

Define pest analysis to reduce business risks

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PEST analysis is an acronym for Political, Economic, Social and Technological factors. These are external factors that will affect the state of business in any industry.

PEST analysis helps business owners and analysts make decisions at the best times. With it, you'll identify key factors which disrupt business. Knowing these factors now helps you plan and reduce risks months or years to come.

We'll start by breaking down factors businesses are affected by most often.

Political factors

All businesses are required to follow political guidelines. Failure to follow the guidelines can shut a business down. An owner must be aware of state and national regulations — and when these regulations are updated.

Things to consider here...

- Taxes
- Copyright
- Terms & conditions
- Environmental policies
- International trade laws
- Property law enforcement

Political factors differ based on location and industry. For example, McDonald's must have FDA approved ingredients for their foods. But Ecommerce businesses have less political regulations to follow, yet still need to abide by tariff and environmental laws.

But policies change. Back in 2002, the herb kava was linked to liver disease in the United States of America and several international countries. While it continued to be allowed in the U. S. A, other countries like Canada banned kava. But now, the herb is off the restrictions list in Canada.

Knowing political regulations and keeping updated on these regulations is crucial for any business.

Economic factors

These factors affect the ways a firm creates and manages money. Making money isn't as simple as...

- Sell product.
- Receive Money.
- Profit!

Some things to consider when selling products are exchange rates, currency fluctuations, and interest rates. But it also important to look at consumer influences and fluctuations. Including...

- Unemployment rates
- Unemployment policies
- Resource costs
- Labor laws

Influence is also a big thing. Coca-Cola, one of the leading soft drink industries, has strong brand power in countries all over the world. They must consider labor laws in each country they sell Coke products. Over the years,

their production (and resource) costs have lowered, giving them great margins — roughly 59-61%.

Clearly money is important. By knowing about economic factors, you get a better understanding of where your money is going and why.

Social factors

Customers and consumer behavior are huge social factors which affect business. Specifically, the (social) culture and demographics affect who buys what product. But most importantly, why they buy products over others.

This is why buyer personas and target market research is vital. It doesn't matter what you sell if you don't know who to sell it to. Factors to consider here are...

- Cultural trends
- Buying trends
- Demographics
- Lifestyle changes
- Consumer distribution
- Population growth rates
- Health consciousness
- Religious upbringing
- Consumer demands

While economic and political factors can stay fairly robust, social factors are ever changing. It's not required to keep up with industry trends/news, or keep updated with customer needs and influences. But, as a business owner,

you'll be shooting yourself in the foot if you're not proactive about social factors.

Technological factors

It's not just about computers. Technology is used from manufacturing to distribution, and marketing. How we use available technology can depend on consumer needs and ROI. If your business is heavily tech focussed — perhaps in a SaaS niche — technology is everything. The focus will be on hosting, websites, and electronic payment methods.

But even if you're a Mom and Pop store, technology is still a factor in your business. A few things to consider are:

- Importance of technology in your industry
- Technology advancements
- Lifecycle of technology
- Technological impact
- Technology trends
- Data breaches
- Cybersecurity

You also need to note what you expect from your technology. As well as the expenses and costs to use specific technology in business models.

Technology can be a time, money, and resource blackhole.

Decide what technology you need to run a successful business. While you need hosting for your business website, you might not need an unlimited

website (space), subdomains, or bandwidth. Or the added cost to have all of these things at your disposal.

Just like with social factors, technology is continuously advancing. So it's recommended to keep up with how consumers use it and understand their needs.

And there you have it!

This is how we define PEST analysis — four external factors that must be acknowledged, understood and monitored to run a successful business.

Political factors differ based on industry and products sold — but everyone has local and regional regulations to follow.

Economic factors affect profits. Every business is affected by taxes — the percentage differs by location. But you must also remember inflation, unemployment rates, and resource expenses.

Social factors focus on consumer demands. Target market research is a must for every industry. Because without customers, your business is only a hobby.

And technology may greatly affect your business. Whether through distribution, marketing, payment processing, hosting, and more.

Understanding what each of these factors means and how to use them will benefit your company. You'll understand factors you can't directly influence, and be aware of their potential risks and hindrances.

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