

Introduction

A PESTEL analysis is a strategic framework commonly used to evaluate the business environment in which a firm operates. Traditionally, the framework was referred to as a PEST analysis, which was an acronym for Political, Economic, Social, and Technological; in more recent history, the framework was extended to include Environmental and Legal factors as well.

A PESTEL analysis helps an organisation identify the external forces that could impact their market and analyse how they could directly impact their business. It's important when undertaking such an analysis that the factors affecting the organisation are not just identified but are also assessed – for example, what impact might they have on the organisation?

Definition

PESTEL is an acronym that stands for Political, Economic, Social, Technological, Environmental and Legal factors.

When to use a PESTEL Analysis

This tool is especially useful when starting a new business or entering a foreign market.

Understanding PESTEL Analysis

Political Factors:

These factors are all about how and to what degree a government intervenes in the economy or a certain industry. Basically all the influences that a government has on your business could be classified here. This can include government policy, political stability or instability, corruption, foreign trade policy, tax policy, labour law, environmental law and trade restrictions. Furthermore, the government may have a profound impact on a nation's education system, infrastructure and health regulations. These are all factors that need to be taken into account when assessing the attractiveness of a potential market

Economic Factors:

Economic factors are determinants of a certain economy's performance. Factors include economic growth, exchange rates, inflation rates, interest rates, disposable income of consumers and unemployment rates. These factors may have a direct or indirect long-term impact on a company, since it affects the purchasing power of consumers and could possibly change demand/supply models in the economy. Consequently, it also affects the way companies price their products and services.

Social Factors:

This dimension of the general environment represents the demographic characteristics, norms, customs and values of the population within which the organization operates. This includes population trends such as the population growth rate, age distribution, income distribution, career attitudes, safety emphasis, health consciousness, lifestyle attitudes and cultural barriers. These factors are especially important for marketers when targeting certain customers. In addition, it also says something about the local workforce and its willingness to work under certain conditions.

Technological Factors:

These factors pertain to innovations in technology that may affect the operations of the industry and the market favorably or unfavorably. This refers to technology incentives, the level of innovation, automation, research and development (R&D) activity, technological change and the amount of technological awareness that a market possesses. These factors may influence decisions to enter or not enter certain industries, to launch or not launch certain products or to outsource production activities abroad. By knowing what is going on technology-wise, you may be able to prevent your company from spending a lot of money on developing a technology that would become obsolete very soon due to disruptive technological changes elsewhere.

Environmental Factors:

Environmental factors have come to the forefront only relatively recently. They have become important due to the increasing scarcity of raw materials, pollution targets and carbon footprint targets set by governments. These factors include ecological and environmental aspects such as weather, climate, environmental offsets and climate change which may especially affect industries such as tourism, farming, agriculture and insurance. Furthermore, growing awareness of the potential impacts of climate change is affecting how companies operate and the products they offer. This has led to many companies getting more and more involved in practices such as corporate social responsibility (CSR) and sustainability.

Legal Factors:

Although these factors may have some overlap with the political factors, they include more specific laws such as discrimination laws, antitrust laws, employment laws, consumer protection laws, copyright and patent laws, and health and safety laws. It is clear that companies need to know what is and what is not legal in order to trade successfully and ethically. If an organisation trades globally this becomes especially tricky since each country has its own set of rules and regulations. In addition, you want to be aware of any potential changes in legislation and the impact it may have on your business in the future. Recommended is to have a legal advisor or attorney to help you with these kinds of things.

HOW TO DO A PESTEL ANALYSIS

There are several steps involved when undertaking a PESTEL analysis. At first, it is important to get a group of people together from different areas of the business and brainstorm ideas.

Next, you will want to consult and seek the opinions of experts from outside your business. These could be your customers, distributors, suppliers or consultants who know your business well.

The third stage will involve you researching and gathering evidence for each insight in your Analysis. Then you will want to evaluate and score each of the items for 'likelihood'; how likely it is to happen and 'impact'; how big an impact it could have on your business.

The final stage involves refining your ideas and repeating the process until you have a manageable number of points in each of the six categories.