

PEST Analysis

Identifying "Big Picture" Opportunities and Threats

(Also known as PESTLE, PESTEL, PESTLIED, STEEPLE, SLEPT and LONG-PESTLE)

Changes in your business environment can create great opportunities for your organization – and cause significant threats.

Opportunities might come from new technologies that help you reach new customers, from new funding streams that allow you to invest in better equipment, and from changes to government policy that opens up new markets.

Threats might include deregulation that exposes you to intensified competition, a shrinking market, or increases to interest rates, which can cause problems if your company is burdened by debt.

PEST Analysis is a simple and widely used tool that helps you to analyze the Political, Economic, Socio-Cultural, and Technological changes in your business environment. So you can gain a better understanding of the "big picture" forces of change that you're exposed to, and, from this, take advantage of the opportunities that they present.

In this article and in the video, below, we'll look at how you can use PEST Analysis to understand and adapt to your current and future business environment.

[Download transcript](#)

What Is PEST Analysis?

Harvard professor Francis Aguilar is thought to be the creator of PEST Analysis. He included a scanning tool called ETPS in his 1967 book, "Scanning the Business Environment," which was later amended to PEST. [1]

PEST Analysis is useful for four main reasons:

1. It enables you to spot business or personal opportunities, and gives you advanced warning of any significant threats.
2. It reveals the direction of change within your business environment, so you can adapt what you're doing to work **with** the change, rather than against it.
3. You can use to analyze risks in your environment as well, so you can avoid starting projects that are likely to fail.
4. It gives you an objective view of new and different markets, so you can base business decisions on facts rather than unconscious assumptions when you enter a new country, region, or market.

Note:

PEST Analysis is often linked with [SWOT Analysis](#), however, the two tools have different areas of focus.

PEST Analysis looks at "big picture" factors that might influence a decision, a market, or a potential new business. SWOT Analysis explores these factors at a business, product-line or product level.

These tools complement one another and are often used in combination.

How to Use PEST Analysis

Work through the following four steps to analyze your business environment using PEST.

You may like to use our [worksheet](#) to guide you through these steps.

Step 1: Brainstorm Factors

First, [brainstorm](#) the changes happening in your business environment that will likely impact your organization, focusing on the four key areas of PEST – politics, the economy, socio-cultural changes, and technology.

We've included some common questions to help you do this, but you can tailor these to suit your specific business needs.

Political Factors to Consider

- When is the country's next local, state, or national election? How could this change government or regional policy?
- Who are the most likely contenders for power? What are their views on business policy, and on other policies that affect your organization?
- Depending on the country, how well developed are property rights and the rule of law, and how widespread are corruption and organized crime? How are these situations likely to change, and how is this likely to affect you?
- Could any pending legislation or taxation changes affect your business, either positively or negatively?
- How will business regulation, along with any planned changes to it, affect your business? And is there a trend towards regulation or deregulation?
- How does government approach corporate policy, corporate social responsibility, environmental issues, and customer protection legislation? What impact does this have, and is it likely to change?
- What is the likely timescale of proposed legislative changes?
- Are there any other political factors that are likely to change?

Economic Factors to Consider

- How stable is the current economy? Is it growing, stagnating, or declining?
- Are key exchange rates stable, or do they tend to vary significantly?
- Are customers' levels of disposable income rising or falling? How is this likely to change in the next few years?
- What is the unemployment rate? Will it be easy to build a skilled workforce? Or will it be expensive to hire skilled labor?
- Do consumers and businesses have easy access to credit? If not, how will this affect your organization?
- How is globalization affecting the economic environment?
- Are there any other economic factors that you should consider?

Tip:

Use [Porter's Diamond](#) to align your strategy with your country's business conditions.

Socio-Cultural Factors to Consider

- What is the population's growth rate and age profile? How is this likely to change?
- Are generational shifts in attitude likely to affect what you're doing?
- What are your society's levels of health, education, and social mobility? How are these changing, and what impact does this have?
- What employment patterns, job market trends, and attitudes toward work can you observe? Are these different for different age groups?
- What social attitudes and social taboos could affect your business? Have there been recent socio-cultural changes that might affect this?
- How do religious beliefs and lifestyle choices affect the population?
- Are any other socio-cultural factors likely to drive change for your business?

Tip:

Values take a central role in any society. Use the [Competing Values Framework](#) to identify your organization's values, and [Hofstede's Cultural Dimensions](#) to explore the values of your customers.

Technological Factors to Consider

- Are there any new technologies that you could be using?
- Are there any new technologies on the horizon that could radically affect your work or your industry?
- Do any of your competitors have access to new technologies that could redefine their products?
- In which areas do governments and educational institutions focus their research? Is there anything you can do to take advantage of this?
- How have infrastructure changes affected work patterns (for example, levels of remote working)?
- Are there existing technological hubs that you could work with or learn from?

- Are there any other technological factors that you should consider?

Note:

There are variations of PEST Analysis that bring other factors into consideration. These include:

- **PESTLE/PESTEL:** Political, Economic, Socio-Cultural, Technological, Legal, Environmental.
- **PESTLIED:** Political, Economic, Socio-Cultural, Technological, Legal, International, Environmental, Demographic.
- **STEEPLE:** Social/Demographic, Technological, Economic, Environmental, Political, Legal, Ethical.
- **SLEPT:** Socio-Cultural, Legal, Economic, Political, Technological.
- **LONGPESTLE:** Local, National, and Global versions of PESTLE. (These are best used for understanding change in multinational organizations.)

Choose the version that best suits your situation.

Step 2: Brainstorm Opportunities

Once you've identified the changes that are taking place in your business environment for each area of PEST, it's time to look at each one in detail, and brainstorm the opportunities that they could open up for you. For example, could it help you develop new products, open up new markets, or help you make processes more efficient?

Step 3: Brainstorm Threats

It's also important to clarify and factors that might undermine your business, now and in the future. If you understand this early enough, you may be able to avoid these problems, or minimize their impact.

For example, if a core part of your market is in demographic decline, could you target other areas of the market? Or if technology is threatening a key product, can you adapt to it?

[Risk Analysis](#) can help you to assess these threats and devise strategies to manage them.

Step 4: Take Action

Where you have identified significant opportunities, build the actions you'll take to exploit them into your [Business Plan](#). And if you've identified any significant risks, take appropriate action to manage or eliminate them.

Key Points

PEST Analysis is a great tool you can use to brainstorm threats and opportunities that might be impacting you, as a result of your wider business environment.

PEST stands for:

- **P**olitical. How government policy and legislation are impacting your business.
- **E**conomic. How economic factors like growth, inflation and interest rates are affecting your business.
- **S**ocio-cultural. How trends and lifestyle changes might impact your business.
- **T**echnological. How new technologies, automation, and the pace of technological change are impacting your business.

You can use these headings to brainstorm the "big picture" characteristics of a business environment (this could be a country, a region, or a new or existing market), and, from this, draw conclusions about the significant forces of change operating within it.

This provides a context for more detailed planning, within which you will be able to minimize risks and take full advantage of the opportunities that present themselves.

[Download Worksheet](#)