

PEST Analysis

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What is PEST Analysis



PEST is a strategic planning tool used to evaluate the impact political, economic, social, and technological factors might have on a project.

PEST stands for the analysis of the external factors which is beneficial when conducting research before beginning a new project or to help conduct market research.

It is a useful tool for understanding the 'big picture' of the environment in which you are operating.

Political Factors

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate.

The stability and structure of a country's government gives a basis for interpreting future changes in the region's political environment.

Some examples include:

- tax policy
- employment laws
- environmental regulations
- trade restrictions and tariffs
- political stability
- health and safety regulations
- product labeling requirements



Economic Factors

Economic factors affect the purchasing power of potential customers and the firm's cost of capital.

Economic indicators such as GDP, GNP, interest rate, consumer sentiment and others provide business people with the background needed to understand the risks and opportunities available within the region.

The following are examples of factors in the macroeconomy:

- economic growth
- interest rates
- exchange rates
- rate of inflation
- employment level
- consumer spending power
- trade tariffs

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- Consider Political Factors

- Technological Competitive Advantage
- Social and Cultural Influences

Look at Economic
Factors

Social Factors

Social factors include the demographic and cultural aspects of the external macroenvironment. These factors affect customer needs and the size of potential markets.

Understanding the social dynamics of the region that you decide to enter will enable you to more efficiently communicate with the native people, target markets, build a labor force and successfully manage teams.

Some social factors include:

- ethnic and religion issues
- demographics
- population growth rate
- educational and living standards
- language
- consumer leisure time
- attitudes to foreign products and services



Technological Factors

Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions.

The level of technological advancement in a region can positively or negatively affect the opportunities available for a business.

Some technological factors include:

- technology legislation
- R&D activity
- level of automation
- quality and standards
- rate of technological change
- infrastructure



When to use PEST Analysis

Use a PEST Analysis when you are considering any of the following options:

- Entering a new market
- Launching a new product or service
- Considering a potential acquisition
- Investigating a potential partnership
- Examining an investment opportunity

Advantages and Disadvantages of PEST Analysis

Advantages

- Simple and only costs time to do.
- Provides an understanding of the wider business environment.
- Encourages the development of strategic thinking.
- May raise awareness of threats to a project.
- Can help an organization to anticipate future difficulties and take action to avoid or minimize their effect.
- Can help an organization to spot opportunities and exploit them.

Disadvantages

- Usually a simple list and not critically presented.
- The rapid pace of change in society makes it increasingly difficult to anticipate developments that may affect an organization in the future.
- The analysis may be based on assumptions that prove to be unfounded.
- PEST analysis only covers the external environment and the results need to be considered with other factors, such as the organization itself, competitors and the industry in which it is working.

Examples – Apple Inc.

POLITICAL

- 52% of sales of Apple were from outside America.
- Bad international relations, wars and terrorism might influence Apple in a huge manner
- Apple Inc. produces many of its parts and products outside the U.S, political conflicts may have awful outcomes for Apple Inc.

ECONOMICAL

- The global economic depression might have immense impact on Apple Inc.
- The inflation rate is high, while consumer's incomes didn't have significant changes
- The U.S. dollar's depreciation has in fact increased Apple's revenue in the international market.

SOCIAL

- Globalization includes the interaction of people worldwide, for which technology plays the main role
- Another big social influence is the music industry, which over the last decade has become virtual and set its market to the cyberspace.
- Apple's image also portrays the modern individual's lifestyle, combining functionality with design, leading to brand identification and loyalty.

TECHNOLOGICAL

- The technology market for computers and mobile phones has become huge, adding more competition in the market
- Technology innovations and changes are almost as fast as light, therefore the products lifecycle is very short.

Examples – General Electric

POLITICAL

- Tax systems and regulations also differ across countries and so does the level of government intervention in business activity.
- Government intervention is minimal and the business environment is much favorable.
- Political stability can also be said to be reasonable so that business survival is highly probable.

ECONOMICAL

- Fluctuations in interest rates, exchange rates and money value greatly affect activities and operations of General Electric.
- Factors such as deflation and inflation as well as government spending in different countries in which General Electric has ventured often influence business productivity and profitability.
- General Electric has recorded decreased sales mostly because prices of inputs have risen considerably.

SOCIAL

- In the different countries which General Electric has ventured into, the company is faced by different social-cultural challenges which influence its corporate culture to a very large extent.
- The culture in a particular country determines the working hours, employment policies, procedures for appointing managers and the type of goods to be produced.

TECHNOLOGICAL

- Innovative products are always being introduced using more advanced technology each day. Older technology is therefore getting outdated at a very high rate across all sectors in the economy. T
- The rate of technology advancement globally varies with each country that General Electric has invested in as they vary in terms of resources available.

Thank you for your attention!

Sources

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