

PEST Analysis

A PEST analysis is an analysis of the external macro-environment that affects all firms. P.E.S.T. is an acronym for the Political, Economic, Social, and Technological factors of the external macro-environment.

Such external factors usually are beyond the firm's control and sometimes present themselves as threats. For this reason, some say that "pest" is an appropriate term for these factors.

However, changes in the external environment also create new opportunities and the letters sometimes are rearranged to construct the more optimistic term of STEP analysis.

Many macro-environmental factors are country-specific and a PEST analysis will need to be performed for all countries of interest. The following are examples of some of the factors that might be considered in a PEST analysis.

Political Analysis

- Political stability
- Risk of military invasion
- Legal framework for contract enforcement
- Intellectual property protection
- Trade regulations & tariffs. Favored trading partners
- Anti-trust laws. Pricing regulations
- Taxation - tax rates and incentives
- Wage legislation - minimum wage and overtime
- Work week
- Mandatory employee benefits
- Industrial safety regulations
- Product labeling requirements

Economic Analysis

- Type of economic system in countries of operation
- Government intervention in the free market
- Comparative advantages of host country
- Exchange rates & stability of host country currency
- Efficiency of financial markets
- Infrastructure quality
- Skill level of workforce
- Labor costs
- Business cycle stage (e.g. prosperity, recession, recovery)
- Economic growth rate
- Discretionary income
- Unemployment rate

- Inflation rate, Interest rates

Social Analysis

- Demographics
- Class structure. Education
- Culture (gender roles, etc.)
- Entrepreneurial spirit
- Attitudes (health, environmental consciousness, etc.)
- Leisure interests
- Technological Analysis. Recent technological developments
- Technology's impact on product offering. Rate of technological diffusion
- Impact on cost structure. Impact on value chain structure

The number of macro-environmental factors is virtually unlimited. In practice, the firm must prioritize and monitor those factors that influence its industry. Even so, it may be difficult to forecast future trends with an acceptable level of accuracy. In this regard, the firm may turn to scenario planning techniques to deal with high levels of uncertainty in important macro-environmental variables.

All Rights Reserved © [Arab British Academy for Higher Education](http://www.abahe.co.uk)