

PEST analysis

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Before creating business plans or making decisions, it is important to 'scan' the external environment. This can be achieved through a PEST analysis, i.e. an investigation of the Political, Economic, Social and Technological influences on a business. In addition it is also important to be aware of the actions of your competitors. These forces are continually in a state of change.

Businesses need to take a pro-active approach and be ahead of these changes, rather than hurriedly making alterations to products and processes in a reactive way.

Political changes relate to changes in government influence and can have huge significance for companies. Changes in the priorities for public spending or the UK's relationships with other countries can open or close major markets.

European Union (EU) regulations can have similar effects while the accession of new members (eg Poland) can bring business opportunities.

Political changes are closely tied up with legal changes. Laws are continually being updated in a wide range of areas, e.g. consumer protection legislation, environmental legislation, health & safety and employment law, etc.

Economic changes are closely related to social ones. The economy goes through a series of fluctuations associated with general booms and slumps in economic activity. In a boom nearly all businesses benefit and in a slump most lose out. Other economic changes that affect business include changes in the interest rate, wage rates, and the rate of inflation (i.e. general level of increase in prices). Businesses will be more encouraged to expand and take risks when economic conditions are right, e.g. low interest rates and rising demand.

Social factors relate to pattern of behaviour, tastes, and lifestyles. A major component of this is a change in consumer behaviour resulting from changes in fashions and styles. The age structure of the population also alters over time (currently we have an ageing population). An understanding of social change gives business a better feel for the future market situation.

Technological changes have also become particularly significant in the post-millennium world. This is particularly true in terms of modern communication technologies. The creation of databases and electronic communications have enabled vast quantities of information to be shared and quickly distributed in a modern company enabling vast cost reductions, and often improvements in service. Organisations need to be aware of the latest relevant technologies for their business and to surf the wave of change.

All industries are influenced by PEST factors. For example, some of the PEST factors affecting the airline industry in recent years include:

- * Political: new European Union regulations have led to greater levels of competition on European routes. But increasing concerns are being raised about the environmental impact of aviation.

- * Economic: rising incomes and lower interest rates have meant that people have more disposable income to spend on luxuries like long distance air travel.

- * Social: increased popularity of holidays abroad has led to a boom in demand for air travel.

- * Technological: modern aircraft are more economic to run than in the past making possible cheap air travel.