

Pestle analysis: economic factors affecting business

[Business](#)



Understanding how Economic factors affect business is essential to making smart decisions and guiding your company to greater heights. However, this begins with understanding the role of environmental and external factors, and how they come into place in business.

Environmental Analysis and PEST Analysis

Environmental analysis is the term given to the process of looking at all of the different external factors that affect a business. Like most other parts of business analysis, this is particularly useful for executives in any company who are looking to beat competitors, increase revenue streams, and grow their organization.

Relevant Article: Political Factors Affecting Business

One of the most prominent tools in environmental analysis is PEST analysis, or its derivatives (such as PESTLE analysis!). PEST analysis takes into account four separate factors whose initials create the eponymous acronym 'PEST': Political ones, Economic ones, Social ones, and Technological ones. Although plenty of other variations exist (like PESTLE analysis which includes Legal and Environmental variables) this is where economic factors come into play in business.

Economic Factors in Business

As previously mentioned, economic factors are included in one of the bread-and-butter techniques of all business analysis — PEST analysis. This is because economic factors play a large part in deciding how a company makes its decisions (especially financial ones).

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Relevant Article: Social Factors Affecting Business

Economic factors are connected with goods, services, and money. Despite directly affecting businesses, these variables refer to financial state of the economy on a greater level — whether that be local or global. The reason for this is that the state of the economy can decide many of the important details that come up in an operating company, including topics such as consumer demand, taxes and asset value.

Examples of economic factors affecting business include:

Interest rates

Exchange rates

Recession

Inflation

Taxes

Demand / Supply

Let's look into a few of those examples in more depth, to see how exactly they can affect a business...

Interest rates — Interest rates might appear in a range of different places, imposed by a range of different people. It's obvious that the status quo for interest rates is of great interest to banking institutions, but it might also affect companies whose strategies rely on taking out large loans.

Exchange rates — Exchange rates are a complicated topic, but they clearly have to apply to those who deal with export or import. Changing exchange rates might affect how much a company has to pay to its international supplier to satisfy them, which can affect profit margins, as well as take a lot of resources to stay on top of.

Recession — An economic recession (of whatever scale) has the potential to change the purchasing attitude of customers, which might force companies to drop their prices or clear smaller volumes.

Another great way to learn to about how economic factors affect business is to look at PEST analyses which include them. For example:

Economic Factors Affecting Anthropologie

Anthropologie targets a wealthy market, so they can afford to take a unique pricing approach which is tailored to that specific economy

The rise in global development and worldwide increase in GDP (Gross Domestic Product) means that their target market is gradually growing

On the other hand, this global development might increase labour and material costs in Less Economically Developed Countries where their products are manufactured (meaning lower profits)

You can find an entire PESTLE analysis of Anthropologie here.

Economic Factors Affecting The United Kingdom

The UK boasts one of the highest GDPs in the world, trailing behind only Germany within Europe

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The United Kingdom has a constantly increasing amount of Foreign Direct Investment

The area is still feeling the effects of the 2008/2009 economic recession, as well as the Brexit economic setback

A full PEST analysis of the UK is available here.

In conclusion, economic factors are one of the many environmental, external factors which can affect businesses. Although they relate to the economy on a greater scale, they have a profound effect on the inner-workings of any and every company. Examples include interest rates, exchange rates, and taxes — and can be seen in all organizations, from relatively small fashion chains like Anthropologie to world-leading countries like the UK.

What do you know about how economic factors affect business? Be sure to include it below with any questions or comments you might have.

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