

What is PESTLE Analysis? PESTLE analysis, which is sometimes referred as PEST analysis, is a strategic analysis tool for organisations to explore and track the environment they're operating in.

There are certain questions that one needs to ask while conducting this analysis, which give them an idea of what things to keep in mind. They are:

- What is the political situation of the country and how can it affect the industry?
- What are the prevalent economic factors?
- How much importance does culture has in the market and what are its determinants?
- What technological innovations are likely to pop up and affect the market structure?
- Are there any current legislations that regulate the industry or can there be any change in the legislations for the industry?
- What are the environmental concerns for the industry?

All the aspects of this technique are crucial for any industry a business might be in. More than just understanding the market, this framework represents one of the vertebrae of the backbone of strategic management that not only defines what a company should do, but also accounts for an organization's goals and the strategies stringed to them.

The **PESTLE** Analysis includes 7 key factors:

- **Political** factors are basically how the government intervenes in the economy. Specifically, political factors have areas including tax policy, labour law, environmental law, trade restrictions, tariffs, and political stability. Political factors may also include goods and services which the government aims to provide or be provided and those that the government does not want to be provided. Furthermore, governments have a high impact on the health, education, and infrastructure of a nation.
- **Economic** factors include economic growth, interest rates, exchange rates, inflation rate. These factors greatly affect how businesses operate and make decisions. For example, interest rates affect a firm's cost of capital and therefore to what extent a business grows

and expands. Exchange rates can affect the costs of exporting goods and the supply and price of imported goods in an economy.

- **Social** factors include the cultural aspects and health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. High trends in social factors affect the demand for a company's products and how that company operates. For example, the ageing 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 social trends caused from this (such as recruiting older workers).
- **Technological** factors include technological aspects like R&D activity, automation, technology incentives and the rate of technological change. These can determine barriers to entry, minimum efficient production level and influence the outsourcing decisions. Furthermore, technological shifts would affect costs, quality, and lead to innovation.
- **Legal** factors include discrimination law, consumer law, antitrust law, employment law, and health and safety law. These factors can affect how a company operates, its costs, and the demand for its products.
- **Environmental** 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.

Tip!

It may be so, that the importance of each of the factors may be different to different kinds of industries, but it is imperative to any strategy a company wants to develop that they conduct the PESTLE analysis as it forms a much more comprehensive version of the SWOT analysis.



Guidance:

<i>Political Factors</i>	<i>Economic Factors</i>
<ul style="list-style-type: none"> • Government stability • Taxation policy • Foreign trade regulations • Social welfare policies 	<ul style="list-style-type: none"> • Business Cycles • GNP Trends • Interest rates • Money supply • Inflation • Unemployment • Disposable income
<i>Social Factors</i>	<i>Technological Factors</i>
<ul style="list-style-type: none"> • Population demographics • Income distribution • Social mobility • Lifestyle changes • Attitudes to work and leisure • Consumerism • Levels of education 	<ul style="list-style-type: none"> • Government spending on research • Government and industry focus on technological effort • New discoveries/development • Speed of technology transfer • Rates of obsolesces
<i>Legal Factors</i>	<i>Environmental</i>
<ul style="list-style-type: none"> • Monopolies legislation • Employment law • Health and safety • Product safety 	<ul style="list-style-type: none"> • Environmental protection laws • Waste disposal • Energy consumption

Tool:

<i>Political Factors</i>	<i>Economic Factors</i>
<i>Social Factors</i>	<i>Technological Factors</i>
<i>Legal Factors</i>	<i>Environmental</i>