



Undertaking a PESTEL Analysis

Overview

The PESTEL Analysis is considered an important precursor before any kind of strategy or tactical plan is developed or implemented.

Essentially it is an insightful tool used to identify the 'macro external' forces that may impact an organization, its people and clients.

The letters stand for Political, Economic, Social, Technological, Environmental and Legal.

Depending on the organization it can be reduced to PEST and/or changed to include other areas to suit such as International.

The PESTEL should be repeated at regular stages, 6 monthly minimum, to identify changes in the macro environment allowing for the timely development and implementation of new or corrective strategies and tactics creating a distinct competitive advantage.

Political Factors

These determine the extent to which government and government policy in particular may impact on an organization, or a specific industry.

This could include things like political policy and stability as well as trade, fiscal, import, export, taxation policies and so on.

Economic Factors

These are factors that impact the economy and its performance, which in turn will directly impact people, organizations and profitability.

Factors here may include interest rates, employment or unemployment rates, raw material costs, foreign exchange rates, pandemics or 'force majeure' such as drought, floods, fires and earthquakes.

Social Factors

These focus on the social environment and should ideally identify emerging trends.

This helps the strategist to further understand their customers' needs and wants ... their drivers and connectors. Factors will include changing family demographics, education levels, cultural trends, attitude changes and changes in lifestyle habits.

Technological Factors

Consider here the rate of technological innovation and development that could affect a market, industry or entire cultures.

Take into account things like changes in digital or mobile technology such as 5G, automation, artificial intelligence, 3D printing, the latest in research and development for your specific industry and of course cyber risk.

There is often a tendency to focus on developments only in digital technology, but consideration must also be given to new methods of distribution, manufacturing and also logistics.

Environmental Factors

These factors relate to the influence of the surrounding environment and the impact of ecological aspects.

With the rise in importance of CSR (Corporate Sustainability Responsibility), this element is becoming more important. Factors here could include climate, recycling procedures, carbon footprint, waste disposal and sustainability and the like.

Legal Factors

An organization must understand what is legal and allowed within the territories they operate in. They also must be aware of any change in legislation and the impact this may have on business operations.

Factors here may include employment legislation, consumer law, medical benefits, OH&S (organizational health and safety) as well as trade regulation and restrictions.

Political factors do cross over with legal factors, however, the key difference is that political factors are led by government policy, whereas legal factors must be complied with.

Summary

The PESTEL Analysis helps an organization identify the external forces that could impact their market and enable a quick analysis as to how they could directly impact their business.

It's important when undertaking such an analysis that the factors affecting the organization are not just identified but are also assessed in terms of risk – for example, what impact might they have on the organization financially and in terms of continuity of trading?

Find below a little more detail in terms of potential inputs to develop your PESTEL.

P Political	E Economic	S Social	T Technological	E Environmental	L Legal
<ul style="list-style-type: none"> • Government policy • Political stability or instability overseas • Foreign trade policy • Tax policy • Labor laws • Terrorism and military considerations • Environmental laws • Funding grants and initiatives • Trade restrictions • Fiscal policy 	<ul style="list-style-type: none"> • Economic Growth • Interest Rates • Exchange rates • Inflation • Disposable income of consumers • Disposable income of businesses • Taxation • Interstate taxes • Wages rates • Financing capabilities 	<ul style="list-style-type: none"> • Population growth • Age distribution • Health consciousness • Career attitudes • Customer buying trends • Cultural trends • Demographics • Industrial reviews and consumer confidence • Organizational image 	<ul style="list-style-type: none"> • Producing goods and services • Emerging technologies • Technological maturity • Distributing goods and services • Target Market Communication • Potential Copyright infringements • Increased training to use innovation • Potential Return on Investment (ROI) 	<ul style="list-style-type: none"> • The decline of raw materials • Pollution and green house gas emissions • Promoting positive business ethics and sustainability • Reduction of their carbon foot print. • Climate and weather • Environmental Legislation • Geographical location (and accessibility) 	<ul style="list-style-type: none"> • Health & Safety • Equal Opportunities • Advertising Standards • Consumer Rights and laws • Product Labeling • Product Safety • Safety Standards • Labor Laws • Future Legislation • Competitive Legislation

The outcomes of a PESTEL Analysis can then be used to better populate a SWOT analysis.