

PRESTEL analysis

There are many factors in the macro-environment that will affect the decisions of the managers of any organisation. Tax changes, new laws, trade barriers, demographic change and government policy changes are all examples of macro change. To help analyse these factors managers can categorise them using the PRESTEL model. This classification distinguishes between:

- **Political factors.** These refer to government policy such as the degree of intervention in the economy. What goods and services does a government want to provide? To what extent does it believe in subsidising firms? What are its priorities in terms of business support? Political decisions can impact on many vital areas for business such as the education of the workforce, the health of the nation and the quality of the infrastructure of the economy such as the road and rail system.
- **Economic factors.** These include interest rates, taxation changes, economic growth, inflation and exchange rates. As you will see throughout the "Foundations of Economics" book economic change can have a major impact on a firm's behaviour. For example:
 - higher interest rates may deter investment because it costs more to borrow
 - a strong currency may make exporting more difficult because it may raise the price in terms of foreign currency
 - inflation may provoke higher wage demands from employees and raise costs
 - higher national income growth may boost demand for a firm's products
- **Social factors.** Changes in social trends can impact on the demand for a firm's products and the availability and willingness of individuals to work. In the UK, for example, the population has been ageing. This has increased the costs for firms who are committed to pension payments for their employees because their staff are living longer. It also means some firms such as Asda have started to recruit older employees to tap into this growing labour pool. The ageing population also has impact on demand: for example, demand for sheltered accommodation and medicines has increased whereas demand for toys is falling.
- **Technological factors:** new technologies create new products and new processes. MP3 players, computer games, online gambling and high definition TVs are all new markets created by technological advances. Online shopping, bar coding and computer aided design are all improvements to the way we do business as a result of better technology. Technology can reduce costs, improve quality and lead to innovation. These developments can benefit consumers as well as the organisations providing the products.
- **Environmental factors:** environmental factors include the weather and climate change. Changes in temperature can impact on many industries including farming, tourism and insurance. With major

climate changes occurring due to global warming and with greater environmental awareness this external factor is becoming a significant issue for firms to consider. The growing desire to protect the environment is having an impact on many industries such as the travel and transportation industries (for example, more taxes being placed on air travel and the success of hybrid cars) and the general move towards more environmentally friendly products and processes is affecting demand patterns and creating business opportunities.

- **Legal factors:** these are related to the legal environment in which firms operate. In recent years in the UK there have been many significant legal changes that have affected firms' behaviour. The introduction of age discrimination and disability discrimination legislation, an increase in the minimum wage and greater requirements for firms to recycle are examples of relatively recent laws that affect an organisation's actions. Legal changes can affect a firm's costs (e.g. if new systems and procedures have to be developed) and demand (e.g. if the law affects the likelihood of customers buying the good or using the service).

| Factor | Could include: |
|----------------------|---|
| Political | e.g. EU enlargement, the euro, international trade, taxation policy |
| Economic | e.g. interest rates, exchange rates, national income, inflation, unemployment, Stock Market |
| Social | e.g. ageing population, attitudes to work, income distribution |
| Technological | e.g. innovation, new product development, rate of technological obsolescence |
| Environmental | e.g. global warming, environmental issues |
| Legal | e.g. competition law, health and safety, employment law |

see: ARUP Cards – STEEP analysis

<http://www.driversofchange.com/>

What is PRESTLE Analysis?

PEST Analysis is a simple but important and widely-used tool that helps you understand the big picture of the Political, Economic, Socio-Cultural and Technological environment you are operating in. PEST is used by business leaders worldwide to build their vision of the future. It is important for these reasons:

- By making effective use of PEST Analysis, you ensure that what you are doing is aligned positively with the forces of change that are affecting our world. By taking advantage of change, you are much more likely to be successful than if your activities oppose it.
- Good use of PEST Analysis helps you avoid taking action that is condemned to failure for reasons beyond your control.
- PEST is useful when you start operating in a new country or region. Use of PEST Analysis helps you break free of unconscious assumptions, and helps you quickly adapt to the realities of the new environment.

HOW TO USE THE TOOL:

PEST is a simple mnemonic standing for Political, Economic, Socio-Cultural and Technological. Download our free worksheet to record your analysis.

Using the tool is a three stage process:

- Firstly, you brainstorm the relevant factors that apply to you, using the prompts below.
- Secondly, you identify the information that applies to these factors.
- Thirdly, you draw conclusions from this information.

Tip:

The important point is to move from the second step to the third step: it is sterile just to describe factors without thinking through what they mean. However, be careful not to assume that your analysis is perfect: use it as a starting point, and test your conclusions against the reality you experience.

The following prompts may help as a starting point for brainstorming (but make sure you include others that may be appropriate to your situation):

Political:

- Government type and stability.
- Freedom of press, rule of law and levels of bureaucracy and corruption.
- Regulation and de-regulation trends.
- Social and employment legislation.
- Tax policy, and trade and tariff controls.
- Environmental and consumer-protection legislation.
- Likely changes in the political environment .

Economic:

- Stage of business cycle.

- Current and projected economic growth, inflation and interest rates.
- Unemployment and labour supply.
- Labour costs.
- Levels of disposable income and income distribution.
- Impact of globalization.
- Likely impact of technological or other change on the economy.
- Likely changes in the economic environment.

Socio-Cultural:

- Population growth rate and age profile.
- Population health, education and social mobility, and attitudes to these.
- Population employment patterns, job market freedom and attitudes to work.
- Press attitudes, public opinion, social attitudes and social taboos.
- Lifestyle choices and attitudes to these.
- Socio-cultural changes.

Technological Environment:

- Impact of emerging technologies.
- Impact of Internet, reduction in communications costs and increased remote working.
- Research & Development activity.
- Impact of technology transfer.

Other forms of PEST ANALYSIS

PESTLE, PESTLIED, STEEPLE and SLEPT:

Some people prefer to use different flavours of PEST Analysis. These are:

PESTLE/PESTEL/PRESTEL: Political, Resources, Economic, Sociological, Technological, Legal, Environmental.

PESTLIED: Political, Economic, Social, Technological, Legal, International, Environmental, Demographic.

STEEPLE: Social/Demographic, Technological, Economic, Environmental, Political, Legal, Ethical.

SLEPT: Social, Legal, Economic, Political, Technological.