

STEEP Analysis Tool

External environment factors such as down turns in the economy, and a lack of investment in innovation can have a significant impact on a firm's strategic options. To obtain a better glance of how these factors will affect the planning process, analysts can utilize the STEEP analysis tool. When used correctly, the tool will furnish decision makers with information which should be used to improve existing strategic plans.

The STEEP analysis tool is a framework to gauge how the external environment will impact a given company's strategic plan to remain competitive.

The five elements of STEEP analysis

The five elements of a STEEP analysis are reflected in name of the tool.

S – Social

The social element of the external environment takes into account the aspects that describe society as a whole. Some of the key elements that organizations must deal with in each market are:

- Demographics
- Lifestyles
- Religion
- Education
- Age distribution of the population

Changes in the social environment can create havoc on an established strategic plan. Analysts must be careful when monitoring trends in society to arrive at the correct conclusions.

T – Technological

Industries that rely on technological advances to generate new products and services are prone to be affected by rapid changes in the environment. It is the job of analysts to monitor and measure the effects the changes within the technological environment will have on their respective product-development strategies. This task may take years to conduct depending on how the industry is driven by innovation.

E – Economic

The economic environment contains aspects dealing with individuals' capacity to obtain products or services given the set of economic conditions. Analysts must properly assess how consumers will react when there are changes within the environment and how their firm should adjust their strategy to remain competitive given the circumstances.

E – Ecological

The ecological element considers the present-day situation of the physical and biological environments that companies can face. Companies which make use of natural resources in producing goods should devote a great amount of time examining the ecological environment of each country in which they are offering their goods and services. Without the correct information, companies can be fined and refused the right to operate in certain regions around the globe.

P – Political / Legal

This element of the analysis consists of understanding the political and legal environments of a specific country or region where companies select to operate. Failure to understand and adapt to the political and legal environments will result in overcoming barriers which may be too costly to deal with, given the expected return on investment.

When should STEEP analysis be used?

Here are three circumstances when an analyst might be called upon to conduct a STEEP analysis for their company:

- **Times of uncertainty**

As the strategic plan is being finalized, some members of a management team may feel unsure about how the market is going to react to a change in one or more elements in the environment (i.e., a change in price or a feature of a product). It is the job of the analysts to provide enough information via a STEEP analysis to assess the impact of the change before the strategy is implemented. Providing accurate information on certain trends in the environment can reduce the level of uncertainty that strategists may have for their plans.

- **Times of information overload**

When there is a constant flow of information regarding the external environment for a firm, information overload can arise. To combat information overload, analysts can begin the STEEP analysis process as the information arrives. The process will allow analysts to

keep the data which is needed to make key decisions, and discard information that is outdated and irrelevant.

- **Times of disorganization**

In times when firms seem to be confused about the external environment, a STEEP analysis assessment can go a long way to paint a clear picture of the environment. The tool can place things into perspective regarding their strategic options. If conducted correctly, the results of the analysis can help firms focus on what should be done to reach strategic objectives.

How to apply the STEEP analysis

In order to get the most out of the time invested in executing a STEEP analysis, it is recommended that the following five-step plan:

Comprehend the element of the environment being analysed

To understand the element of the environment being analysed, analysts must attempt to answer the following questions:

- What are the current key events and trends within the element?
- What is the evidence supporting the existence of these trends?
- How have the trends evolved historically?
- What is the nature and degree of change or turbulence within the trends?
- What kind of impacts do the trends have for the company?

Assessing interrelationship between trends

To properly assess the interrelationship between trends within the external environment elements, analysts must ask themselves two questions:

- What are the conflicts between the trends?
- What are the interrelationships between the trends?

Relate trends to issues

At this stage, analysts should be able to identify the trends that will significantly play a role in helping or hindering the firm reaching its goals. Creating a list of possible trends with the intention of shrinking the list down to main issues is the best approach to execute this step.

Forecast the future direction of issues

At this point, analysts must go beyond the information that is collected. Analysts have to determine the driving forces behind the issues. In order to seek out the driving forces, identifying the symptoms and causes of trends must be completed. This task can be very

time consuming and frustrating; however, when finished it can provide a wealth of insights which can guide the decision-making process for the firm.

Derive implications

This step is the opportunity for analysts to make conclusions about the external environment and how it will impact the present and future strategic initiatives. Good conclusions will leave companies with “food for thought” and implications to be dealt with when putting in place a strategic plan.