

What is PEST Analysis?

PEST analysis is very important that an organization considers its environment before beginning the marketing process. In fact, environmental analysis should be continuous and feed all aspects of planning. The organization's marketing environment is made up from:

1. The internal environment e.g. staff (or internal customers), office technology, wages and finance, etc.
2. The micro-environment e.g. our external customers, agents and distributors, suppliers, our competitors, etc.
3. The macro-environment e.g. Political (and legal) forces, Economic forces, Sociocultural forces, and Technological forces. These are known as PEST factors.

Political Factors

The political arena has a huge influence upon the regulation of businesses, and the spending power of consumers and other businesses. You must consider issues such as:

1. How stable is the political environment?
2. Will government policy influence laws that regulate or tax your business?
3. What is the government's position on marketing ethics?
4. What is the government's policy on the economy?
5. Does the government have a view on culture and religion?
6. Is the government involved in trading agreements such as EU, NAFTA, ASEAN, or others?

Economic Factors

Marketers need to consider the state of a trading economy in the short and long-terms. This is especially true when planning for international marketing. You need to look at:

1. Interest rates
2. The level of inflation Employment level per capita
3. Long-term prospects for the economy Gross Domestic Product (GDP) per capita, and so on

Sociocultural Factors

The social and cultural influences on business vary from country to country. It is very important that such factors are considered. Factors include:

1. What is the dominant religion?
2. What are attitudes to foreign products and services?
3. Does language impact upon the diffusion of products onto markets?
4. How much time do consumers have for leisure?
5. What are the roles of men and women within society?
6. How long are the population living? Are the older generations wealthy?
7. Do the population have a strong/weak opinion on green issues?

Technological Factors

Technology is vital for competitive advantage, and is a major driver of globalization. Consider the following points:

1. Does technology allow for products and services to be made more cheaply and to a better standard of quality?

2. Do the technologies offer consumers and businesses more innovative products and services such as Internet banking, new generation mobile telephones, etc?

3. How is distribution changed by new technologies e.g. books via the Internet, flight tickets, auctions, etc?

4. Does technology offer companies a new way to communicate with consumers e.g. banners, Customer Relationship Management (CRM), etc?

PEST analysis method and template

The PEST analysis is a useful tool for understanding market growth or decline, and as such the position, potential and direction for a business. A PEST analysis is a business measurement tool. PEST is an acronym for Political, Economic, Social and Technological factors, which are used to assess the market for a business or organizational unit. The PEST analysis headings are a framework for reviewing a situation, and can also, like [SWOT analysis](#), and [Porter's Five Forces model](#), be used to review a strategy or position, direction of a company, a marketing proposition, or idea. Completing a PEST analysis is very simple, and is a good subject for [workshop sessions](#). PEST analysis also works well in [brainstorming](#) meetings. Use PEST analysis for business and strategic planning, marketing planning, business and product development and research reports. You can also use [PEST analysis exercises for team building games](#). PEST analysis is similar to [SWOT analysis](#) - it's simple, quick, and uses four key perspectives. As PEST factors are essentially external, completing a PEST analysis is helpful prior to completing a SWOT analysis (a [SWOT analysis](#) - Strengths, Weaknesses, Opportunities, Threats - is based broadly on half internal and half external factors).

A PEST analysis measures a market; a SWOT analysis measures a business unit, a proposition or idea.

N.B. The PEST model is sometimes extended (some would say unnecessarily) to seven factors, by adding Ecological (or Environmental), Legislative (or Legal), and Industry Analysis (the model is then known as PESTELI). Arguably if completed properly, the basic PEST analysis should naturally cover these 'additional' factors: Ecological factors are found under the four main PEST headings; Legislative factors would normally be covered under the Political heading; Industry Analysis is effectively covered under the Economic heading. If you prefer to keep things simple, perhaps use PESTELI only if you are worried about missing something within the three extra headings.

A SWOT analysis measures a business unit or proposition, a PEST analysis measures the market potential and situation, particularly indicating growth or decline, and thereby market attractiveness, business potential, and suitability of access - market potential and 'fit' in other words. PEST analysis uses four perspectives, which give a logical structure, in this case organized by the PEST format, that helps understanding, presentation, discussion and decision-making. The four dimensions are an extension of a basic two heading list of pro's and con's.

PEST analysis can be used for marketing and business development assessment and decision-making, and the PEST template encourages proactive thinking, rather than relying on habitual or instinctive reactions.

Here the PEST analysis template is presented as a grid, comprising four sections, one for each of the PEST headings: Political, Economic, Social and Technological. The free PEST template below includes sample questions or prompts, whose answers are can be inserted into the relevant section of the PEST grid. The questions are examples of discussion points, and obviously can be altered depending on the subject of the PEST analysis, and how you

want to use it. Make up your own PEST questions and prompts to suit the issue being analysed and the situation (ie., the people doing the work and the expectations of them). Like SWOT analysis, it is important to clearly identify the subject of a PEST analysis, because a PEST analysis is four-way perspective in relation to a particular business unit or proposition - if you blur the focus you will produce a blurred picture - so be clear about the market that you use PEST to analyse.

A market is defined by what is addressing it, be it a product, company, brand, business unit, proposition, idea, etc, so be clear about how you define the market being analysed, particularly if you use PEST analysis in workshops, team exercises or as a delegated task. The PEST 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
- 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 PEST analysis clearly so that people contributing to the analysis, and those seeing the finished PEST analysis, properly understand the purpose of the PEST assessment and implications.

PEST analysis template

Other than the four main headings, the questions and issues in the template below are examples and not exhaustive - add your own and amend these prompts to suit your situation, the experience and skill level of whoever is completing the analysis, and what you aim to produce from the analysis.

If Environmental is a more relevant heading than Economic, then substitute it. Ensure you consider the three additional 'PESTELI' headings: Ecological (or Environmental), Legislative (or Legal), and Industry Analysis.

The analysis can be converted into a more scientific measurement by scoring the items in each of the sections. There are established good or bad reference points - these are for you to decide. Scoring is particularly beneficial if more than one market is being analysed, for the purpose of comparing which market or opportunity holds most potential and/or obstacles. This is useful when considering business development and investment options, ie, whether to develop market A or B; whether to concentrate on local distribution or export; whether to acquire company X or company Y., etc. If helpful when comparing more than one different market analysis, scoring can also be weighted according to the more or less significant factors.

Subject of PEST analysis: (define the standpoint and market here)

Political

- ecological/environmental issues
- current legislation home market
- future legislation
- European/international legislation
- regulatory bodies and processes
- government policies
- government term and change
- trading policies
- funding, grants and initiatives
- home market lobbying/pressure groups
- international pressure groups

Economic

- home economy situation
- home economy trends
- overseas economies and trends
- general taxation issues
- taxation specific to product/services
- seasonality/weather issues
- market and trade cycles
- specific industry factors
- market routes and distribution trends
- customer/end-user drivers
- interest and exchange rates

Social

- lifestyle trends
- demographics
- consumer attitudes and opinions
- media views
- law changes affecting social factors
- brand, company, technology image
- consumer buying patterns
- fashion and role models
- major events and influences
- buying access and trends
- ethnic/religious factors
- advertising and publicity

Technological

- competing technology development
- research funding
- associated/dependent technologies
- replacement technology/solutions
- maturity of technology
- manufacturing maturity and capacity
- information and communications
- consumer buying mechanisms/technology
- technology legislation
- innovation potential
- technology access, licencing, patents
- intellectual property issues

More on the difference and relationship between PEST and SWOT

PEST is useful before SWOT - not generally vice-versa - PEST definitely helps to identify SWOT factors. There is overlap between PEST and SWOT, in that similar factors would appear in each. That said, PEST and SWOT are certainly two different perspectives:

PEST assesses a market, including competitors, from the standpoint of a particular proposition or a business.

SWOT is an assessment of a business or a proposition, whether your own or a competitor's.

Strategic planning is not a precise science - no tool is mandatory - it's a matter of pragmatic choice as to what helps best to identify and explain the issues.

PEST becomes more useful and relevant the larger and more complex the business or proposition, but even for a very small local businesses a PEST analysis can still throw up one or two very significant issues that might otherwise be missed.

The four quadrants in PEST vary in significance depending on the type of business, eg., social factors are more obviously relevant to consumer businesses or a B2B business close to the consumer-end of the supply chain, whereas political factors are more obviously relevant to a global munitions supplier or aerosol propellant manufacturer.

All businesses benefit from a SWOT analysis, and all businesses benefit from completing a SWOT analysis of their main competitors, which interestingly can then provide some feed back into the economic aspects of the PEST analysis.