

PESTEL ANALYSIS FOR SMALL BUSINESSES

WHAT IS A PESTEL ANALYSIS?

PESTEL or PESTLE Analysis is a strategic business planning or market research tool for Small Businesses Owners to identify, analyze, and monitor the key macro external factors that impact their businesses now and in the future. The macro external environment can be defined as the global business conditions, entities, events, and factors within which a small business operates.

The PESTEL framework considers the Political, Economic, Social, Technological, Environmental, and Legal external factors as a basis for analysis and how they affect the probability of small businesses being successful and profitable. PESTLE analysis helps you identify business opportunities and threats within the macro (external) environmental and make better business decisions.

The PESTEL research framework examines the following external factors:

Political Factors within the Macro Environment deals with the current direction of the political parties and the extent that government intervenes in the economy. Political issues which need to be considered include tax policy, regulation/de-regulation, the level of bureaucracy, foreign trade policy, small business funding grants, etc.

Economic Factors within the Macro Environment are related to the performance of the economy and greatly affects how small businesses operate and make decisions. Economic issues to be considered are economic growth, business cycles, stock market performance, consumer confidence, unemployment trends as well as interest and inflation rates.

Social Factors within the Macro Environment examines the ethical, cultural, and demographic aspects that affect the demand for a small business's products/services and how it operates. Social issues that are important include population growth, immigration, age distribution, lifestyles, health consciousness, buying habits, education level, and emphasis on safety, religion, and beliefs.

Technological Factors within the Macro Environment affects how a small business brings its product or service to market. It helps Small Business Owners to evaluate the status of the business's current technology. Technological aspects such as research and development (R&D) activity, automation, technology incentives, technology lifecycle, the rate of technological change and the role of the Internet need to be considered.

Environmental Factors within the Macro Environment includes the ecological and environmental aspects that may impact small businesses involved in industries such as farming, tourism, and insurance. Environment factors include geographical location, weather, climate, climate change, pollution, and waste management Also attitudes towards "green" or ecological products and renewable energy.

Legal Factors within the Macro Environment includes all the regulations and laws that can positively or negatively affect small business operations and profitability. Legal Factors which need to be considered include discrimination law, anti-trust law, intellectual property law, consumer protection law, health and safety law, tax regulations, employment law, advertising standards, product labeling regulations, health-care laws and retirement laws.

SWOT AND PESTEL/PESTLE ANALYSIS

SWOT Analysis (initialism for strengths, weaknesses, opportunities, and threats) is a strategic planning technique that helps Small Business Owners to be aware of all the factors that influence a business decision or project.

SWOT is a useful planning tool that enables small businesses to focus on strengths, overcome weaknesses, minimize threats, and exploit new opportunities.

Both SWOT and PESTEL analyses are valuable tools for small business managers to understand and evaluate the pros, cons, and feasibility of business decisions.

They can be applied when starting or reorganizing a small business. Or, other projects such as launching new products/services, marketing campaigns or new production methods.

PESTLE analysis concentrates on the external environmental factors and should preferably be done before the SWOT analysis. The results from the PESTLE analysis are added to the threats and opportunities sections of the SWOT analysis.

Using both PESTEL and SWOT produce a more comprehensive evaluation and a better decision.

WHY USE PESTEL ANALYSES AND WHAT ARE THE BENEFITS?

A PESTEL analysis:

- Provides a **cost-effective** method and simple structure to conduct a systematic and thorough evaluation of the external macro environment.
- Encourages and promotes a **strategic-thinking mindset** and brings together owners and key employees with a common goal. It helps you evaluate how your strategy fits into the broader external environment and plan strategically.
- Creates better **awareness of crucial external factors** that influence your small business and helps you understand why and how much of an impact the external macro environment will have.
- Provides insight for **valuable business opportunities** and makes you more alert to **potential threats** in the external environment.
- Creates a better understanding of your small business' position now and in the future within the external environment and whether your **business is weak or strong** to cope with it.
- Helps you be more effective and profitable by evaluating the impact of business decisions before implementing them, **avoiding costly mistakes**.

HOW TO DO A PESTLE/PESTEL ANALYSIS

As discussed above, PESTEL is a strategic framework for small business owners to understand their external environment and how it influences business decisions. It is the most useful when the participants in the PESTEL brainstorming sessions represent specialists of different disciplines (management, marketing, finances, operations, technology, legal etc.). This will create a balanced representation of your business's environment.

It is also important to be clear on the purpose for the PESTEL analysis and what needs and the issues need to be addressed. The PESTEL analysis should be carried out at regular intervals. This will allow you to stay on top of changes in the macro-environment and keep your business strategies and plans updated.

Step-By-Step Guide to Running a PESTEL Analysis:

Step 1: Research the PESTEL Factors (discussed above): Gather information on the relevant political, economic, social, technological, environmental, and legal factors to your small business, how and why they change.

Step 2: Identify and List the PESTEL Factors: Brainstorm the PESTEL factors and identify and evaluate those that impacts your small business, by either representing a potential threat or opportunity. List only those factors, and the change in them, in PESTEL analysis under the appropriate PESTEL headings. Consider both the present situation and likely future changes. It will be helpful to have two separate headings, i.e. current factors and future factors.

Step 3: Rate PESTEL Factors Level of Impact: Individually rate the level of impact of each of the PESTEL factors on your business. Deliberate any significant differences in the ratings between participants in the group and get consensus. This will help the group to better understand the opportunities and challenges your small business is facing.

Step 4: Identify Opportunities and Threats: Identify the opportunities and threats that each of the PESTEL factors present to your business. Considering opportunities, for instance is there a technological development that your small business can take advantage of to increase process efficiency or reduce cost? Also, new markets can be created for your business with shifts in consumer demographics. Considering threats, as an example changes in labor regulations could impact labor costs?

Step 5: Take Action: Moving forward, actions are needed to implement the results of the PESTEL Analysis. The actions depend on why the PESTLE Analysis was carried out in the first place. In general, the PESTLE Analysis should be distributed to the relevant employees/stakeholders. In addition, update your SWOT Analysis, business plan, or other strategic documentation. If there are any significant risks or threats, take appropriate steps to mitigate or eliminate them. Similarly, develop action plans to take advantage of opportunities.