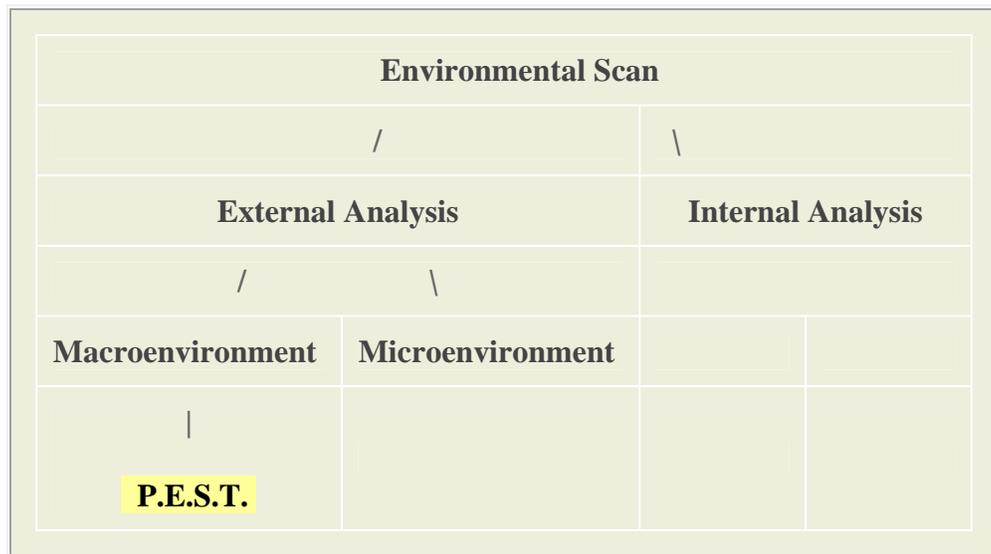


PEST Analysis

A scan of the external macro-environment in which the firm operates can be expressed in terms of the following factors:

- Political
- Economic
- Social
- Technological

The acronym **PEST** (or sometimes rearranged as "STEP") is used to describe a framework for the analysis of these macroenvironmental factors. A PEST analysis fits into an overall environmental scan as shown in the following diagram:



Political Factors

Political factors include government regulations and legal issues and define both formal and informal rules under which the firm must operate. Some examples include:

- tax policy
- employment laws
- environmental regulations
- trade restrictions and tariffs
- political stability

Economic Factors

Economic factors affect the purchasing power of potential customers and the firm's cost of capital. The following are examples of factors in the macroeconomy:

- economic growth
- interest rates
- exchange rates
- inflation rate

Social Factors

Social factors include the demographic and cultural aspects of the external macroenvironment. These factors affect customer needs and the size of potential markets. Some social factors include:

- health consciousness
- population growth rate
- age distribution
- career attitudes
- emphasis on safety

Technological Factors

Technological factors can lower barriers to entry, reduce minimum efficient production levels, and influence outsourcing decisions. Some technological factors include:

- R&D activity
- automation
- technology incentives
- rate of technological change

External Opportunities and Threats

The PEST factors combined with external microenvironmental factors can be classified as opportunities and threats in a [SWOT analysis](#).

Recommended Reading

John Middleton, [The Ultimate Strategy Library](#) : *The 50 Most Influential Strategic Ideas of All Time*