

Understanding your Marketing Environment

A useful way to examine your external market environment is to carry out what's known as a PEST Analysis, this guide covers how to conduct a PEST Analysis.

Analysing and understanding your market before you launch anything - from a new business to a new product or service - is crucial to its success. You can do this in a number of ways, but one tried and tested method is to break down and examine your market environment in terms of its external and its internal.

A useful way to examine your external market environment is to carry out what's known as a PEST analysis. A SWOT analysis is particularly suitable for assessing your internal market environment.

Conducting a PEST Analysis:

Your external environment - also known as the macro-environment - is something that you are unlikely to have a significant influence over; but you need to be aware of it nonetheless so that you can ensure that your business is not adversely affected by it. This is where a PEST analysis comes in. It enables you to easily weigh up the four main external influences which could have an impact on your business, namely the Political, Economic, Sociological and Technological elements.

So here's how to do a PEST analysis. Take a sheet of paper and split it into four quadrants by drawing a line top to bottom, intersected by a line across. Each quadrant is for each of the 4 external influences. Then start looking at all the factors within these 4 areas that may impact your business.

Why a PEST Analysis is important: A PEST analysis is an at a glance summary of the main external influences you're your business. You may not be able to control any of these influences but it would be unwise for any business to be unaware of them. Having the main elements together on one page enables the business owner to easily assess what's good for the business and what's not. Completing a PEST analysis before you move onto the next step of conducting a SWOT analysis (which involves analysing the Strengths and Weaknesses Opportunities and Threats) of your business, your product and your proposition is really useful.

Political: Consider the Governments of the past and present day of the country. Is there any legislation - either recent or new - that

has been introduced that refers explicitly to your business sector or businesses in general? Make a note of this in the first quadrant.

Political factors also take into account the environment - has any legislation that protects or regulates the environment been recently introduced? Taxation whether it is corporate or consumer is also a political factor and all European or international regulations and specifically trade regulations which may impact you if you export or import should also be included. Any regulations that protect your consumers, employment law (if you employ staff), pressure groups and, finally, the political stability of the Government and the country you are doing business in.

Economic: The state of the economy has an effect on consumers. If the economy is in a boom then consumers are more likely to spend: if the economy is suffering a slump then consumer confidence and the available purchasing power in the economy also suffers a slump. When taking into account the state of the economy of a country you should look at the current interest rates, the exchange rates, inflation rates and the overall economic growth of a country. And if you trade abroad you need to look at all of these for both the country you are based in and the country you wish to do business with. Write down all the economical influences on your business in the second quadrant.

Sociological: Social factors cover all aspects of society and from consumer needs to culture and the size of your market. You should also look at demographics of your target market including age, gender and the changing nature of occupations. Also consider religion, language, the roles of men and women within society, the attitudes of society towards environmental issues, change, technology and the power of the media. All of these have an impact upon consumer purchasing and will impact how well your business does. Society is constantly evolving and any change to the structure of that society could have an effect on your business. Mark all of these factors in the bottom left hand sector of your diagram.

Technological: Technology alters the way businesses function. The advent of the internet introduced an entirely new route to market and an avenue for sales for many businesses. Technology challenges businesses - it requires businesses to adapt and respond to technological changes in order to survive and thrive.

When considering how technology affects your business consider the Research and Development activity in your industry, how technology could affect the production of your goods or services, how technology spawns new competition, how technology could enable you to offer more innovative products or services or provide you with new means of communication with customers and most of all though when it comes to technology you need to watch the rate of technological change - so you can adjust your business accordingly

Mark the salient technological influences on your business in the fourth quadrant.

SWOT analysis:

A SWOT analysis really allows you to analyse your core business idea and proposition, be it for a new product or service to an existing line or a brand new business - to see if it is really viable.

A SWOT analysis takes in your internal or micro-environment and amongst other things looks at customers, competitors, channels and suppliers. Like a PEST analysis, a SWOT analysis can be created by dividing a piece of paper into 4 quadrants, entitled strengths, weaknesses, opportunities and threats.

Strengths: Your strengths should include both your company and yourself (or workforce). Your strengths should also take into account what are you really good at, your USP, how your product or service differentiates you from potential competitors, whether your product or service is exclusive, what resources are available to you and whether you have a skilled and innovative workforce, your location, and distribution avenues and if you have experience and knowledge in your market (this can be a real strength as can whether you can meet consumer demand.)

Weaknesses: Then move onto all your weaknesses or areas in which your business may be exposed. Areas you may have weaknesses in may include your workforce and skills gap, a lack of sufficient resources, limited finances, or cash flow to get started or inadequate returns - anything that could be strength could also be a potential area of weakness.

Opportunities: Your third quadrant, your opportunities should take into account many of the areas you identified in the PEST analysis like the state of the market, including niches that your rivals have missed, and where the market is heading. Technological developments, shifts in taxation/demand/the economy/product supply, and any changes in consumer trends that may work to your advantage such as fashion or weather

Threats: The final section of a SWOT analysis features threats - those factors that threaten the success of your enterprise. Again these may include factors that came up in your PEST analysis, including: rivals moving into your market space, products soon to become obsolete, geographically where you based in the country and how you distribute. And on a larger scale, politics, legislation, the environment, technology and again financial backing might be considerations.

Conducting PEST and SWOT analyses and understanding the impact the different micro and macro environments have will give you a solid foundation on which to build and develop your business.

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