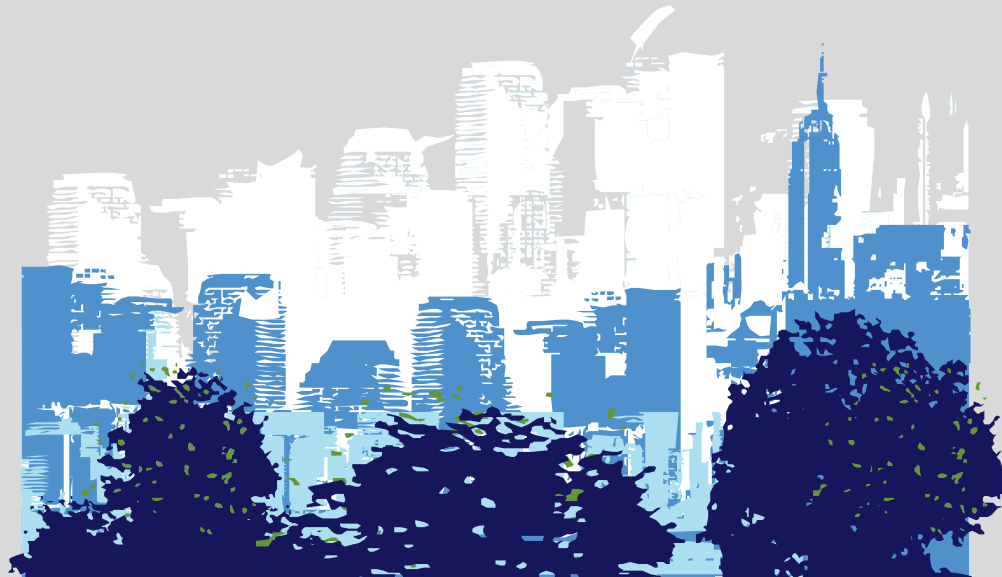# Continuous Improvement Toolkit

PEST Analysis

PEST Analysis

A strategic and structured **planning 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, then take **appropriate actions** to adapt to the changing environment

And how they affect the industry and market **in general**

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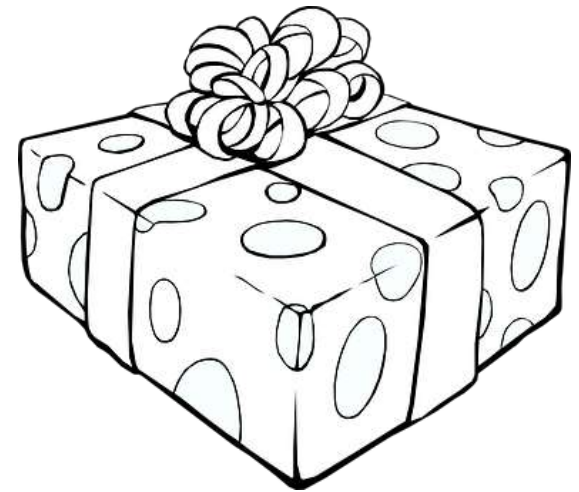
PEST Analysis

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 leads to a decrease in financial leverage

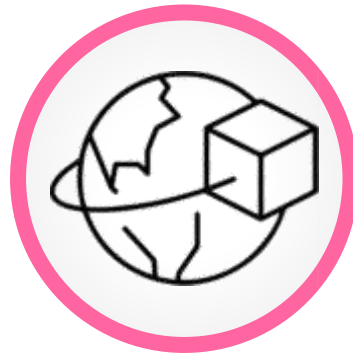▶ A changed government policy that exposes you to intensified competition

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

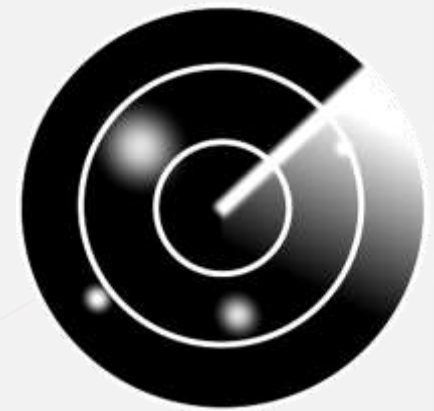Political   Economic   Social   Technological

PEST Analysis

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

Industry type

Geographical location
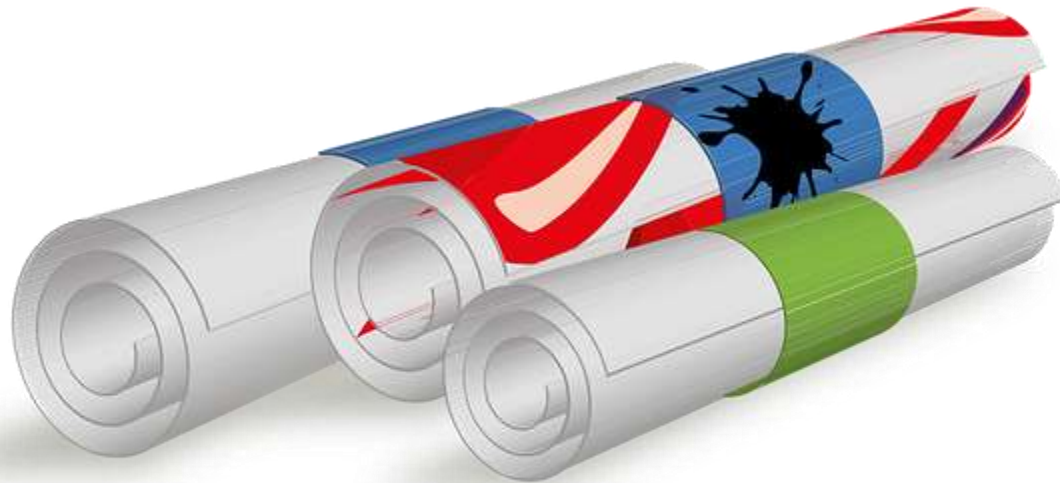
The nature of the offered products and services

For example, store-based retailers 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
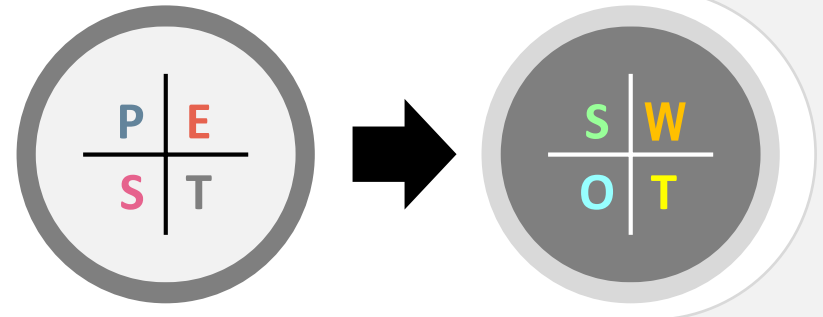

Helps avoid starting a major project that is likely to fail for reasons **beyond control**

PEST Analysis

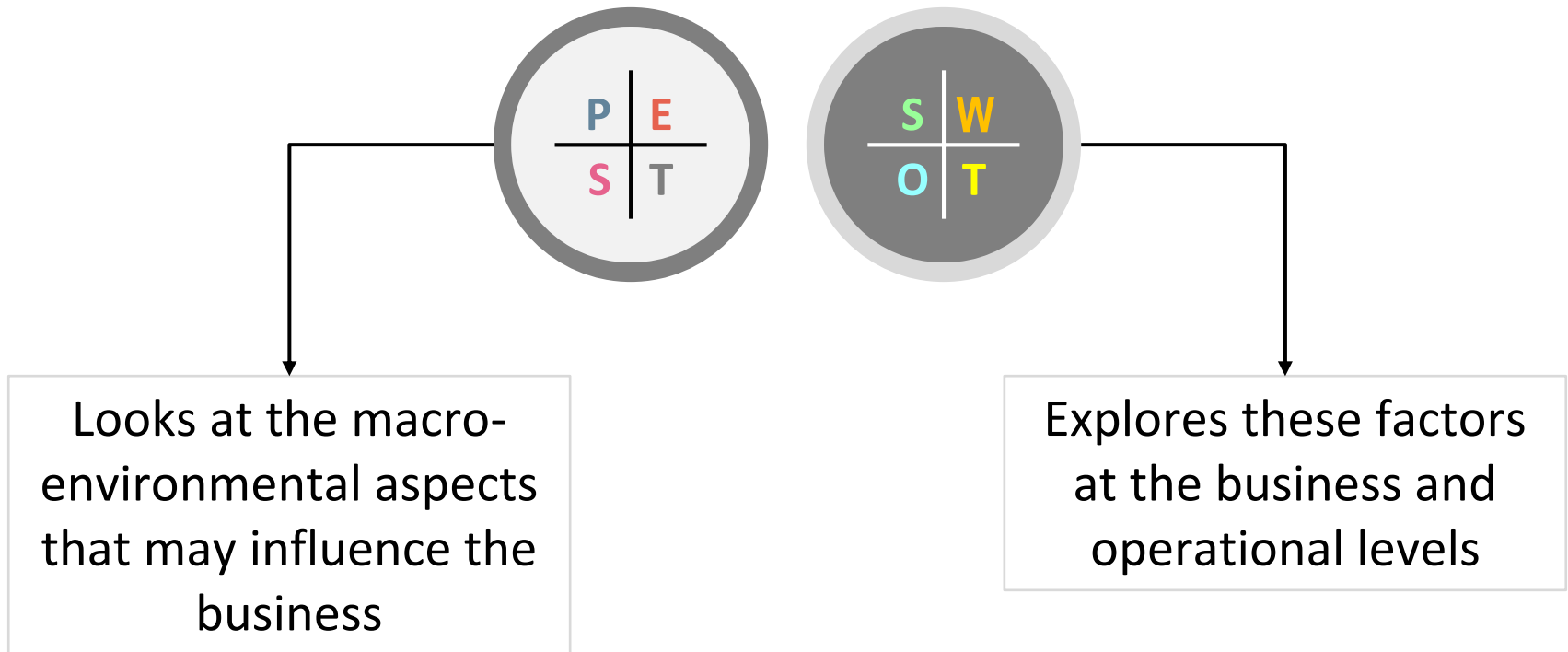PEST Analysis is often linked with **SWOT analysis**

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

Looks at the macro-environmental aspects that may influence the business

Explores these factors at the business and operational levels

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**
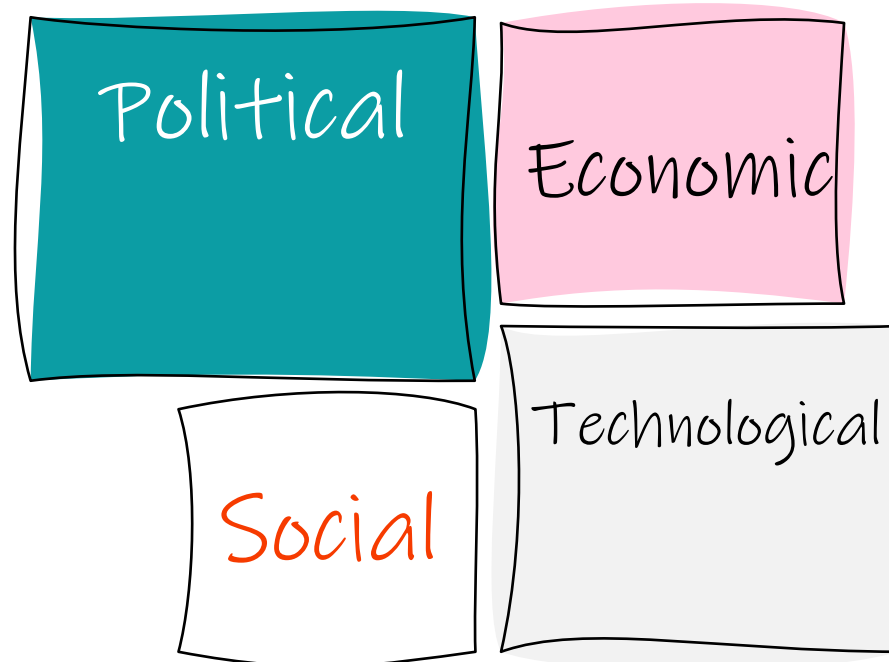
PEST Analysis

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

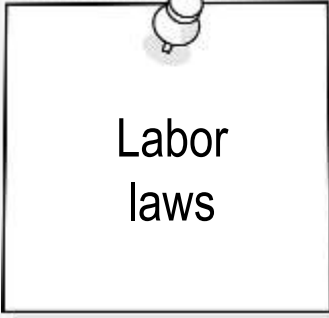Political risk analysis may be conducted to evaluate political issues

PEST Analysis

Political looks at . . .

Political stability

Labor laws

Corruption levels

Threats of wars

Government stability

Nationalization

Trade controls / import & export restrictions
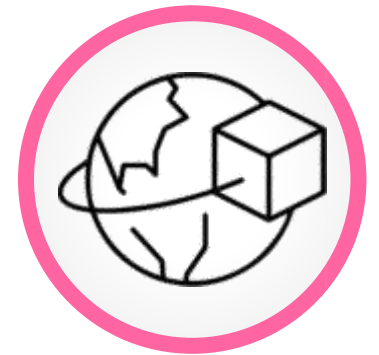
Tariffs and taxation policies

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
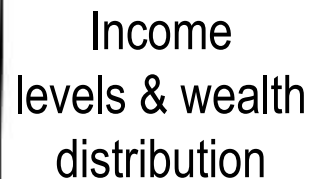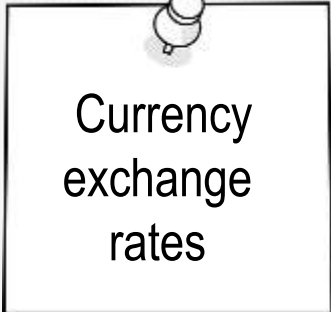
PEST Analysis

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
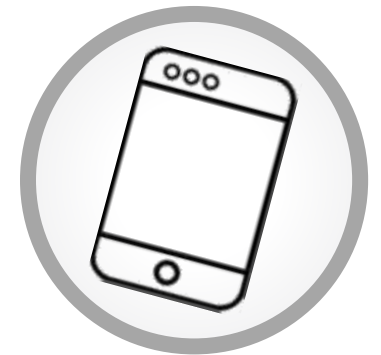
PEST Analysis

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

Example

Political

- Changes in the labor law
  May increase labor cost
- Inconsistent tax regulations

Economic

- Current recession
  May affect the spending behavior
- High level of GDP per capital

Social

- Increase in health consciousness
  May decrease demand for certain products
- Increase in foreign population

Technological

- The increasing number of internet users
  May require to improve the online presence
- Lower cost of communication
- Online banking accessibility

- Opportunity
- Risk

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 . . .

Military	Infrastructure	Competition	Cross-cultural
Ethical	Demographic	Regulatory	Legal

Socio-cultural ⟷ Social

Ecological ⟷ Environmental
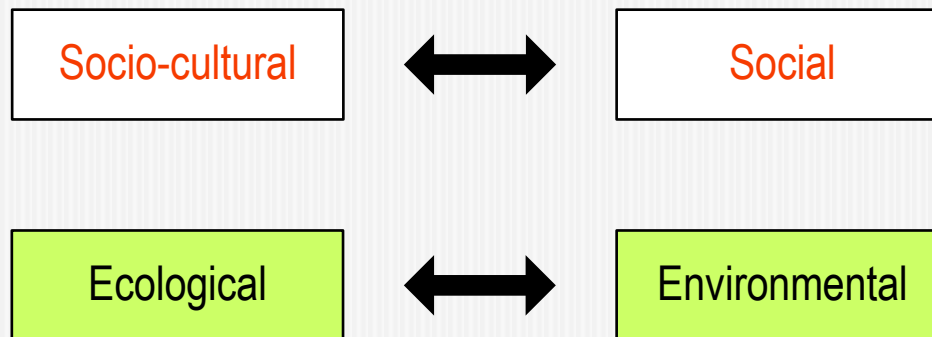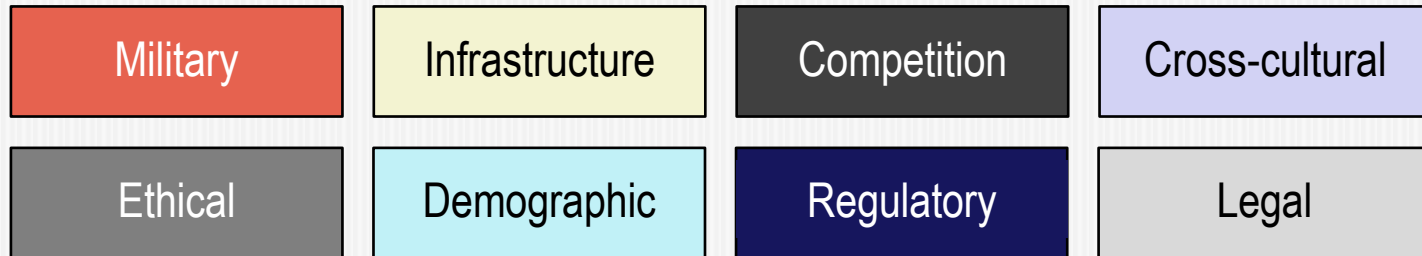
PEST Analysis

PESTEL . . .

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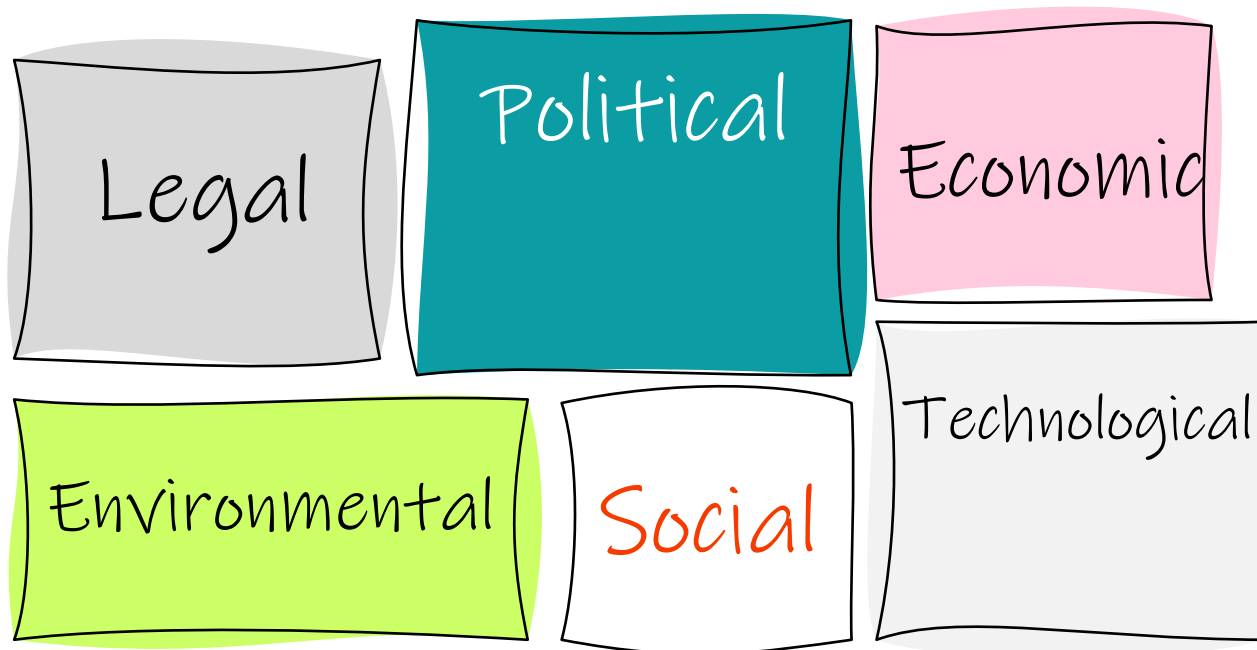
PEST Analysis

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

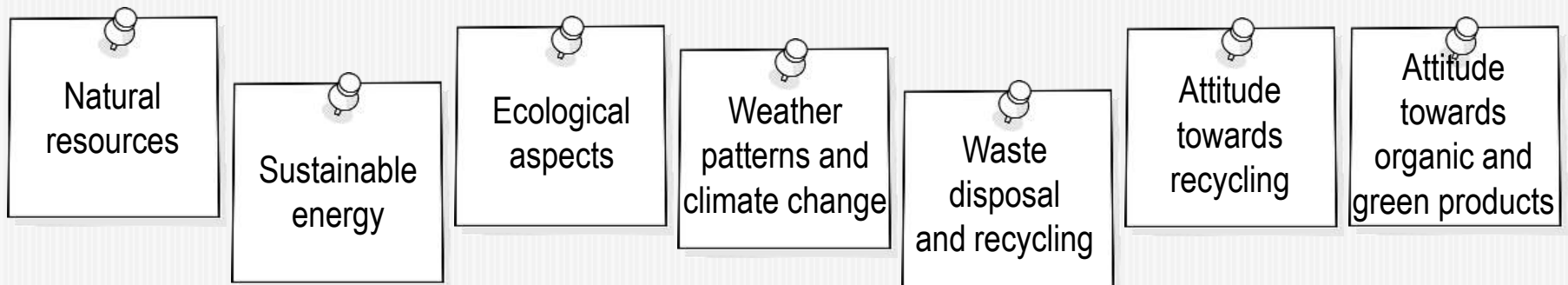Analyzes the potential impacts of **climate and climate change** on how the business produces and delivers its products and services

Natural resources

Sustainable energy

Ecological aspects

Weather patterns and climate change

Waste disposal and recycling

Attitude towards recycling

Attitude towards organic and green products

PEST Analysis

STEEPLED

Demographic looks at . . .

Age and gender distribution

Integration of minorities

Ethnic ratio

Disabilities

Nationalities

Ethical looks at . . .

Core values

Code of conduct

Bribery and fraud

Discrimination

Freedom of information
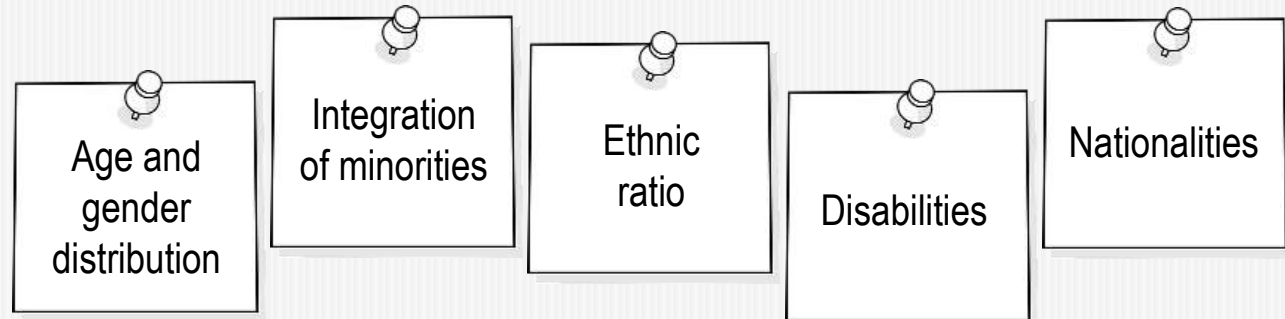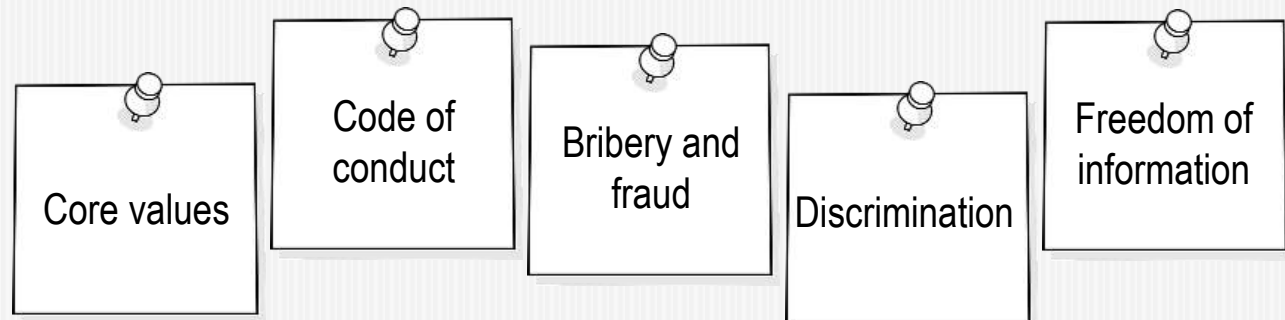
PEST Analysis

How to Conduct an Environmental Scanning Analysis

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

Agree on the time and resources required for the analysis

PEST Analysis

How to Conduct an Environmental Scanning Analysis

Brainstorm the **external factors** that may influence the business and the potential opportunities and/or 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 (5Ws & 1H)
Political		
Economic		
Social		
Technological		

PEST Analysis

How to Conduct an Environmental Scanning Analysis

Analyze the collected data and then 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

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