

# An overview of the pestel framework

Business



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A PESTEL analysis is a tool or framework for marketers. You can use it if you are seeking to analyze and screen the external marketing environment of your company. The strategic management tool gauges the macro environmental factors. The results make decision taking much easier.

The different macro-environmental factors can affect business strategies. So, it is vital to follow the PESTEL framework. The aim is to assess how exactly the factors influence business performance.

You can judge 6 types of environmental influences in the PESTEL framework. They are political, economic, social, technological, environmental and legal. You should not see these factors as independent factors. They are all interdependent. For example, technological advances can affect the economy in different markets.

The 6 factors I mentioned above make up the acronym PESTEL. Each letter represents one factor. It is often called PESTLE. You may use these factors using other tests too. PEST, STEEP, and STEEPLE are similar analyses. Some other variations are STEPJE, STEP, and LEPEST. Managers can choose any based on the nature of the firm and the factors they wish to study.

I have discussed some characteristics of these environmental factors below. The article will help you find which factors are more important to your company's strategy. This might serve as a preliminary inspiration. You will have to dig deeper into the details to take accurate decisions.

Political Factors

Politics plays an important role in business. This is because there is a balance between systems of control and free markets. As global economics supersedes domestic economies, companies must consider numerous opportunities and threats before expanding into new regions. It also applies to firms identifying optimal areas for production or sales. Political factors may even help determine the location of corporate headquarters.

Some of the political factors you need to watch are:

- Tax policies
- Stability of government
- Entry mode regulations
- Social policies (e. g. social welfare etc.)
- Trade regulations (e. g. the EU & NAFTA)

### Economic Factors

Economic factors are metrics that measure the health of any economic region. The economic state will change a lot of times during the firm's lifetime. You have to compare the current levels of inflation, unemployment, economic growth, and international trade. This way, you can carry out your strategic plan better.

Some examples of economic factors you can judge are:

- Disposable income of buyers
- Credit accessibility
- Unemployment rates
- Interest rates

- Inflation

## Social Factors

Social factors assess the mentality of the individuals or consumers in a given market. These are also known as demographic factors. Social indicators like exchange rates, GDP and inflation are critical to management. They can tell when it is a good time to borrow. These factors help find out how an economy might react to certain changes.

The following are some social factors to focus on:

- Population demographics: (e. g. aging population)
- Distribution of Wealth
- Changes in lifestyles and trends
- Educational levels

## Technological Factors

This step entails recognizing the potential technologies that are available. Technological advancements can optimize internal efficiency and help a product or service from becoming technologically obsolete. Role of technology in business is increasing each year. This trend will continue because R&D drives new innovations.

Recognizing evolving technologies to optimize internal efficiency is a great asset in management. But, there are few threats. Disruptive innovations such as Netflix affect business for CD-players. The best strategy is to adapt according to the changes. Your strategies should sidestep threats and embrace opportunities.

This is a large challenge for management. Below is a list of common technological factors:

- New discoveries and innovations
- Rate of technological advances and innovations
- Rate of technological obsolescence
- New technological platforms (e. g. VHS and DVD)

### Environmental Factors

Both consumers and governments penalize firms for having adverse effect on the environment. Governments levy huge fines upon companies for polluting. Companies are also rewarded for having positive impact on the environment. The consumers are willing to switch brands if they find a business is ignoring its environmental duties.

Impact on the environment is a rising concern. Note that the environment benefits the company too. Running water for a hydro-power plant is an example.

Few common environmental factors are:

- Waste disposal laws
- Environmental protection laws
- Energy consumption regulation
- Popular attitude towards the environment

### Legal Factors

This step involves learning about the laws and regulations in your region. It is critical for avoiding unnecessary legal costs.

This is the last factor in PESTEL. These factors overview the legal elements. Often, start-ups link these elements to the political framework. Many legal issues can affect a company that does not act responsibly. This step helps to avoid legal pitfalls. You should always remain within the confines of established regulations.

Common legal factors that companies focus on include:

- Employment regulations
- Competitive regulations
- Health and safety regulations
- Product regulations
- Antitrust laws
- Patent infringements

It is common to conduct a PESTEL analysis before serious decisions.

Managers might conduct it before any large projects are undertaken.

Understanding all the influencing factors is the first step to addressing them.

Remember, there are many factors other than these which can have an effect on business success. The evaluation is a one-to-one process. Each company should do it for themselves and find the key drivers of change. You must identify the factors which have strategic and competitive consequences.

Analyzing the total macro-environment is an extensive task. Even though, it is complex, understanding the framework of basic influences will allow you to maintain an organized and strategic approach. These will isolate each opportunity or threat.

After conducting a PESTEL analysis, company managers can create strategies. The macro environmental factors will shape the strategies. I am sure that the thinking process will be as sensitive as current and future environmental factors.

If you are planning to align strategies for your company, I suggest you should conduct PESTEL analysis first. It is always good to have more information about the surrounding. The tool really helps take better decisions.

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