

# Using PESTLE for Strategic Analysis

PESTLE analysis is a strategic tool that helps organisations to explore/anticipate external influences on their organisation or department from several perspectives. It can be used to review a strategy or position, the direction of the organisation/area of responsibility, a marketing proposition, or future business and product development initiatives.



PESTLE analysis is an acronym of the following:

**P**olitical factors

**E**conomic influences

**S**ociological trends

**T**echnological innovations

**L**egal implications

**E**nvironmental factors

These factors refer to external forces acting on the organisation and understanding these forces is vital when making strategic decisions. In order to carry out a thorough PESTLE analysis on your organisation/area of responsibility, you should start by considering the following:

## **What external forces might impact on our organisation?**

**Political factors**

You should consider existing and forthcoming government regulations and legal issues that define both the formal and informal rules under which your organisation must operate, such as:

- Tax policy (e.g. tax rates and incentives)
- Employment laws (e.g. minimum wage, maximum working hours and safety legislation)
- Environmental regulations
- Trade restrictions and tariffs
- Government term and change
- Home and international pressure groups (e.g. Greenpeace)
- Political stability (e.g. war, civil unrest)

## **Economic influences**

Factors affecting the purchasing power of potential customers and cost of capital that your organisation/area of responsibility might have to consider include:

- Economic growth
- Interest rates
- Exchange rates
- Unemployment rate and skill level of workforce
- Seasonality and weather issues

## **Sociological trends**

Demographic and cultural factors affecting customer needs and the size of potential markets might include:

- Population growth
- Age distribution
- attitudes towards career, family and health
- Lifestyle trends such as leisure interests and work-life balance
- Consumer attitudes and opinions

## **Technological innovations**

You may wish to consider the impact of changes in technology that could affect your organisation/area of responsibility, such as:

- Automation
- Technological influences (e.g. email, the Internet)
- Rate of technological change
- Impact on cost
- Associated/dependent technologies

## **Legal implications**

You will also want to look at the effects any legal and international legislation may have on your organisation/area of responsibility, e.g:

- Employment law, relating to health, data protection, race, sex, disability, employment rights, employment relations
- Consumer law, such as description of goods, sale of goods, and safety of goods
- Corporate law, such as company law, and fair trading

## Environmental factors

As part of your PESTLE analysis, it is important to assess the impact of local, national and international environmental issues, eg:

- Global warming
- Pollution
- Unsustainable development
- Methodologies and processes (farming, nuclear power)
- Stakeholder power and influence

## Essential ingredients for successful PESTLE analysis

Identifying the external forces is only the first stage in the analysis. Like SWOT, PESTLE is only useful if your findings are analysed and action points are agreed as a result. These must be related to your organisation or area of responsibility's wider aims and requirements. All too often, PESTLE is used as an end in itself, meaning that little results from performing the technique other than wasted time.

A thorough **PESTLE** analysis should therefore comprise the following stages:

1. **Identification** – What external factors have a potential impact on your organisation/area of responsibility?
2. **Verification** – Which factors are more likely to have a real impact on your organisation/area of responsibility? Have you missed anything?
3. **Observation** – Which of these factors are having the most significant impact right now?
4. **Projection** – Which of these factors are likely to increase/decrease in importance over the next few years? What other factors might arise that you have not yet considered?
5. **Planning** – What actions can be undertaken as a response to these factors, both current and potential future ones?
6. **Implementation** – Undertake action to counter the adverse effects of the appropriate/relevant factors.