

## PEST Analysis

- I. **Introduction-**
  - a. The PEST analysis helps us evaluate the attractiveness of the larger global environment in which that industry operates.
- II. **Political Factors-**
  - a. Refer to laws, property rights, patents, political stability, and so forth.
  - b. Examples:
    - i. Recent laws requiring a certain percentage of electricity to come from renewable sources.
    - ii. Some political power can seize property with few repercussions and governments may be unlikely to enforce patents, trademarks and so forth.
    - iii. Times of civil unrest and political instability make the business environment particularly uncertain and risky.
- III. **Economic Factors-**
  - a. Refer to market and trade cycles, currency fluctuations, specific industry changes, customer preferences, and country economic growth forecasts.
  - b. Example:
    - i. China's 1.3 billion people represent a massive, largely untapped consumer market for global companies. Today more cars are sold in China than in Europe.
- IV. **Socio-cultural Factors-**
  - a. Refer to national culture and values, religion, language, human rights, and population demographics.
  - b. Examples:
    - i. Chinese culture promotes the well-being of the group over the individual, which results in a strong norm of open information sharing. This leads to more widespread acceptance of product knockoffs and software piracy than we typically see in western cultures.
    - ii. In some countries, night shifts are taboo.
    - iii. In other countries, employers are expected to provide employees with meals and transportation.
    - iv. In India companies often give cash bonuses on wedding anniversaries and dating allowances for unmarried employees due to the cultural importance of marriage.
  - c. Demographic trends may also be important because they indicate potential changes in the workforce and/or consumer preferences.
- V. **Technological Factors-**

- VI. Refer to the maturity of manufacturing equipment, information systems, technology platforms, and consumer access to technology.
- VII. Examples:
  - a. Technological advances in some countries have led to increases in service sector jobs and decreases in manufacturing jobs.
  - b. Continuous advancements in internet technologies increasingly allow companies to spread common technology platforms at very low costs.
  - c. Technological advancements have also empowered individuals to compete with large companies.
- VIII. **Benefits of a PEST Analysis-**
  - a. Spot business opportunities with advanced warning of potential threats,
  - b. Implement appropriate practices for local cultures and avoid problematic practices,
  - c. Break free of old assumptions about how managers should run organizations.
  - d. Example-Rolls Royce Vietnam
    - i. Managers believed that Vietnam presented a strong market opportunity because of its tremendous economic growth, increased political freedom, more outward openness to cultural differences, and technological advancements. Vietnam's economy was growing at higher rates than other countries without the same market saturation such as the US, UK and other European markets.
    - ii. The analysis also revealed many threats. For example, bribery was a common practice in Vietnam but against Rolls Royce's company policy and ethical standards. Additionally, many Vietnamese were concerned that foreign companies were only coming to make money and send it back to company headquarters without investing in Vietnam.
- IX. **Key Steps-**
  - a. First, determine the relevant environmental factors to assess.
  - b. Second, evaluate how the relevant factors affect your company's international operations.
  - c. Third, develop the appropriate strategy and appropriate management practices in the appropriate locations for the appropriate employees
- X. **Conclusion and Summary-**
  - a. A PEST analysis entails scanning different business environments to understand long-term trends and how they might impact a company.
  - b. It is important to understand what these factors are so you can take advantage of opportunities and steer clear of threats.