mouth referrals. These factors underpin contract renewals and stable revenue streams. Selling, general and administrative expenses typically reflect the company's commercial capabilities and platforms, which are stronger revenue drivers than advertising. In B2C services, advertising has a greater impact on customer acquisition; however, reputation and service quality remain critical for retention and long-term brand value.

Service quality and reputation increasingly depend on performance against environmental, social and governance (ESG) considerations, particularly in fragmented markets where competition is intense and customers have many choices. In these markets, higher ESG scores can be a key differentiator, complementing high service quality. This requires continuous investment to meet the tightening standards and rising customer expectations regarding ESG issues.

Revenue stability and predictability

Revenue stability and predictability is measured using the churn rate and the cost to switch to a different service provider. The numbers of users, recurring users or subscriptions are captured often in public data and constitute a key measurement for the services industry. The churn rate captures the share of lost customers, calculated as lost customers over a period divided by total customers at the start of period. One-off customers and those that do not convert to a subscription are considered lost customers over the same period. It is a key measure as customer retention is essential for a services company's credit quality.

Customers often use multiple service providers. This causes price competition if the alternative service is equally convenient. Churn rates thus become visible gradually. If there is strong involvement in a customer's operations, there is usually a single service provider and hence the churn rate is visible immediately as the service is usually taken fully to a different provider. Sometimes, the ordering party acquires the service provider to insource the services.

Service integration

We look at the integration of a service in the customer's business as this is a good way to secure revenue. Critical and recurring business processes are often performed exclusively by a trusted service provider. Such providers typically provide a range of services or a complex service in the field. The more standardised the service and the less integrated the provider is with the customer, the less the provider's business is protected. Once service strength is high, changing service providers becomes costly, time consuming and inconvenient.

Table 7: Service strength by rating category

Service strength	AA and above	A	BBB	BB	B	CCC and below
Service quality and reputation	Consistently high standards of-service quality, supported by key attributes that ensure the long-term sustainability of service delivery and underpin the company's global/international reputation		Good-quality services, supported by attributes that provide confidence in the sustainability of service delivery and underpin the company's well-established regional or international reputation	Moderate-quality services, supported by attributes that provide reasonable confidence in the sustainability of service delivery and underpin the company's domestic or regionally known reputation	Basic-quality services, supported by limited attributes, low sustainability of service delivery, and a weak record that underpins the company's weak reputation	Poor-quality services and limited service attributes, combined with a history of negative performance that underpins the company's weak or deteriorating reputation and negative market perception
Revenue stability and predictability	Low customer churn rate with high share of recurring revenues and multi-year contract length with high switching costs		Medium churn rate with high recurring revenues and monthly subscription fee with contract length of at least one year and moderate switching costs	High churn rate with moderate recurring revenues and monthly subscription fee and usually cancellable contract with low switching cost	High churn rate with very low or no recurring revenues and no minimum subscription fee and no switching costs	
Service integration	Critical business processes covered, mostly exclusively, with very high integration with the customer's business		High integration in the customer's business with several services, mostly on an exclusive basis	Medium integration in the customer's business with several services, mostly not on an exclusive basis	Low or no integration in the customer's business; rather commoditised service	Decreasing service level; commoditised service

5.2 Financial risk profile

Our assessment of a services company's financial risk profile follows the general guidance presented in our General Corporate Rating Methodology. We focus on recent and forward-looking data including (but not limited to) key parameters like leverage, interest cover and cash flow. We also assess liquidity, which is particularly important for 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 services companies as it indicates an ability to invest at all phases of the economic cycle.

5.2.1 Credit metrics

Our general assessment of credit metrics (e.g. leverage, interest cover and cash flow cover) is outlined in the General Corporate Rating Methodology.

5.2.2 Liquidity

Our general assessment of liquidity is outlined in the General Corporate Rating Methodology.

5.3 Supplementary rating drivers

5.3.1 Financial policy

Our assessment of supplementary rating drivers is described in the General Corporate Rating Methodology.

5.3.2 Governance and structure

Our assessment of supplementary rating drivers is described in the General Corporate Rating Methodology.

5.3.3 Parent/government support

Our assessment of parent support is described in the General Corporate Rating Methodology. When assessing the credit quality of services companies that may benefit from government support, we incorporate the sovereign's or sub-sovereign's capacity and willingness to bail out a services company in financial distress, as laid out in Scope's rating methodology for Government Related Entities.

5.3.4 Peer context

Our assessment of supplementary rating drivers is described in the General Corporate Rating Methodology.

5.4 Environmental, social and governance (ESG) 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 5.3.2).

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.

Services companies are increasingly focused on environmental factors, using modern and efficient equipment to provide services. The sustainability of services and the automation of processes are gaining importance in the industry, not just because of cost efficiencies gained but also because of higher demand for greener services. These include green modes of transport for mobility and food delivery, good working conditions at the service provider, fair customer treatment and sound governance.

The main social factors for the services industry include oversight of the workers and physical assets used as well as relationships with local communities, especially in emerging countries or when relying on an unspecialised, low-paid or imported workforce. Services companies face increasing scrutiny to respect human rights and local resources. A failure to incorporate ESG aspects in strategy can harm reputation and perceived service quality. Customers often hold a company to a higher standard than what is required by law. A low employee churn rate is indicative of decent working conditions, which can include proper accommodation and wages, good access to healthcare, training, reasonable working hours and proper work equipment.

Strong governance ensures the proper reporting and enforcement of ESG policies in the company.

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

6. 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 perceived as crossovers 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 of ratings assigned to companies that are perceived as having high yield credit profiles. However, the latter also depends on 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 temporary 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).

7. Additional methodology factors

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

8. Appendix

8.1 Definition of financial items and key performance indicators applicable only to the services industry

The General Corporate Rating Methodology defines in detail the indicators used in our financial risk profile assessments.

For more information, please refer to the following documents:

Scope-adjusted EBITDA return on capital employed (%)	
Operational efficiency measure	This ratio measures efficiency at generating earnings from assets. It allows a comparison between companies with varying business mixes and capital intensities. Balance sheet values are typically used as reported, while EBITDA is adjusted for significant, exceptional and non-recurring items. We account for the average exposure of capital employed taking the average of the balance sheet values for periods t+1, t and t-1.
$$\frac{\text{Scope-adjusted EBITDA}}{\text{(average property, plant and equipment + average intangible assets + average current assets – average short-term liabilities)}}$$	

Churn rate	
Used to assess services strength	This ratio shows the development in recurring services and hence a company's service strength. A high churn rate indicates that a service is less attractive to its customers and/or a business is no longer scalable, which hinders the ability to generate cash flow. Note: non-recurring customers or customers that do not convert to subscription-based services are considered lost customers over the same period.
$$\frac{\text{Lost customers over a period}}{\text{Total customers at start of a period}}$$	

8.2 Related documents

For more information, please refer to the following documents:

- General Corporate Rating Methodology
- Government Related Entities Rating Methodology
- Credit rating definitions

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