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# Understanding Pest Analysis with Definitions and Examples

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4-5 minutes

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Aside from the company's internal resources and industry factors, there are several other macro-economic factors that can have a profound impact on the performance of a company. In particular situations such as new ventures or product launch ideas, these factors need to be carefully analyzed in order to determine how big their role in the organization's success would be. One of the most commonly used analytical tools for assessing external macro-economic factors related to particular situation is **PEST Analysis**.

## What is PEST Analysis?

PEST is an acronym for **Political, Economic, Social and Technological**. This analysis is used to assess these four external factors in relation to your business situation.

Basically, a PEST analysis helps you **determine how these factors will affect the performance and activities of your business in the long-term**. It is often used in collaboration with other analytical business tools like the [SWOT analysis](#) and Porter's Five Forces to give a clear understanding of a situation and related internal and external factors.

## Understanding the PEST Factors

Before you jump ahead and start using this analysis, you should understand what each of these factors in this analysis signifies.

- **Political** – Here government regulations and legal factors are assessed in terms of their ability to affect the business environment and trade markets. The main issues addressed in this section include political stability, tax guidelines, trade regulations, safety regulations, and employment laws.
- **Economic** – Through this factor, businesses examine the economic issues that are bound to have an impact on the company. This would include factors like inflation, interest rates, economic growth, the unemployment rate and policies, and the business cycle followed in the country.
- **Social** – With the social factor, a business can analyze the socio-economic environment of its market via elements like customer demographics, cultural limitations, lifestyle attitude, and education. With these, a business can understand how consumer needs are shaped and what brings them to the market for a purchase.
- **Technological** – How technology can either positively or negatively impact the introduction of a product or service into a marketplace is assessed here. These factors include technological advancements,

lifecycle of technologies, the role of the Internet, and the spending on technology research by the government.

Here is an example of PEST analysis that can give you a clear understanding of how this works:

| <b>Political</b>   | <b>Economic</b>  | <b>Social</b>   | <b>Technical</b>  |
|--|--|---|---|
| <ul style="list-style-type: none"> <li>• New state tax policies for accounting</li> <li>• New employment laws for employee handbook maintenance</li> <li>• Political instability in a foreign partner country</li> </ul> | <ul style="list-style-type: none"> <li>• International economic growth</li> <li>• Changes in interest rates</li> </ul> | <ul style="list-style-type: none"> <li>• Shift in educational requirements and changing career attitudes</li> <li>• Population growth rate</li> </ul> | <ul style="list-style-type: none"> <li>• Automated processes in the industry</li> <li>• Rate of innovation</li> <li>• Changes in technology incentives</li> </ul> |

## PESTLE Analysis: An extension of PEST Analysis

[What is PESTLE Analysis?](#) PESTEL analysis is an extension of PEST that is used to assess two additional macroeconomic factors. These factors are the **Legal and Environment conditions** that can have an impact on the company. [Examples of PESTLE analysis](#) are similar to those of a PEST analysis, but they would include the following:

### Environment:

- Changes in weather and climate
- Laws regarding pollution and recycling
- Waste management
- Use of green or eco-friendly products and practices

### **Legal:**

- Discrimination laws
- Health and safety laws
- Consumer protection laws
- Copyright and patent laws

So, if you want to assess a business situation in a comprehensive way, **a PEST analysis is a definite must** that can help you understand the macroeconomic business environment.

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