

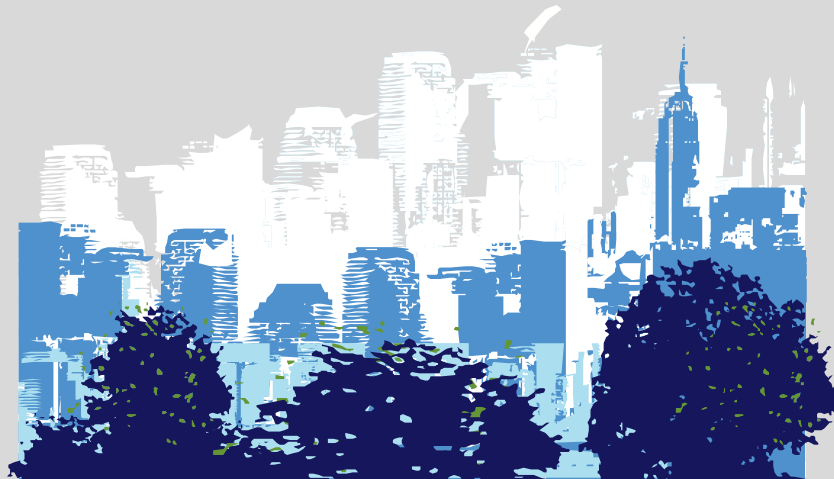
Continuous Improvement Toolkit

PEST ANALYSIS



PEST ANALYSIS

A strategic and structured tool for evaluating the **external environment** of an organization



Also referred to as **Environmental Scanning Analysis**

PEST ANALYSIS

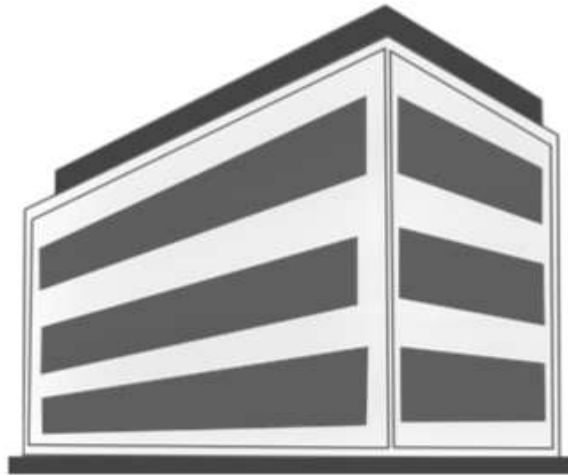
Allows any organization to understand the **macro-environmental factors** that affects its performance and its ability to grow



One of the **common** approaches to identify and study **external factors**

PEST ANALYSIS

The aim is to understand how those external factors will affect the business, and how they affect the industry and market **in general**



Then take **appropriate actions** to adapt to the changing environment

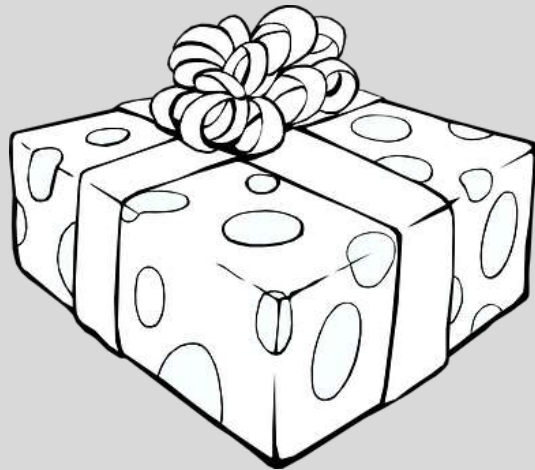
PEST ANALYSIS

These external factors indirectly affect the organization but cannot be **controlled** by it



PEST ANALYSIS

Changes to the business environment can either create great **opportunities** or cause significant **threats**



PEST analysis should provide a comprehensive understanding of all those opportunities and threats that are affecting or might affect the organization

PEST ANALYSIS

Opportunities may come from . . .

▶ New technologies that can be useful to reach new customers

▶ Funding streams to invest in new software or equipment

▶ A changed government policy that will increase long-term economic growth



PEST ANALYSIS

Threats may come from . . .

▶ An increase in tax rates or introduction of new taxes

▶ An increase in interest rates that will lead to a decrease in financial leverage

▶ A changed government policy that exposes you to intensified competition

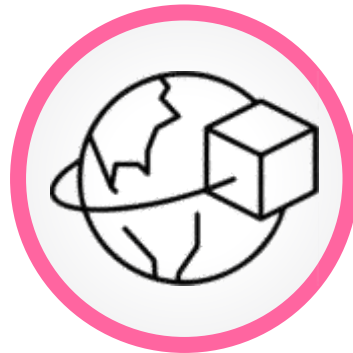


PEST ANALYSIS

Used to analyze the **impact** that the political, economical, social, and technological factors might have on a business



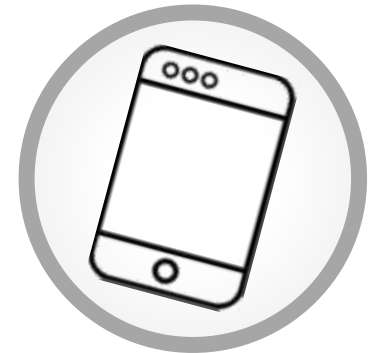
Political



Economic



Social



Technological

Brings together four environmental perspectives that serve as useful input into the **strategic planning process** of an organization

PEST ANALYSIS

This environmental scanning is an ongoing process and businesses should always refine the way they go through this process



Political



Economic



Social



Technological

PEST ANALYSIS

These factors can **vary in importance** based on . . .

Industry type

Geographical location

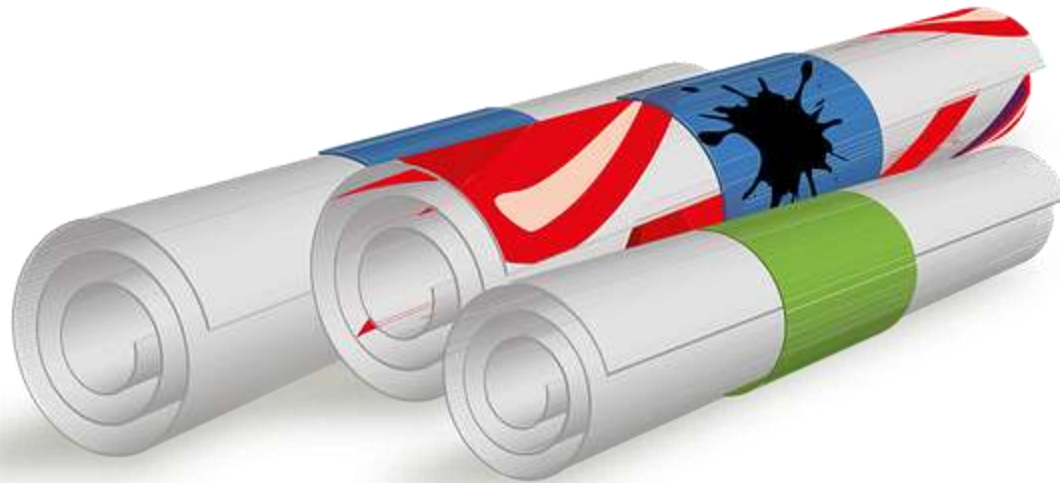
The nature of the offered products and services



For example, **retail stores** tend to be more affected by the economic and social factors than the political and technological factors

PEST ANALYSIS

Often used when conducting **strategic analysis** or market research



Serves as a useful input into the strategic planning process

PEST ANALYSIS

Useful when **entering a new country or market** in which traditional assumptions about the business need to be changed



PEST ANALYSIS

Can be used in **project management** to increase awareness of the opportunities and threats a project may have



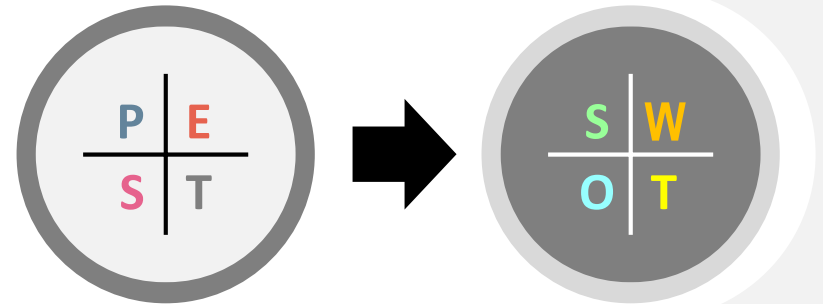
Helps avoid starting a major project that is likely to fail for reasons **beyond control**

PEST ANALYSIS

PEST Analysis is often linked with **SWOT Analysis**

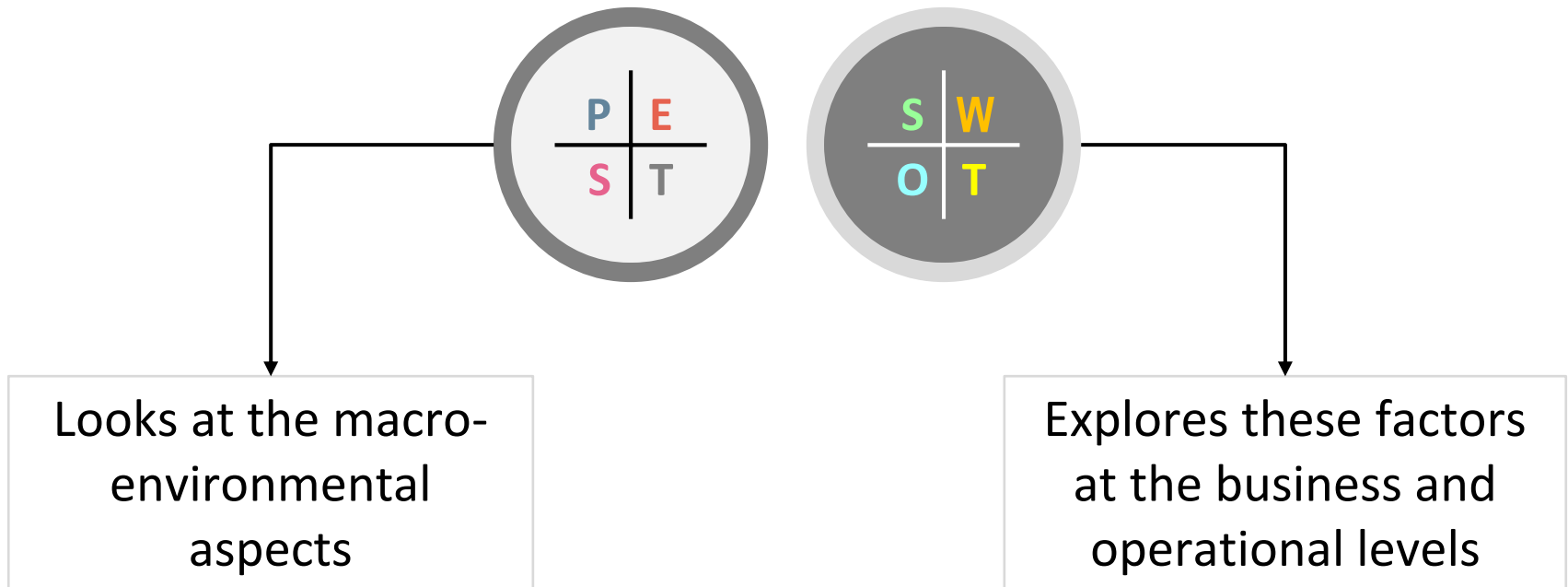
Both tools complement each other and are often used together

Information derived from PEST analysis can identify opportunities and threats in SWOT analysis.



PEST ANALYSIS

Both tools have different areas of focus



PEST ANALYSIS

Benefits . . .

Provides an **understanding** of the wider business environment

Helps to spot **future opportunities** and take advantage of them

Helps to spot **future threats** and take action to avoid or reduce their effect

Encourages a high level of **strategic thinking** and reveals the **direction of change**



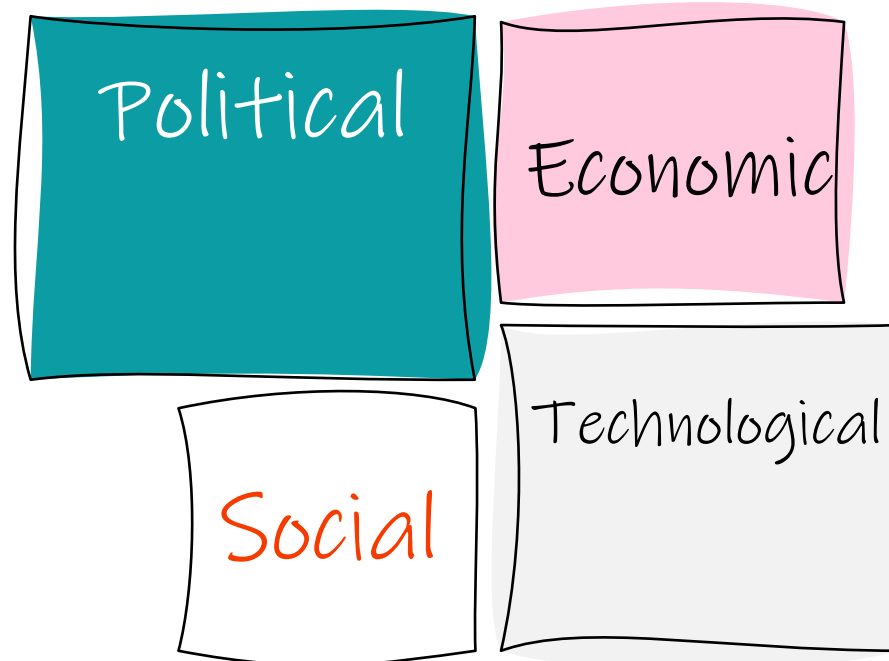
PEST ANALYSIS

All this will provide a context to **make informed decisions** that will better position the organization in the current business environment



PEST ANALYSIS

Analyzes the **impact** that the political, economical, social, and technological factors might have on a business



PEST ANALYSIS

Political Analysis

Analyzes how **government intervention** affects the economy, health care, education, employment opportunities, etc.

Focuses on government policies and regulations that may cause instability or uncertainty

Political risk analysis may be conducted to evaluate political issues



PEST ANALYSIS

Political looks at . . .



Political
stability



Labor
laws



Corruption
levels



Threats
of wars



Government
stability



Nationalization



Trade controls /
import & export
restrictions



Tariffs and
taxation
policies

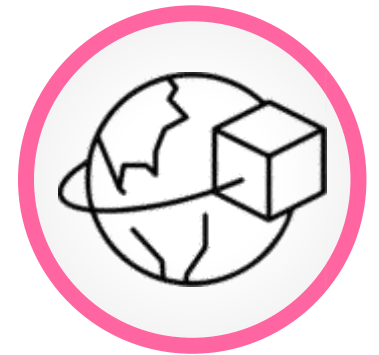
PEST ANALYSIS

Economic Analysis

Analyzes how the economy affects the profitability of a business, and to what extent the business can grow

Includes factors such as consumer spending habits and the power of consumer purchase

The economic growth of a country is an important aspect when analyzing the economic environment




PEST ANALYSIS

Economic looks at . . .



Market
conditions



Income
levels & wealth
distribution



Currency
exchange
rates



Interest
rates



Spending
habits



Unemployment
rates



Inflation
factors



Seasonality
issues

PEST ANALYSIS

Social Analysis

Looks at the **social and cultural** characteristics and values in which the organization is operating

Social factors affect productivity, employment, and the demand of products and services

Organizations should consider the social values associated with the culture while trying to market and sell their products and services



PEST ANALYSIS

Social looks at . . .




Demographics



Health & safety
factors



Social
welfare
programs



Language
levels



Religious
harmony



Education
levels



Lifestyle trends

PEST ANALYSIS

Technological Analysis

Looks at the **technological characteristics** which is becoming more important in the modern business environment

Technology is growing quickly, and it affects quality, cost, delivery, and innovation

New technology brings new opportunities, but also new challenges, risks and responsibilities



PEST ANALYSIS

Technological looks at . . .




New
technology
development



Technology
competency
of workforce



Software
piracy &
licensing




Technological
change rate



Automation
level



Technology
protection



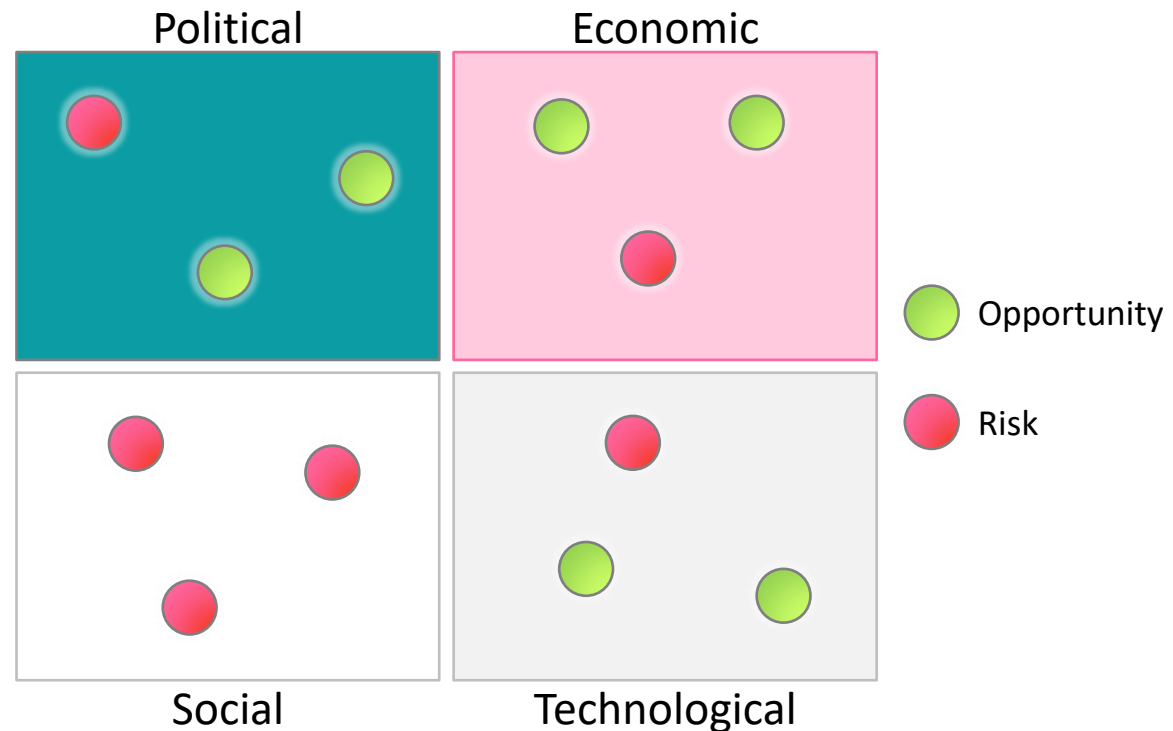
R & D activity
and funding



Remote
working

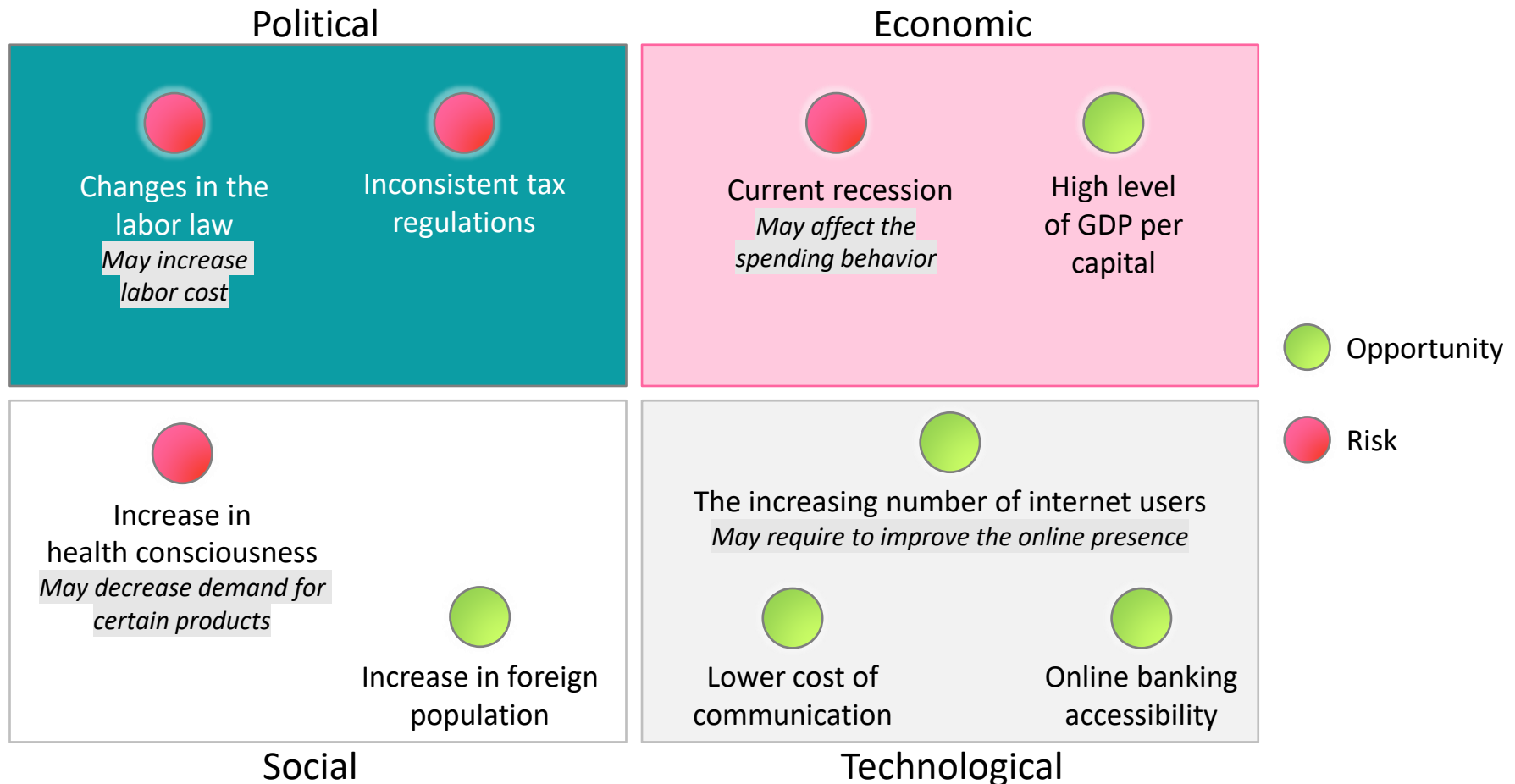
PEST ANALYSIS

A **four-field matrix** may be used to present the PEST analysis outcome



PEST ANALYSIS

An example that presents the outcome of a PEST analysis



PEST ANALYSIS

Other **variations** are also used . . .

PESTEL or PESTLE

Political	Economic	Social
Technological	Legal	Environmental

STEEPLED

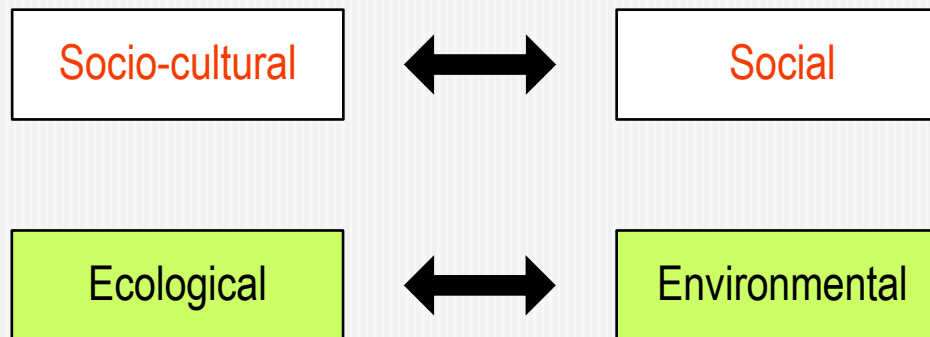
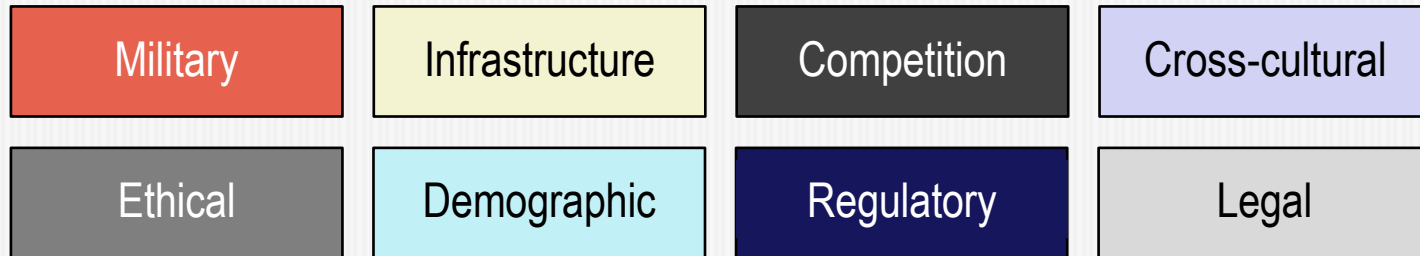
Social	Technological	Economic
Environmental	Political	Legal
Ethical	Demographic	

STEER

Social	Technological	Economic
Environmental	Regulatory	

PEST ANALYSIS

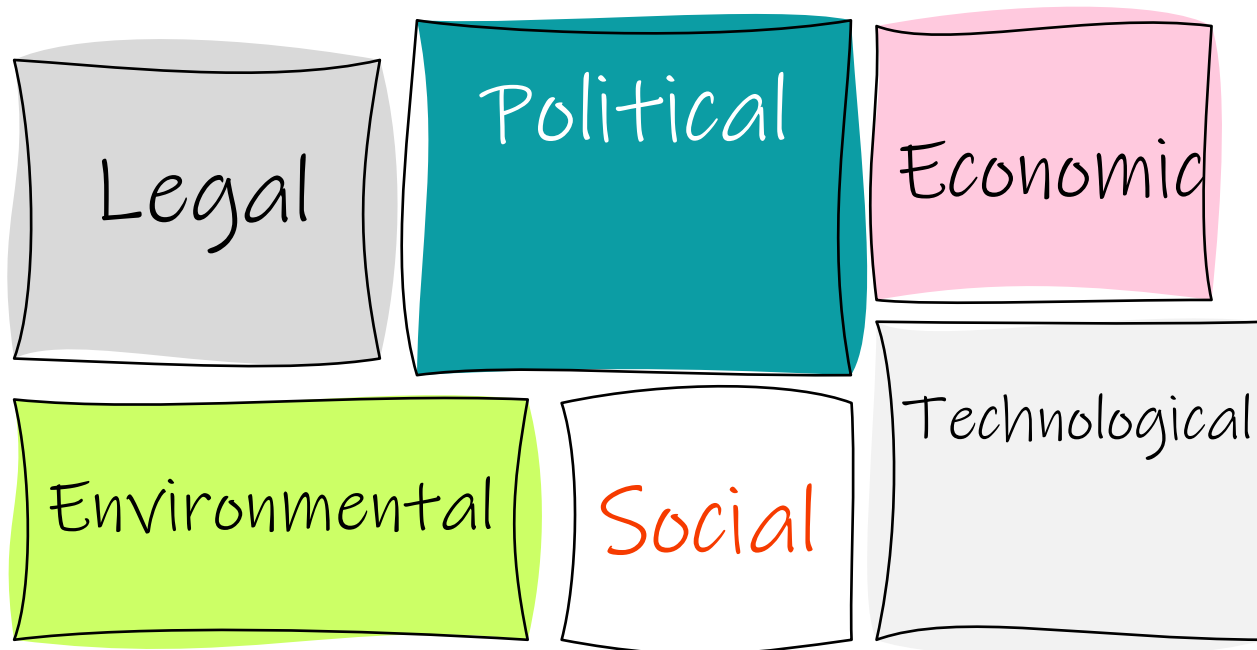
Other variations may have other categories . . .



PEST ANALYSIS

PESTEL . . .

An alternative of PEST with the environmental and legal factors added to the mix



PEST ANALYSIS

Legal Analysis

Analyzes the **laws and regulations** that will affect the way in which the business produces and delivers its products and services



Labor laws
and policies

Health
and safety
regulations

International
laws

Discrimination
laws

Copyright and
piracy laws

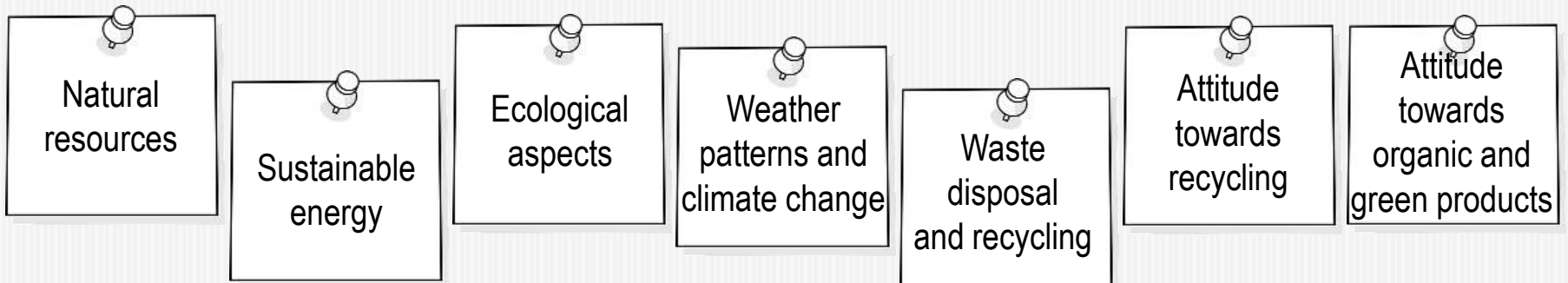
Consumer
laws and
protection

Advertising
regulations

PEST ANALYSIS

Environmental Analysis

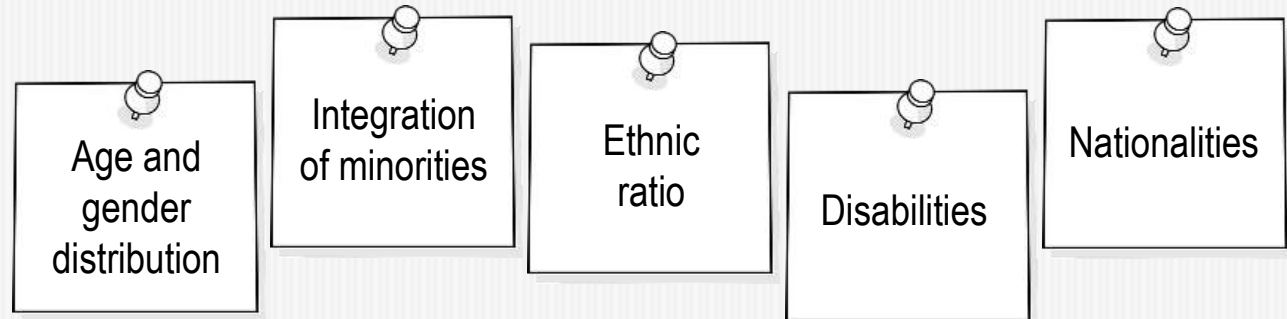
Analyzes the potential impacts of **climate and climate change** on how the business produces and delivers its products and services



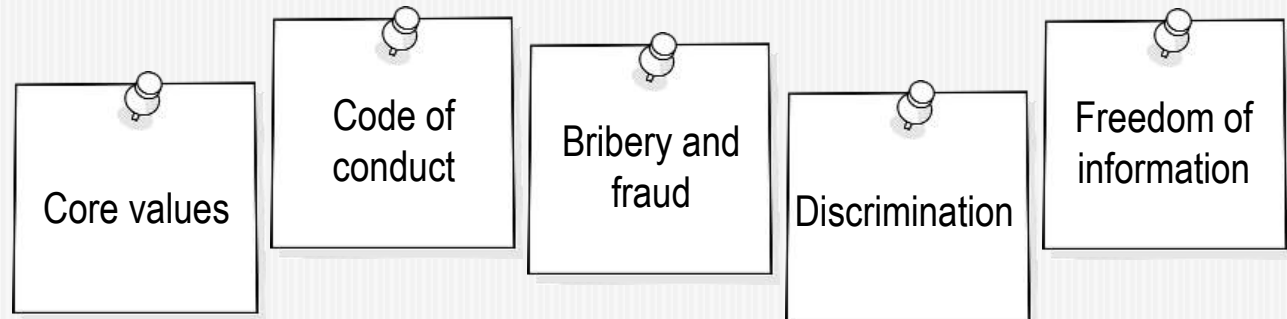
PEST ANALYSIS

STEEPLED

Demographic
looks at . . .



Ethical
looks at . . .



PEST ANALYSIS

How to Conduct an Environmental Scanning Analysis

With your team, clearly describe the **purpose** of the environmental scanning analysis

Ensure inviting representatives from finance, operation, marketing, and any other key players in your organization



PEST ANALYSIS

How to Conduct an Environmental Scanning Analysis

Brainstorm the **external factors** that may influence the business and the potential opportunities and threats that may arise from each factor

Identify the **sources of information** for each environmental factor

	Factors	Potential opportunities / threats	Sources of information
Political			
Economic			
Social			
Technological			

PEST ANALYSIS

How to Conduct an Environmental Scanning Analysis

Design a **questionnaire** to be used to collect the external environment data and information

Collect the external environment data from the appropriate data sources

	Factors	Questions	Data collection plan
Political			
Economic			
Social			
Technological			

PEST ANALYSIS

How to Conduct an Environmental Scanning Analysis

Analyze the collected data and present the results to the appropriate stakeholders

Take **actions** where you have identified significant opportunities and threats
/ Update your business strategic plan

	Factors	Research outcome	Opportunities	Threats	Actions
Political					
Economic					
Social					
Technological					

PEST ANALYSIS

The following **external and internal sources** can be used to gather the required information . . .



The Internet

Journals and newspapers

Industry-related conferences

Internal databases and reports

Commercial databases



Industry publications and magazines



Personal contacts

Government databases

Customers, suppliers and partners

Professional colleagues



PEST ANALYSIS

Further Information

Different external factors are of different **importance** to different businesses

For example, an organization which has a large amount of debt should focus more on the economic factors (interest rates)



PEST ANALYSIS

Further Information

Big companies which produce a wide range of products (such as Samsung and Nestle) may find it more useful to analyze one division at a time



PEST ANALYSIS

Further Information

Risk analysis can be used to you to assess potential threats and decide on relevant actions



PEST ANALYSIS

Further Information

Barriers

Some received information may get overlooked or just missed entirely

Some information is time limited and become invalid due to ever changing environment

The inappropriate interpretation of information that has been collected



PEST ANALYSIS

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