

## **PEST Control**

The idea that a company must understand the environment within which it must operate and compete is widely accepted. Almost as accepted is the notion that the environment must be monitored and the analysis updated on a regular basis. By doing so a company will be aware of and prepared for shifts in the market as they occur – or preferably before they take place. One of the least used, but more effective tools for this critical review is the PEST analysis.

A less widely practiced second-cousin to the en vogue SWOT analysis, the PEST provides companies with a tool that enables them to view and review the external environment within which they need to prosper. The confusion around the elements of a marketing environment and the role the external elements play is part of the reason the PEST analysis is not widely practiced. Another reason is because the elements of the PEST – Political, Economic, Social, and Technological are seen as either too obvious, or conversely, too abstract, to be reasonable subjects of analysis. Tudog contends that these factors are critical and the understanding of them provides a strong foundation for a company to successfully enter and sustain operations in the marketplace.

### **Understanding the Marketing Environment**

One bit of confusion surrounding the PEST analysis is where it fits into a company's need to understand its marketing environment. A marketing environment has three elements to it. They are:

1. The Internal Environment – the internal functions of a company, its operational procedures, processes for interacting with customers, technological infrastructure, products, and other factors. These elements are often scrutinized through a SWOT analysis.
2. The Micro Environment – the immediate external environment that “touches” the company, including sales channels, strategic partners, suppliers, competitors and others. These elements are often examined in competitive analyses and standard routine operational reviews.
3. The Macro Environment – the broader external environment within which a company must operate. This includes the elements examined in the PEST analysis.

By engaging in the study of all three components of the marketing environment a company will gather the intelligence and gain the insights needed to construct an enlightened and effective business strategy.

### **The PEST Analysis**

Conducting a genuine PEST analysis requires the ability to gather relevant information and review it in the appropriate context. The review is assisted by an understanding of the purpose of the analysis, namely providing a company with a sufficient overview of the political, economic, social and technological factors that influence or could influence the way the market receives the company's product, positioning, channels, and message.

A detailed review of the elements of a PEST analysis includes:

- Political Elements

There is no way to truly separate the business environment from the overall tone of the political arena. Politics influences business through foreign policy, regulations, taxation, and other means. A PEST analysis will consider the stability of the political arena, the government stance on trade agreements and treaties, and government tolerance for certain business practices. By entertaining these factors the company will understand the parameters within which it must operate to both remain lawful and maximize the potential of government initiated programs and agreements.

- Economic Elements

The entire tone and posture of the economy needs to be fully examined, as the economic indicators (such as interest rates) have a significant affect on consumer spending and the overall economic climate. Other elements that warrant review include inflation, unemployment, and the Gross Domestic Product (GDP). It is also important for a company to examine expert comments on the trends within the economy and the forecasts for long term economic performance.

- Social Elements

There are a number of social elements that can influence business, including the role of religion in society, the freedom of women, the behavior of children (as consumers), the culture and the manner it influences consumers, the number of languages commonly spoken, consumer attitudes and behavior patterns, income levels, spending patterns, leisure habits and frequency, and other issues revolving around how people live and interact.

- Technological Elements

The level of technological sophistication is an important element for review because it can serve as an indication of the cost efficiencies, levels of customer service, competitive advantages, and other operational aspects of the companies operating within the marketplace. Elements to be examined include whether technology is enhancing production cost efficiencies and allowing products to be manufactured less expensively, whether technologies are involved in product development and quality control, if technology is changing consumer behavior or introducing new consumer habits, how technology is altering logistics and distribution, and the ways technologies are changing the way consumers and companies interact.

Although it can be argued that the PEST analysis is most urgent when entering international markets, the application of the overview is important whenever entering any market. Similarly, just as a business plan, marketing plan, and SWOT are periodically reviewed to validate its relevancy, so too should a PEST analysis. The elements of the PEST are fluid and subject to change. Updating the analysis will keep the PEST elements under control, allowing the company to navigate the market for maximum success.