

How pest analysis helps with strategic planning

[Business](#)



Enterprises depend on long-term planning for strategic management and successful running of the business. Different firms use different analyses according to their needs and structure. Internal and external factors are highlighted in order to properly understand the complexity of the business environment and challenges. The PEST analysis is widely used among firms and focuses on the external factors instead of internal factors. It is regarded effective in long-term strategic planning and works from a macroeconomic perspective. The Political, Economic, Social and Technological factors allow firms to get a deeper understanding of the trends.

Political Factors

Legal factors include taxes, labor laws, CSR (Corporate social Responsibility), social and environmental obligations, audits, fiscal and monetary policies, all influence business' decision making. Political factors affect businesses to a great extent as government decisions and policies cause changes in the business environment plus business cycle.

Political and government intervention is not feasible for a healthy firm and damages the long-term plans. In order to overcome these barriers, firms need to maintain favorable relations with governments to receive special considerations and incentives. Government trade regulations can affect a firm's international market and clients and increase expenses. Laws of labor affect the workforce and can change internal dimensions of the business as well as rights.

Economic Factors

Weak and unstable economies are risky and can harm the business as inflation rate, interest rate, employment/unemployment rate and economic growth indicators are important factors that need to be analyzed when making decisions. Economic factors are interlinked with political factors. An enterprise cannot progress if the economy in which it is established is shrinking or isn't stable.

Inflation affects demand and supply as well as leading to unfavorable investment conditions. Consumer purchasing power falls and currency devalues, resulting in a loss for the enterprise. Exchange rate affects the cost of import and export by increasing overall trading costs of the company. Moreover, interest rate plays a vital role as it influences the expansion and growth of the company

Social Factors

Social factors involve the trends of population, domestic markets, cultural trends and demographics. These factors help businesses assess the market and improve their products/service accordingly. The service/product provided by the company must be according to the compatibility of the market or else it will fail.

Demographic aspects and population growth rates, age distribution and domestic markets influence firms and help them evaluate the dynamics of existing and new markets and consumer needs. Domestic markets should be carefully judged and studied before a product or a service is launched to check the consumers' spending power and living standards. Prices should be kept accordingly. These factors are important during market research.

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Technological Factors

Technology is a crucial component of any business, as it determines whether or not a business can increase productivity and compete in the market. This includes research and development activity, automation and incentives.

Firms need to keep themselves updated with latest innovations and technologies to compete with the emerging competition, old technology gets outdated and obsolete. Technological factors include research and development activity, automation and innovation.

Importance of PEST Analysis in Strategic Planning

- It informs about both internal and external factors that affect a firm's failure and success
- It gives an overview of the business' current position
- It forecasts future and sheds light on current situation
- Evaluates business environment and allows firms to make strategic decisions
- Provide companies with a reality check of their performance and loopholes
- Enables firms to understand the economy and market and expand
- Provides a mechanism to identify threats and opportunities
- Enables companies to learn markets and enter new markets, nationally or globally
- Prevents future failures and creates a system of continuous success
- It helps firms assess the report and take countermeasures for improvement and to analyze threats

Implementation for Strategic Planning

Companies go through strategic planning processes usually once a year. This allows them to reassess the strategic elements of PEST. When it comes to decision-making or strategy planning, evaluating all the information and compiling it in one place is as important as having an effective team. When a company wants to achieve a goal, it should come up with an effective strategy to achieve it. By conducting a reassessment, firms can detect emerging strengths and opportunities as well as threats or external factors.

After all, economic conditions fluctuate constantly and social shifts and changes in values can affect the way the company's brand and products succeed in the market. Behind every achievement of a company, there is a dedicated team and effective strategic planning. A PEST analysis is a crucial part of any strategic planning process and without a general idea about the external factors that would affect the company or its strategies, reaching the targets or accomplishing goals is virtually impossible.

The comprehensive insight gained from a PEST analysis will ensure the strategies will be successful. A PEST analysis is not just about listing political, economic, social and technological factors but seeking information from professionals who are aware of current conditions with regards to each area. The strategy should set priorities, allocate resources, decide on timeframes for achieving goals, and come up with controlling mechanisms as well as assigning employees accordingly to the planning.

This information would be immensely valuable for building effective strategies. After independently gathering information for the relevant

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factors, the PEST diagram will be useful in comparing them with other factors. This makes it easier to come up with solutions for threats and ways to make the best of the opportunities available to help the company achieve its goals.

Conclusion

Strategic planning is important when entering a new market or expanding as well as for conducting market research in the domestic market. The PEST analysis works on external factors to make sure firms accurately research and implement the findings according to the needs of the consumers. The analysis offers a wide and broader aspect of the market with options and alternatives to select from.

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