

PESTEL

September 28, 2015 5:05 PM

"**PESTEL model** involves the collection and portrayal of information about external factors which have, or may have, an impact on business."

Rothaermel, F. T. (2012). Strategic Management: Concepts and Cases. McGraw-Hill/Irwin, p. 56-61

The aim of a PESTEL model is to:

- Identify the current EXTERNAL factors that **are** affecting an organization.
- Identify EXTERNAL factors that **could** affect the industry
- Identify EXTERNAL factors that **could** change the industry

The PESTEL model should give the reader an understanding of the OVERALL view of the Industry in which the company is in. The company needs anticipate the changes; exploit those changes that are opportunities and defend against those changes that are threats. The company needs to do this better than the other companies in the Industry.

Political Factors

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This is a list of factors to consider when gathering data for the Political section of PESTEL

Note: There may be other factors you want to include as no list is 100% complete

- Government stability and likely changes
- Bureaucracy
- Corruption level
- Tax policy (rates and incentives)
- Freedom of press
- Regulation/de-regulation
- Trade control
- Import restrictions (quality and quantity)
- Tariffs
- Competition regulation
- Government involvement in trade unions and agreements

Economic Factors

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This is a list of factors to consider when gathering data for the Economic section of PESTEL

Note: There may be other factors you want to include as no list is 100% complete

- Growth rates
- Inflation rate
- Interest rates
- Exchange rates
- Unemployment trends
- Labor costs
- Stage of business cycle
- Credit availability
- Trade flows and patterns
- Level of consumers' disposable income
- Monetary policies
- Fiscal policies
- Price fluctuations
- Stock market trends

Socio-cultural Factors

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This is a list of factors to consider when gathering data for the Socio-cultural section of PESTEL

Note: There may be other factors you want to include as no list is 100% complete

- Health consciousness
- Education level
- Attitudes toward imported goods and services
- Attitudes toward work, leisure, career and retirement
- Attitudes toward product quality and customer service
- Attitudes toward saving and investing
- Emphasis on safety
- Lifestyles
- Buying habits
- Religion and beliefs
- Attitudes toward “green” or ecological products
- Attitudes toward and support for renewable energy
- Population growth rate
- Immigration and emigration rates
- Age distribution and life expectancy rates
- Sex distribution
- Average disposable income level
- Social classes
- Family size and structure
- Minorities

Technological Factors

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This is a list of factors to consider when gathering data for the Technological section of PESTEL

Note: There may be other factors you want to include as no list is 100% complete

- Basic infrastructure level
- Rate of technological change
- Spending on research & development
- Technology incentives
- Legislation regarding technology
- Technology level in your industry
- Communication infrastructure
- Access to newest technology
- Internet infrastructure and penetration

Environmental Factors

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This is a list of factors to consider when gathering data for the Environmental section of PESTEL

Note: There may be other factors you want to include as no list is 100% complete

- Weather
- Climate change
- Laws regulating environment pollution
- Air and water pollution
- Recycling
- Waste management
- Attitudes toward “green” or ecological products
- Endangered species
- Attitudes toward and support for renewable energy

Legal Factors

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This is a list of factors to consider when gathering data for the Legal section of PESTEL

Note: There may be other factors you want to include as no list is 100% complete

- Anti-trust law
- Discrimination law
- Copyright, patents / Intellectual property law
- Consumer protection and e-commerce
- Employment law
- Health and safety law
- Data Protection law
- Environmental Law
- Laws regulating environment pollution
- Education Law

Strategic Implications

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To get the Strategic Implications for this tool you need to look at all the points you have included.

Step 1: Determine which points are irrelevant. These points could have very little or no impact on the industry or possibly they are just 'part of doing business'. (example: In a lot of cases Sales Tax is irrelevant and doesn't change the buying decision of the consumer)

Step 2: Determine which points are 'opportunities'

Step 3: Determine which points are 'threats'

Step 4: State how the results of Step 2 and Step 3 are affecting the Industry

PESTEL (E-1.0) Layout

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- Each point used here needs its own reference number
- A reference number is Tool title's Ref# plus Subtitle ref# plus a sequential number for each point
- Reference numbers are used later for mapping

A good habit is to use Strike Through font for irrelevant points, RED Highlight for Negative impact and GREEN Highlight for Positive impact

i.e. (clothing industry)

1.1 Political Factors	1.1.1	Many countries have a sales tax on purchases
	1.1.2	New Free Trade Treaty with country of garment manufacturing.
	1.1.3	
1.2 Economic Factors	1.2.1	
1.3 Socio-Cultural Factors	1.3.1	•Average size of customers has increased from Medium to Large
	1.3.2	•Many more people buying XL thru 4XL
1.4 Technological Factors		
1.5 Environmental Factors		
1.6 Legal Factors		
1.7 Strategic Implications		•After looking at the points you have listed above, using critical thinking skills, explain how this tool is affecting the profitability of the Industry
	1.7.1	•Larger sizes cost more to make than smaller sizes – less profit margins
	1.7.2	•Larger sizes take up more space – shipping and storage costs will increase
	1.7.3	•Import Taxes will be removed from company costs

Industry Dominate Traits E-2.0

October 18, 2015 1:12 PM

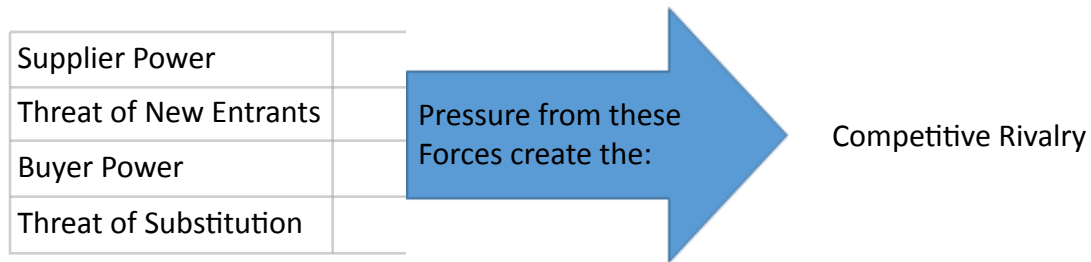
Layout example. See handout by Prof. Jensen

E-2.1 Market Size and Growth Rate 1) How big is the Industry and how fast is it growing? 2) What does the Industry's position in the growth cycle indicate about the industry's growth prospects?	E-2.1.1 E-2.1.2	Very Large and very slowly Saturation and Stagnation

Porter's 5 Forces 3.0

October 5, 2015 1:43 PM

Named after Michael E. Porter: "This model identifies and analyzes 5 competitive forces that shape every industry, and helps determine an industry's weaknesses and strengths."



Determine the strength of each force on the Industry\Company and determine the Strategic Implications from the relevant points you include.

Suppliers Power 3.1

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Determine if the Suppliers are applying pressure on the industry\companies and what degree of pressure the Industry \Companies are feeling the pressure.

Common Mistakes:

In a Billion Dollar Industry, \$100,000 is not a lot of money.

Having the whole Industry seeking a common supply does not mean the suppliers can always apply pressure.

Just because a company can integrate backwards does not mean it's a smart move

The number of suppliers is less important than the supply - demand ratio. (10,000 suppliers capable of supplying max 1M units/day have more power than 1,000 suppliers supplying 50M units/day)

Threat of New Entrants 3.2

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How much pressure is there on the industry to keep new Entrants out of the Industry.

Common Mistakes:

Many people think cost of entry will be a deterrent, if there are profits to be made cost of entry is not a barrier. (i.e. Mac and it's iPhone)

The largest deterrent is always little or no profits in the Industry.

Buyer Power 3.3

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How much pressure is there from the buyers to drop or keep the prices so low there is very little profit to be made.

Common mistakes:

If there are many buyers, even if they have many options to shop somewhere else or buy substitutes they have very little power to force a price drop. (i.e. Stores will not change their pricing because YOU tell them it's too expensive)

Few buyers may or may not have power to control pricing. It's again demand / supply ratio. If only 5 companies buy Uranium molybdenum-99 but there is enough supply for 50 companies then the companies can ask for the price to be lowered or they won't buy it. On the other hand if there's only enough supply for 2 companies, the supplier (the industry company) can charge what they want)

This almost always hinges on whether or not buyer is cost conscience (in retail)

Threat of Substitution 3.4

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What is the pressure put on the industry by the buyer changing to a different product.

Common Mistakes:

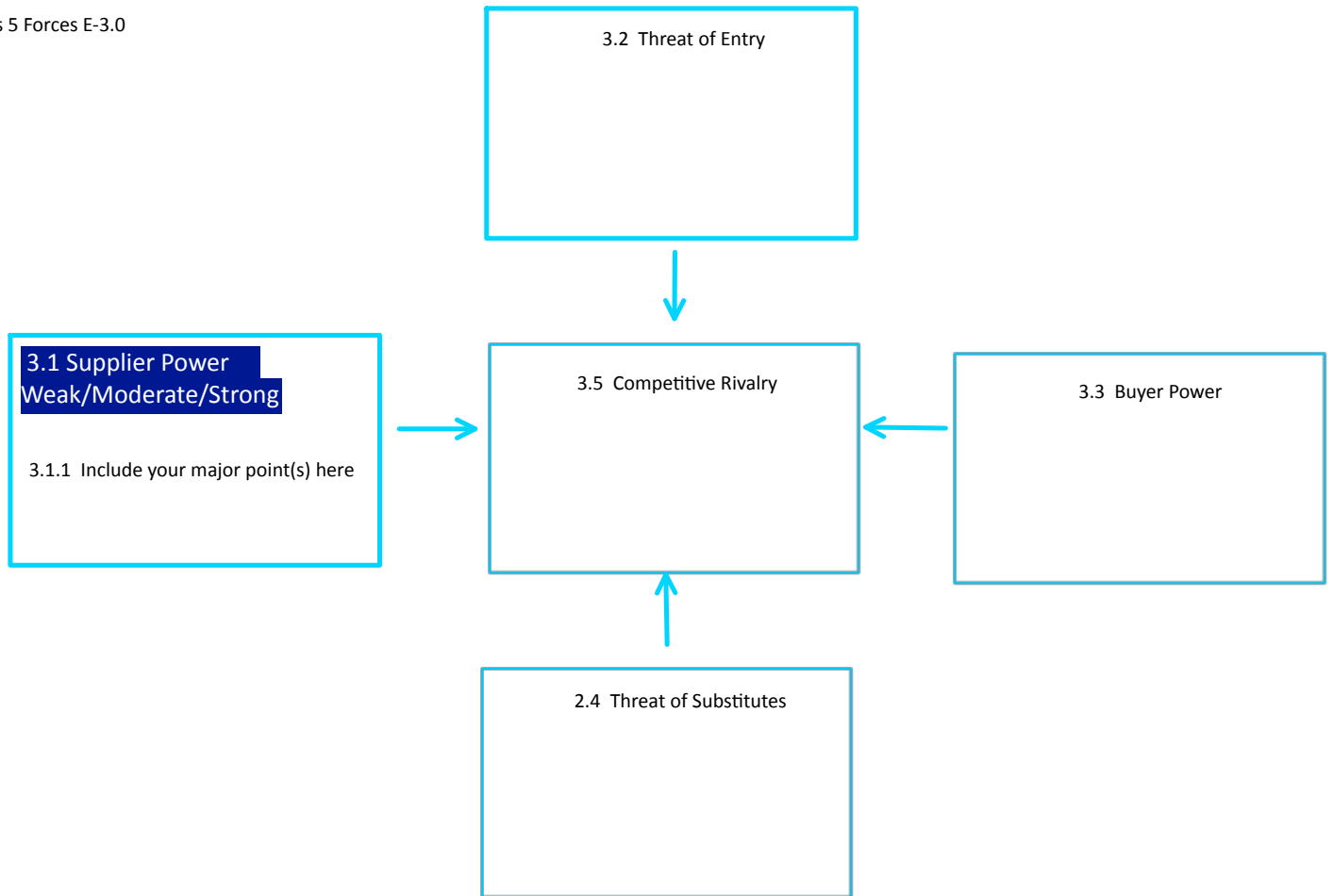
Changing companies is not a substitute. (i.e. if you are looking at the Restaurant Pizza Industry then 'Pizza Pizza' is NOT a substitute for '2-4-1 Pizza'. McDonald's might be a substitute or Home-made Pizza might be)

For many industries, substitute pressure is only important when Creative Destruction is taking place (MP3 player is a substitute for the C.D. Player)

Example Layout

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Porter's 5 Forces E-3.0



Strategic Implication (Tool Conclusion) 2.6 Is this industry Profitable is always good to note here and what are the major points you are including telling you about the profitability?

Driving Forces E-4.0

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4.1 List Driving Forces Causing Change in the Industry and Competitive Conditions

4.2 Impact of the Driving Forces as a whole (Increase/Decrease of Industry Attractiveness)

4.3 Strategies needed to Prepare for the Impact of the Driving Forces

4.4 Much of the implications can be found by analyzing 4.3 i.e. will the cost of changing strategies be effective? Are the new strategies risky?

Strategic Group Map E-5

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5.1 The Strategic Group Map itself is a small part of this tool.

Questions that require answering

5.2 Where is the best spot?

5.3 Which companies are destined to prosper?

5.4 Which companies are destined to struggle?

5.5 What accounts for why some sections of the map are better than others?

- From your answers to the above questions you should be able to state how the tool is affecting the profitability of the industry. (i.e. *If Walmart is in the best spot what will the cost be to compete for that spot vrs. Finding a new profitable niche*)

Strategic Moves E-6

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There are many ways to assess the Strategic Moves of Competitors. See handout.

This is just one Framework you can use for Competitive Analysis

The example below Walmart is the company that is paying for this report (My Company)

The 2 closest on the Strategic Group Map will be Company 1 & 2 as they are probably the biggest competition

Note for 6.2

2 objectives for Walmart (a) providing the customers what they want, when they want it, all at a value, and (b) treating each other as we would hope to be treated, acknowledging our total dependency on our associate-partners to sustain our success

	My Company	Company 1	
6.1 Current Strategies: 6.1.1 Competitor's Position 6.1.2 Any Basis for Competitive Advantage 6.1.3 Kinds of Investments	Largest company in the industry Only retailer of the brand George Other retail Stores & Clubs (Sam's Club)		
6.2 Objectives: 6.2.1 Is the company meeting their objectives? 6.2.2 Does the company need to improve?	(a) No - Many store have empty shelves (b) Yes - Good management team(s) Yes - Supply Chain is weak		
6.3 Capabilities 6.3.1 Strengths 6.3.2 Weaknesses	Pressure on all Suppliers (lower costs) In-store team poorly trained		
6.4 Assumptions: 6.4.1 What Assumptions does the company make about itself?	Walmart believes the empire built will never need to worry about competition		

6.5 Strategic Implications: After completing the framework above for the 2 other companies you will be able to determine if the competition in the industry will start to drain the Industry of profits.

Key Success Factors E-7

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List the Key Success Factor and explain what will happen to a company that doesn't have the Key Success Factor. Industries generally have no more than 4 that are KEY to success.

A Key Success Factor can often be determined by the following questions.

On what basis do buyers of the industry's product choose between the competing brands of sellers?

Given the nature of the competitive rivalry, what resources and competitive capabilities must a company have to be competitively successful?

What short comings are almost certain to put a company at a significant competitive advantage?

When analyzing this tool an important thing to remember is, the cost of maintaining a KSF