



PEST Market Analysis Tool

PEST analysis method and examples

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).

pest variations

The PEST model, like most very good simple concepts, has prompted several variations on the theme. For example, the PEST acronym is sometimes shown as STEP, which obviously represents the same factors. Stick with PEST - nearly everyone else does.

More confusingly (and some would say unnecessarily) PEST is also extended to seven or even more factors, by adding Ecological (or Environmental), Legislative (or Legal), and Industry Analysis, which produces the PESTELI model. Other variations on the theme include STEEP and PESTLE, which allow for a dedicated Ethical section. STEEPLD is another interpretation which includes pretty well everything except the kitchen sink: Political, Economic, Social and Technological - plus Ecological or Environmental, Ethical, Demographic and Legal.

It's a matter of personal choice, but for most situations the original PEST analysis model arguably covers all of the 'additional' factors within the original four main sections. For example Ecological or Environmental factors can be positioned under any or all of the four main PEST headings, depending on their effect. Legislative factors would normally be covered under the Political heading since they will generally be politically motivated. Demographics usually are an aspect of the larger Social issue.

Industry Analysis is effectively covered under the Economic heading. Ethical considerations would typically be included in the Social and/or Political areas, depending on the perspective and the effect. Thus we can often see these 'additional' factors as 'sub-items' or perspectives within the four main sections.

Keeping to four fundamental perspectives also imposes a discipline of considering strategic context and effect. Many potential 'additional' factors (ethical, legislative, environmental for example) will commonly be contributory causes which act on one or some of the main four headings, rather than be big strategic factors in their own right.

The shape and simplicity of a four-part model is also somehow more strategically appealing and easier to manipulate and convey.

Ultimately you must use what version works best for you, and importantly for others who need to understand you, which is another good reason perhaps for sticking with PEST, because everyone knows it, and you'll not need to spend half the presentation explaining the meaning of STEEPLED or some other quirky interpretation.

PEST or SWOT

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

Generally speaking a SWOT analysis measures a business unit or proposition, whereas 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.

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.

As previously explained, extended variations of PEST include other factors, such as Environmental, Ethical, Legal or Legislative, etc., however in most situations you will find that these 'additional' factors are actually contributory causes or detailed perspectives which then manifest or take effect in the form of one or several of the original four main PEST factors. For example, Ethical and Environmental factors will always tend to produce an effect in at least one of the main four headings (Political, Economic, Social, Technological), but it will tend not to work the other way. Hence why the basic PEST model is often the most powerful - it puts more pressure on strategic appreciation and analysis than a longer list of headings. When you next see a PESTELI or a STEEPLED analysis ask yourself (or the author): "Okay, I understand that customers tend to be more ethically minded now, but what does that mean in terms of the basic four PEST factors - what's the effect going to be?..." or "Okay we know that carbon emissions is an issue, but tell me where in the main four PEST factors will it impact..?"

You will gather I am not a fan nor a particular advocate of extending the PEST model. It works great as it is - why make it more complicated and less specific? If you are worried about missing

or forgetting a crucial point of ethics or legislation (or anything else) keep a reference list of these headings, and only build them into the model if you are sure that doing so will make it work better as a strategic tool.

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.

Ensure you consider the additional PESTELI/STEEPLED headings, and any others you feel are relevant, but avoid building these into the final analysis model unless you gain some strategic planning or presentation benefit from doing so.

If helpful refer to a list of these other 'headings', for example: Ecological/ Environmental, Legislative/or Legal, Demographic, Ethical, Industry Analysis. Apply some strategic consideration and pressure to the points you list under these 'additional' headings. Ask yourself what the effects of each will be on the 'big four' (Political, Economic, Social, Technological). Often your

answers will persuade you that the original four-part PEST model is best and that using a more complex series of headings makes it more difficult to complete the analysis fully and strategically.

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.

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
- wars and conflict

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
- international trade/monetary issues

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
- ethical issues

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
- global communications

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.

Problem Solving and Decision-Making

Problem solving and decision-making are important skills for business and life. Problem-solving often involves decision-making, and decision-making is especially important for management and leadership. There are processes and techniques to improve decision-making and the quality of decisions. Decision-making is more natural to certain personalities, so these people should focus more on improving the quality of their decisions. People that are less natural decision-makers are often able to make quality assessments, but then need to be more decisive in acting upon the assessments made. Problem-solving and decision-making are closely linked, and each requires creativity in identifying and developing options, for which the brainstorming technique is particularly useful. SWOT analysis helps assess the strength of a company, a business proposition or idea; PEST analysis helps to assess the potential and suitability of a market. Good decision-making requires a mixture of skills: creative development and identification of options, clarity of judgement, firmness of decision, and effective implementation. For group problem-solving and decision-making, or when a consensus is required, workshops help, within which you can incorporate these tools and process as appropriate. Here are some useful methods for effective decision-making and problem-solving: First a simple step-by-step process for effective decision-making and problem-solving.

Decision-Making Process

1. Define and clarify the issue - does it warrant action? If so, now? Is the matter urgent, important or both.
2. Gather all the facts and understand their causes.
3. Think about or brainstorm possible options and solutions.
4. Consider and compare the pros and cons of each option - consult if necessary - it probably will be.
5. Select the best option - avoid vagueness or 'foot in both camps' compromise.
6. Explain your decision to those involved and affected, and follow up to ensure proper and effective implementation.

Decision-making maxims will help to reinforce the above decision-making process whether related to problem-solving or not, for example:

"We know what happens to people who stay in the middle of the road. They get run down." (An-aurin Bevan)

"In any moment of decision the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing." (attributed to Theodore Roosevelt - more maxims on the quotes page)

JFDI - Just Frigging Do it (polite version). The decision-maker's motto. There are usually several right answers when you are faced with a complex decision. When you've found the best solution you can find, get on with it, make it work, and it most probably will. (More useful rules, acronyms

Pro's and Con's: Decision-Making Method

Another simple process for decision-making is the pro's and con's list.

Some decisions are a simple matter of whether to make a change or not, such as moving, taking a new job, or buying something, selling something, replacing something, etc. Other decisions involve number of options, and are concerned more with how to do something, involving a number of choices. Use the brainstorming process to identify and develop options for decision-making and problem-solving.

1. First you will need a separate sheet for each identified option.
2. On each sheet write clearly the option concerned, and then beneath it the headings 'pro's' and 'con's' (or 'advantages' and 'disadvantages', or simply 'for' and 'against'). Many decisions simply involve the choice of whether to go ahead or not, to change or not; in these cases you need only one sheet.
3. Then write down as many effects and implications of the particular option that you (and others if appropriate) can think of, placing each in the relevant column.
4. If helpful 'weight' each factor, by giving it a score out of three or five points (eg., 5 being extremely significant, and 1 being of minor significance).
5. When you have listed all the points you can think of for the option concerned compare the number or total score of the items/effects/factors between the two columns.
6. This will provide a reflection and indication as to the overall attractiveness and benefit of the option concerned. If you have scored each item you will actually be able to arrive at a total score, being the difference between the pro's and con's column totals. The bigger the difference between the total pro's and total con's then the more attractive the option is.
7. If you have a number of options and have complete a pro's and con's sheet for each option, compare the attractiveness - points difference between pro's and con's - for each option. The biggest positive difference between pro's and con's is the most attractive option.
8. N.B. If you don't like the answer that the decision-making sheet(s) reflect back to you, it means you haven't included all the con's - especially the emotional ones, or you haven't scored the factors consistently, so re-visit the sheet(s) concerned.

You will find that writing things down in this way will help you to see things more clearly, become more objective and detached, which will help you to make clearer decisions.

Porter's Five Forces Model

Michael E Porter's five forces of competitive position model and diagrams

Michael Porter's famous Five Forces of Competitive Position model provides a simple perspective for assessing and analysing the competitive strength and position of a corporation or business organization.

American Michael Porter was born in 1947. After initially graduating in aeronautical engineering, Porter achieved an economics doctorate at Harvard, where he was subsequently awarded university professorship, a position he continues to fulfil at Harvard Business School. His research group is based at the Harvard Business School, and separately he co-founded with Mark Kramer the Foundation Strategy Group, 'a mission-driven social enterprise, dedicated to advancing the practice of philanthropy and corporate social investment, through consulting to foundations and corporations'. A prime example of someone operating at a self-actualization level if ever there was one.

After his earlier work on corporate strategy Porter extended the application of his ideas and theories to international economies and the competitive positioning of nations, as featured in his later books. In fact in 1985 Porter was appointed to President Ronald Reagan's Commission on Industrial Competitiveness, which marked the widening of his perspective to national economies. By the 1990's Porter had established a reputation as a strategy guru on the international speaking circuit second only to Tom Peters, and was among the world's highest earning academics.

Porter's first book *Competitive Strategy* (1980), which he wrote in his thirties, became an international best seller, and is considered by many to be a seminal and definitive work on corporate strategy. The book, which has been published in nineteen languages and re-printed approaching sixty times, changed the way business leaders thought and remains a guide of choice for strategic managers the world over.

Aside from his innovative thinking, Porter has a special ability to represent complex concepts in relatively easily accessible formats, notably his Five Forces model, in which market factors can be analysed so as to make a strategic assessment of the competitive position of a given supplier in a given market. The five forces that Porter suggests drive competition are:
porter's five forces

1. Existing competitive rivalry between suppliers
2. Threat of new market entrants
3. Bargaining power of buyers
4. Power of suppliers
5. Threat of substitute products (including technology change)

Typically this five forces model is shown as a series of five boxes in a cross formation, item 1 being central.

Porter's Five Forces model provides suggested points under each main heading, by which you can develop a broad and sophisticated analysis of competitive position, as might be used when creating strategy, plans, or making investment decisions about a business or organization.

Porter is also known for his simple identification of five generic descriptions of industries:

1. Fragmented (eg, shoe repairs, gift shops)
2. Emerging (eg, space travel)
3. Mature (eg, automotive)
4. Declining (eg, solid fuels)
5. Global (eg, micro-processors)

And Porter is also particularly recognised for his competitive 'diamond' model, used for assessing relative competitive strength of nations, and by implication their industries:

1. Factor Conditions: production factors required for a given industry, eg., skilled labour, logistics and infrastructure.
2. Demand Conditions: extent and nature of demand within the nation concerned for the product or service.
3. Related Industries: the existence, extent and international competitive strength of other industries in the nation concerned that support or assist the industry in question.
4. Corporate Strategy, Structure and Rivalry: the conditions in the home market that affect how corporations are created, managed and grown; the idea being that firms that have to fight hard in their home market are more likely to be able to succeed in international markets.