

## PESTLE Analysis Overview

PESTLE Technique

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## 1 INTRODUCTION TO PESTLE ANALYSIS

**PESTLE** is an acronym for Political, Economic, Social, Technological, Legal and Environmental factors, which is used to assess the market for a business or organisational unit strategic plan.

A PESTLE analysis (also sometimes called a STEP or STEEP analysis) looks at the external business environment. It examines the impact of each of these factors (and their interplay with each other) on the business. PESTLE analysis is a useful tool for understanding the “big picture” of the environment, in which you are operating, and the opportunities and threats that lie within it. By understanding the environment in which you operate (external to your company or department), you can take advantage of the opportunities and minimize the threats.

Specifically **PESTLE analysis** is a useful tool for understanding risks associated with market growth or decline, and as such the position, potential and direction for a business or organisation. The **PESTLE Analysis** is often used as a generic ‘orientation’ tool, to find out where an organisation or product is in the context of what is happening out side, which will at some point effect what is happening inside an organisation. It is often used within a strategic SWOT analysis (Strengths, Weaknesses, Opportunities and Threats analysis).

## 2 HISTORY OF PESTLE ANALYSIS

So where did the term PEST or PESTLE derive from? What are the origins? The term PESTLE has been used regularly in the last 10+ years and its true history is difficult to establish.

From research, the earliest known reference to tools and techniques for ‘Scanning the Business Environment’ appears to be by Francis J. Aguilar (1967) who discusses ‘ETPS’ – a mnemonic for the four sectors of his taxonomy of the environment: Economic, Technical, Political, and Social.

Shortly after its publication, Arnold Brown for the Institute of Life Insurance (in the US) reorganized it as ‘STEP’ (Strategic Trend Evaluation Process) as a way to organise the results of his environmental scanning.

Thereafter, this ‘macro external environment analysis’, or ‘environmental scanning for change’, was modified yet again to become a so-called STEPE analysis (the Social, Technical, Economic, Political, and Ecological taxonomies).

In the 1980s, several other authors including Fahey, Narayanan, Morrison, Renfro, Boucher, Mecca and Porter included variations of the taxonomy classifications in a variety of orders: PEST, PESTLE, STEEPLE etc.

Quite who and when who added what elements to the mnemonic is a mystery. However what we do know is that the actual order and words contained are common to certain parts of the world and streams of academic study.

## 3 OVERVIEW OF PESTLE ANALYSIS

PESTLE analysis was originally designed as a business environmental scan, where in the the PEST or PESTLE analysis is an analysis of the external macro environment (big picture) in which a business operates. These are often factors which are beyond the control or influence of a business. However they are important to be aware of when doing product development, business or strategy planning.

The PESTLE analysis is used for business and strategic planning, marketing planning, business and product development and research reports. The **PESTLE analysis** headings are a framework for reviewing a situation, and can also be used to review a strategy or position, direction of a company, a marketing proposition, or idea.

### 3.1 POLITICAL FACTORS

Political factors are concerned with how and to what degree a government intervenes in the economy. Specifically, political factors include areas such as tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government wants to provide or have provided (merit goods) and those that the government does not want to be provided (demerit goods or merit bads). Furthermore, governments have great influence on the health, education, and infrastructure of a nation. When examining political factors, you need to look at any political changes that could effect your business. What laws are being drafted? What global changes are occurring? Legislation on data protection, health & safety, environmental policy, should be considered.

### 3.2 ECONOMIC FACTORS

Often the political factors spill over into economic factors. For example, tax is usually decided by politicians, based on a mixture of political and economic factors. Interest rates, in many countries are decided by a central bank, but political factors may still be important. Other economic factors include exchange rates, inflation levels, income growth, debt & savings levels (which impact available money) and consumer & business confidence. The current state of world stock markets is a typical example of the volatility of economic factors. These areas are global, but it is also important to look at factors affecting individual industries.

Are paper costs rising? For a book, magazine or newspaper publisher, the price of paper is a crucial economic measure. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows and expands. Exchange rates affect the costs of exporting goods and the supply and price of imported goods in an economy.

### 3.3 SOCIAL FACTORS

Finally, all this influences and is influenced by social factors - the elements that build society. Social factors influence people's choices and include the beliefs, values and attitudes of society. So understanding changes in this area can be crucial. Such changes can impact purchasing behaviour. **Social** factors include the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. Trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce (thus increasing the cost of labour). Furthermore, companies may change various management strategies to adapt to these social trends (such as recruiting older workers).

### 3.4 TECHNOLOGICAL FACTORS

**Technological** factors include technological aspects such as R&D activity, automation, technology incentives and the rate of technological change. They can determine barriers to entry, minimum efficient production level and influence outsourcing decisions. Furthermore, technological shifts can affect costs, quality, and lead to innovation.

Advances in technology can have a major impact on business success - with companies that fail to keep up often going out of business. Technological change impacts sociocultural attitudes. For example the way people spend their leisure has changed dramatically over the last 30 or so years. As well as advances in your own industry. Think about the likely impact of new technologies - the Internet, mobile phones, and the increasing advances in computing and computers. Look out for any technology that could make producing your product easier. And watch out for the technology that could make your product obsolete.

### 3.5 ENVIRONMENTAL

These factors include ecological and environmental aspects such as weather, climate, and climate change, which may especially affect industries such as tourism, farming, and insurance. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer, both creating new markets and diminishing or destroying existing ones.

### 3.6 LEGAL

These factors include the discrimination laws, consumer law, antitrust law, employment law, and health and safety law. They can affect how a company operates, its costs, and the demand for its products.

## 4 HOW TO CREATE A PESTLE ANALYSIS

Completing a **PESTLE analysis** can be a simple or complex process. It all depends how thorough you need to be. It is a good subject for workshop sessions, as undertaking this activity with only one perspective (i.e. only one person's view) can be time consuming and miss critical factors.

The **PESTLE** template below includes sample questions or prompts, whose answers are can be inserted into the relevant section of the table.

The questions are examples of discussion points, and should be altered depending on the subject of the analysis, and how you want to use it.

Make up your own **PESTLE** questions and prompts to suit the issue being analysed and the situation (i.e. the people doing the work and the expectations of them).

Prepare contingency plans for any threats identified. If there are factors that lead to business opportunities, then include these in your planning. For example, your target customer group may be growing faster than other sectors. This is an opportunity to increase production to take advantage of more potential customers.

However before you can use the results effectively, you should also develop an understanding of your own companies capabilities. This comes from a SWOT analysis.

| PESTLE Analysis factors   | Your notes   | Potential Impact:   | Implication and importance   |   |  |   |
|---|--|---|--|---|--|---|
| <p>The list below is just to get you started. Remember to put these, and others that you add in the context of your organisation or business.</p>   | <p>About your organisation. How might the factors listed on the left impact your business or part of the organization?</p> | <p>H – High<br/>M – Medium<br/>L – Low<br/>U - Undetermined</p> | <p>Time Frame:<br/>0 – 6 months<br/>6 – 12 months<br/>12 – 24 months<br/>24 + months</p> | <p>Type:<br/>Positive+<br/>Negative -<br/>Unknown</p> | <p>Impact:<br/>Increasing &gt;<br/>Unchanged =<br/>Decreasing &lt;<br/>Unknown</p> | <p>Relative Importance:<br/>Critical<br/>Important<br/>Un-important<br/>Unknown</p> |
| <p><b>Political – SWOT</b></p> <ul style="list-style-type: none"> <li>• Trading policies</li> <li>• Funding, grants and initiatives</li> <li>• Home market lobbying/pressure groups</li> <li>• International pressure groups</li> <li>• Wars and conflict</li> <li>• Government policies</li> <li>• Government term and change</li> <li>• Elections</li> <li>• Inter-country relationships/attitudes</li> <li>• Political trends</li> <li>• Governmental leadership</li> <li>• Government structures</li> <li>• Internal political issues</li> <li>• Shareholder/ stakeholder needs/ demands</li> </ul> |  |   |  |   |  |   |
| <p><b>Economic – SWOT</b></p> <ul style="list-style-type: none"> <li>• Home economy situation</li> <li>• Home economy trends</li> <li>• Overseas economies and trends</li> <li>• General taxation issues</li> <li>• Taxation changes specific to product/services</li> <li>• Seasonality/weather issues</li> <li>• Market and trade cycles</li> <li>• Specific industry factors</li> <li>• Market routes and distribution trends</li> </ul>   |  |   |  |   |  |   |

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| <ul style="list-style-type: none"> <li>• Customer/end-user drivers</li> <li>• International trade/monetary issues</li> <li>• Disposable income</li> <li>• Job growth/unemployment</li> <li>• Exchange rates</li> <li>• Tariffs</li> <li>• Inflation</li> <li>• Interest and exchange rates</li> <li>• Consumer confidence index</li> <li>• Import/export ratios</li> <li>• Production level</li> <li>• Internal finance</li> <li>• Internal cash flow</li> </ul>   |  |  |  |  |  |  |
| <p><b>Social – SWOT</b></p> <ul style="list-style-type: none"> <li>• Consumer attitudes and opinions</li> <li>• Media views</li> <li>• Law changes affecting social factors</li> <li>• Brand, company, technology image</li> <li>• Consumer buying patterns</li> <li>• Major events and influences</li> <li>• Buying access and trends</li> <li>• Ethnic/religious factors</li> <li>• Advertising and publicity</li> <li>• Ethical issues</li> <li>• Demographics (age, gender, race, family size,)</li> <li>• Lifestyle changes</li> <li>• Population shifts</li> <li>• Education</li> <li>• Trends</li> <li>• Fads</li> <li>• Diversity</li> <li>• Immigration/emigration</li> <li>• Health</li> <li>• Living standards</li> <li>• Housing trends</li> <li>• Fashion &amp; role models</li> <li>• Attitudes to work</li> <li>• Attitudes to people doing certain types of</li> </ul> |  |  |  |  |  |  |

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| <ul style="list-style-type: none"> <li>work</li> <li>• Leisure activities</li> <li>• Occupations</li> <li>• Earning capacity</li> <li>• Staff attitudes</li> <li>• Management style</li> <li>• organizational culture</li> <li>• Changes to education system</li> </ul>   |  |  |  |  |  |  |
| <p><b>Technological – SWOT</b></p> <ul style="list-style-type: none"> <li>• Competing technology development</li> <li>• Research funding</li> <li>• Associated/dependent technologies</li> <li>• Replacement technology/solutions</li> <li>• Maturity of technology</li> <li>• Manufacturing maturity and capacity</li> <li>• Information and communications</li> <li>• Consumer buying mechanisms/technology</li> <li>• Technology legislation</li> <li>• Innovation potential</li> <li>• Technology access, licensing, patents</li> <li>• Intellectual property issues</li> <li>• Global communications</li> <li>• Inventions</li> <li>• Innovations</li> <li>• New discoveries</li> <li>• Research</li> <li>• Energy uses/sources/fuels</li> <li>• Communications</li> <li>• Rate of obsolescence</li> <li>• Health (pharmaceutical, equipment, etc.)</li> <li>• Manufacturing advances</li> <li>• Information technology</li> <li>• Internet</li> <li>• Transportation</li> <li>• Bio-tech</li> <li>• Genetics</li> <li>• Waste removal/recycling</li> <li>• Email</li> <li>• M-learning</li> </ul> |  |  |  |  |  |  |

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| <ul style="list-style-type: none"> <li>• E-learning</li> <li>• Collaboration tools</li> <li>• Software changes</li> <li>• RSI</li> </ul>  |  |  |  |  |  |  |
| <p><b>Legal – SWOT</b></p> <ul style="list-style-type: none"> <li>• Current legislation home market</li> <li>• Future legislation</li> <li>• European/international legislation</li> <li>• Regulatory bodies and processes</li> <li>• Environmental regulations</li> <li>• Employment law</li> <li>• Consumer protection</li> <li>• Industry-specific regulations</li> <li>• competitive regulations</li> </ul>   |  |  |  |  |  |  |
| <p><b>Environmental – SWOT</b></p> <ul style="list-style-type: none"> <li>• Ecological</li> <li>• Environmental issues</li> <li>• International</li> <li>• National</li> <li>• Local</li> <li>• Environmental regulations</li> <li>• Customer values</li> <li>• Market values</li> <li>• Stakeholder/ investor values</li> <li>• Staff attitudes</li> <li>• Management style</li> <li>• organizational culture</li> <li>• Staff morale</li> <li>• Staff engagement</li> <li>• Global factors</li> </ul> |  |  |  |  |  |  |

It is important to clearly identify the subject of a **PESTLE analysis** (that is a clear goal or output requirement), because an analysis of this type is multi-faceted in relation to a particular business unit or proposition – if you dilute the focus you will produce an unclear picture – so be clear about the situation and perspective that you use PESTLE to analyse.

The **PESTLE** subject should be a clear definition of the market being addressed, which might be from any of the following standpoints:

- A company looking at its market
- A product looking at its market
- A brand in relation to its market
- A local business unit or function in a business

- A strategic option, such as entering a new market or launching a new product
- A potential acquisition
- A potential partnership
- An investment opportunity

Be sure to describe the subject for the **PESTLE analysis** clearly, so that people contributing to the analysis, and those seeing the finished **PESTLE analysis**, properly understand the purpose of the **PESTLE** assessment and implications. The final stage in a PESTLE analysis is to use the results.

## 5 REFERENCES

This document reference content from the following sites:

- <http://www.marketing-intelligence.co.uk/help/Q%26A/question24.htm>
- [http://en.wikipedia.org/wiki/PEST\\_analysis](http://en.wikipedia.org/wiki/PEST_analysis)
- <http://rapidbi.com/created/the-pestle-analysis-tool/>