PESTLE Analysis

Idea In Short

PESTLE analysis helps organizations systematically evaluate external factors before making strategic decisions. It covers political, economic, social, technological, legal, and environmental dimensions, providing a structured view of the broader context in which a business operates.

PESTLE analysis, also referred to as PEST analysis, is a concept in corporate strategy. This is a concept used by companies to track the environment they're operating in or are planning to launch a new project / product / service etc. PESTLE is a mnemonic which in its expanded form denotes:

- P for Political
- E for Economic
- S for Social
- T for Technological
- L for Legal
- E for Environmental

It gives a helicopter view of the whole environment from many different angles that one wants to check and keep a track of while contemplating on a certain idea/plan. The importance of each of these factors may be different across industries, but is imperative to any strategy a company wants to develop. The PESTLE analysis is a more comprehensive version of the SWOT analysis. Hence, it is very critical for one to understand the complete depth of each of the letters of the PESTLE. It is as below:

Political

These factors determine the extent to which a government may influence the economy or a certain industry. For example, a government may impose a new tax or duty due to which entire revenue generating structures of organizations might change. Political factors include

tax policies, Fiscal policy, trade tariffs etc. that a government may levy around the fiscal year and it may affect the business environment (economic environment) to a great extent.

Economic

These factors are determinants of an economy's performance that directly impacts a company and have resonating long term effects. For example, a rise in the inflation rate of any economy would affect the way companies' price their products and services. Adding to that, it would affect the purchasing power of a consumer and change demand/supply models for that economy. Economic factors include inflation rate, interest rates, foreign exchange rates, economic growth patterns etc. It also accounts for the FDI (foreign direct investment) depending on certain specific industries who're undergoing this analysis.

Social

These factors scrutinize the social environment of the market, and gauge determinants like cultural trends, demographics, population analytics etc. An example for this can be buying trends for Western countries like the US where there is high demand during the Holiday season.

Technological

These factors pertain to innovations in technology that may affect the operations of the industry and the market favorably or unfavorably. This refers to automation, research and development and the amount of technological awareness that a market possesses.

Legal

These factors have both external and internal sides. There are certain laws that affect the business environment in a certain country while there are certain policies that companies maintain for themselves. Legal analysis takes into account both of these angles and then charts out the strategies in light of these legislations. For example, consumer laws, safety standards, labor laws etc.

Environmental

These factors include all those that influence or are determined by the surrounding environment. This aspect of the PESTLE is crucial for certain industries particularly for example tourism, farming, agriculture etc. Factors of a business environmental analysis include but are not limited to climate, weather, geographical location, global changes in climate, environmental offsets etc. Sometimes, the acronym STEEPLED analysis is used, where the factors are identical to the PESTLE, but there are added ethical and demographic factors. Alternatively, the abbreviation STEER is also used when the identical factors are arranged as follows:

- S - Socio-cultural factors
- T - Technological factors
- E - Ecological factors
- R - Regulatory factors
- L - Legislation

It's important when undertaking such an analysis that the factors affecting the organization are not just identified but are also assessed – for example, what impact might they have on the organization? The outcomes of a PESTEL analysis can then be used to populate the opportunities and threats in a SWOT analysis.

Summary

PESTLE outputs are commonly used to inform SWOT analysis, specifically populating the opportunities and threats sections. Variants include STEEPLED, which adds ethical and demographic factors, and STEER, which reorganizes similar factors under a different acronym.