



WE CONDENSE INNOVATION

DIFT

DIGITAL INTRAPRENEURS FAST TRACK

EXPLORE



SESSION 01

Trend-Driven Innovation

SESSION 01

Introduction to PESTEL analysis

**What happens when
you do not consider the external
environment surrounding your
company's business...**

What do they have in common?

EUROPEAN AIRLINES VS EYJAFJALLAJÖKULL VOLCANO (2010)



CAMBRIDGE ANALYTICA VS GDPR (2017)



ARGENTINIAN COMPANIES VS SOVEREIGN DEBT CRISIS (2019)



Companies defaulting or losing money due to external, allegedly unexpected events!

EUROPEAN AIRLINES VS EYJAFJALLAJÖKULL VOLCANO (2010)



1.3Billion € in losses

After 187 years of inactivity, infamous Icelandic volcano erupts and block air traffic in central/northern Europe, causing 1.3b€ losses for the European airline industry.

CAMBRIDGE ANALYTICA VS GDPR (2017)



CA went bankrupt

Cambridge Analytica caught using personal data from Facebook users for delivering political advertising. The subsequent introduction of GDPR forced CA to stop operations and caused default.

ARGENTINIAN COMPANIES VS SOVEREIGN DEBT CRISIS (2019)



16 arg. companies risk default

Sovereign debt crisis occurs in Argentina, causing pressures on debt monetization and consequent hyperinflation on consumer prices. 16 local companies saw credit ratings downgraded to CCC and dragged toward default.

What do these epic fails show us?

RAISE YOUR AWARENESS

- **Macro-environmental factors**, namely Political, Economic, Social, Technological, Environmental and Legal (PESTEL) factors, can have huge economic and financial impacts on businesses.
- They may even cause structural (and not just temporary) changes in terms of **industry profitability**.
- We use to **underestimate the likelihood** of such events happening: most of the times negative PESTEL events may look as unpredictable, very far from actually occurring, since they are not part of our business-as-usual daily life.
- On top of that, sometimes we **do not even realize the impact** such negative events could have on our businesses.

Knowing the external environment is paramount to long-term sustainability of your business.

Map the context, be aware.



Deep dive into PESTEL ANALYSIS

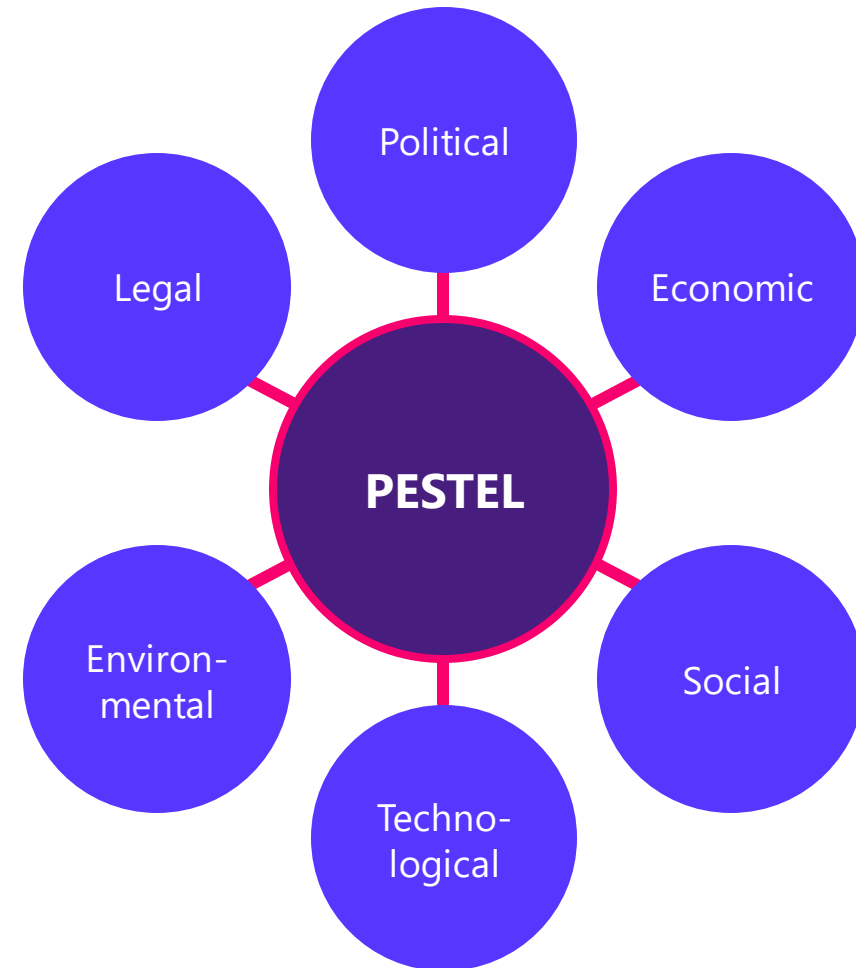
PESTEL ANALYSIS: overview

PESTEL is an acronym used to identify the **six external macro-factors impacting businesses**: Political, Economic, Social, Technological, Environmental and Legal.

It is a fundamental analysis to be carried out in order to get a clear **view about the market** a company needs to enter or explore opportunities in.

Within the PESTEL context, by the word 'market' we mean a **delimited country or region** in which all operating businesses might be commonly affected by such external PESTEL factors.

Ultimate goal of the PESTEL analysis is to answer the question: **is this potential market attractive for my business?**



PESTEL analysis

Political factors (1)

Such kind of factors refer to **the extent to which governments and institutions influence businesses** and the whole economic system overall.

Some government dynamics might generate huge threats on your business, other might instead turn out to be opportunities.

Question to answer: how and how much the local government interferes in the economy and my business?



PESTEL analysis

Political factors (2)

That is why it's important you always look at:

- Government stability/instability
- Corruption level
- Tax policies
- Freedom of press
- Government regulation and deregulation
- Special tariffs and import-export regulations
- Government involvement in trade unions and agreements
- Competition regulation
- Government subsidies
- Trade control
- Relevance of lobbying activities
- Size of government budgets



PESTEL analysis

Economical factors (1)

Economy performance of a specific country/region gives you precious information about the **wealth of potential customers**, their purchasing power, disposable income expected growth – as well as it tells you how much a country is able to **attract and increase value of investments**.

Question to answer: is the local economy in good (current and perspective) health?



PESTEL analysis

Economical factors (2)

So do not forget to look at:

- GDP growth rate
- GDP per capita
- Unemployment rate trend
- Interest rates levels and Central Bank policy
- Consumer prices inflation rate
- Local currency exchange rate and related dynamics
- Availability of credit from banking system
- People willingness to spend, save, invest money
- Financial markets trend
- Tax levels and incentives



PESTEL analysis

Social factors (1)

Social factors refer to distinctive characteristics of the local population, taking into account both quantitative and qualitative aspects, with the aim to understand **consumers behaviours** dynamics on a high level.

Question to answer: is the local population suitable for my business?

PESTEL analysis

Social factors (2)

Some of the elements to consider are:

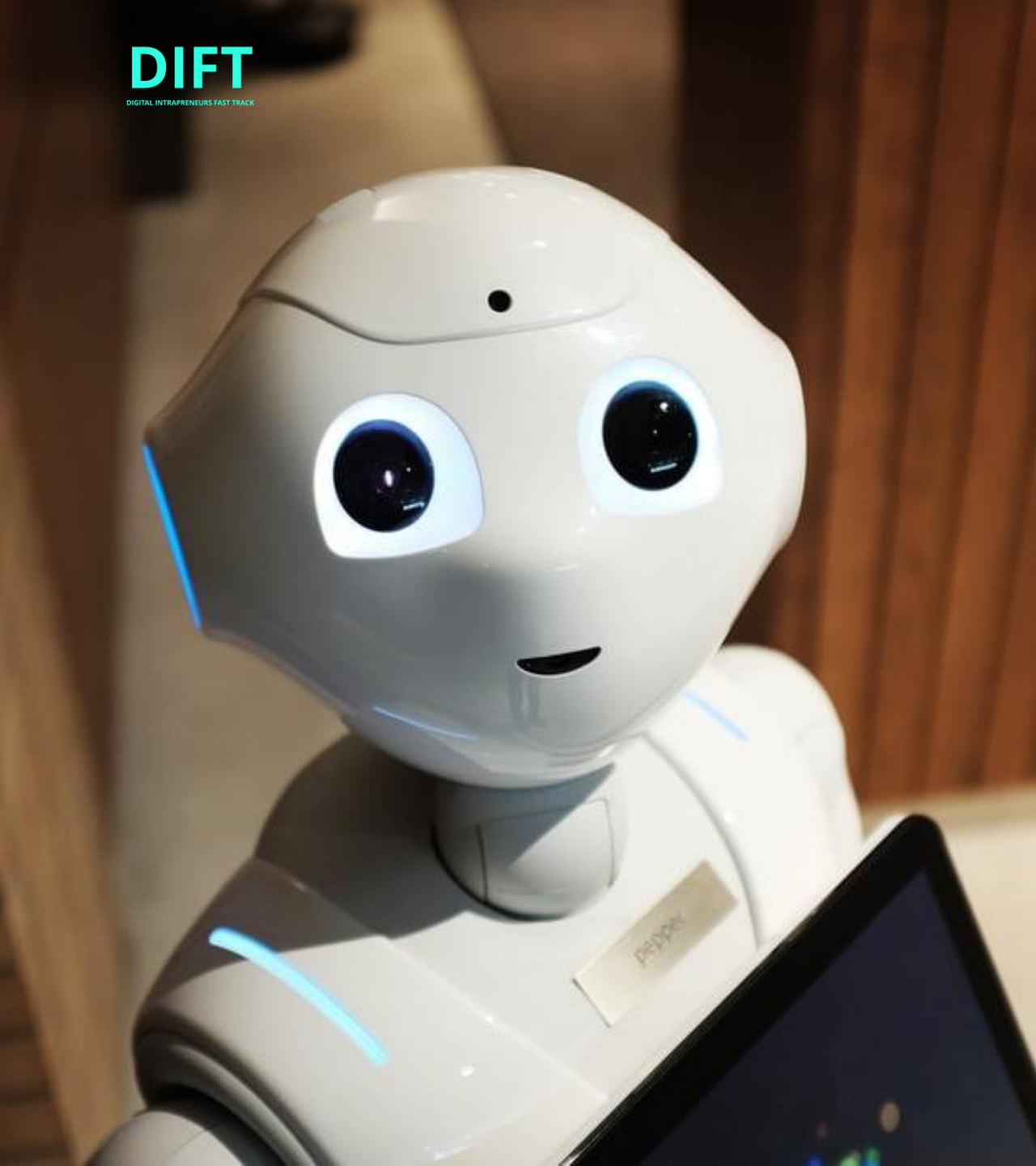
- Population size and growth rate, birth and death rates
- Age and wealth distribution
- life expectancy rates
- Buying habits
- Immigration and emigration rates
- Presence of social classes and discrimination issues
- Family size and structure
- Ethical concerns, religion and beliefs, values, lifestyles
- Health consciousness
- Attitude towards government, work, leisure time, etc.
- Education level
- Crime levels

PESTEL analysis

Technological factors (1)

Technology affects a market both in terms of **consumer readiness** (if you sell a technology product/service B2C), **R&D/technology production intensity** (if you wish to invest in plants or research labs locally) and **IT infrastructure strength**.

Question to answer: is the technology context favourable/unfavourable to my business?

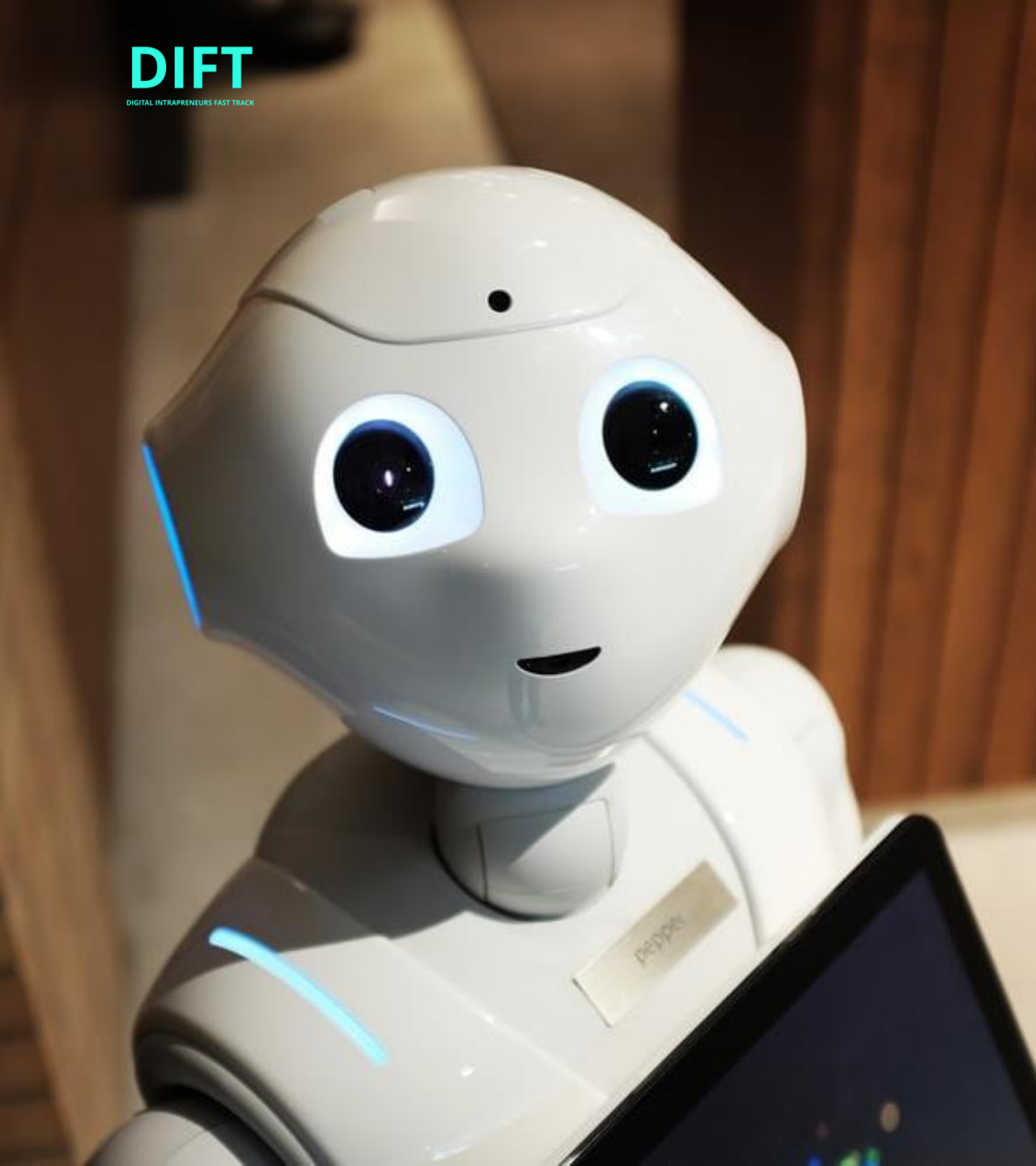


PESTEL analysis

Technological factors (2)

So this is what to look at:

- Technological awareness of consumers
- Strength of IT infrastructures
- Networking opportunities related to innovation
- Public incentives on technology-related businesses/activities
- Automation
- Level of R&D activity in the region
- Technological change
- Access to new technology
- Life cycle of technology



PESTEL analysis

Environmental factors (1)

Do not just think of natural disasters, of course they affect businesses. Also think of all issues regarding health of our environment, which have strongly risen during the last 10 years – and have been affecting **the way most advanced customers behave**, their consumption choices.

Hence, companies are more and more focused on their sustainability practices, carbon footprint, as well as product offerings – CSR (corporate social responsibility) policies are spreading wide.

Question to answer: will the environmental issues and their regulatory/behavioural implications affect my business?

PESTEL analysis

Environmental factors (2)

Such kind of context poses a number of challenges to your business, so it's important to take into consideration:

- Environmental policies
- Lobbying pressures from NGO's
- Consumer attitudes towards green products
- Weather and climate changes occurring
- Recycling standards
- Air and water pollution
- Natural disasters

PESTEL analysis

Legal factors (1)

Companies and startups need to be fully aware of the legal context in which they make business – especially those operating in multiple countries. **Legal frameworks** (i.e. set of rules and regulations) evolve and are likely to **change the rules of the game**.

Question to answer: is the legal framework in the market favourable to my business? Or is it a threat?

PESTEL analysis

Legal factors (2)

That is why you should always look at current state and potential evolution of the following:

- Data protection laws (see GDPR in EU)
- Health and safety laws (see post-Covid safety rules)
- Employment laws
- Consumer protection laws
- Copyright and patent laws
- Antitrust laws
- Discrimination laws
- Education laws
- Other industry-specific laws (see PS2D2 on payments)



How to perform a PESTEL analysis

Use cases: when you should perform PESTEL analysis

STARTUP LAUNCH

Before launching a new startup, it is important to better understand in which market to **test** or **launch** the new product/service. Some markets are better suited for testing, they let you get consistent insights/results about your product especially if the environment is safe, stable and potential customers are ready to buy.

NEW MARKET ENTRANCE

New market entrance for companies willing to:

- build **commercial operations from scratch** in new countries/regions;
- invest in **R&D**, that implies deploying large amount of capital with a long-term investment period;
- **acquire a local company** in order to directly enter the new market;
- **offshore**, that is moving production into a new market.

Political, Social and Legal could be the most relevant factors to focus on.

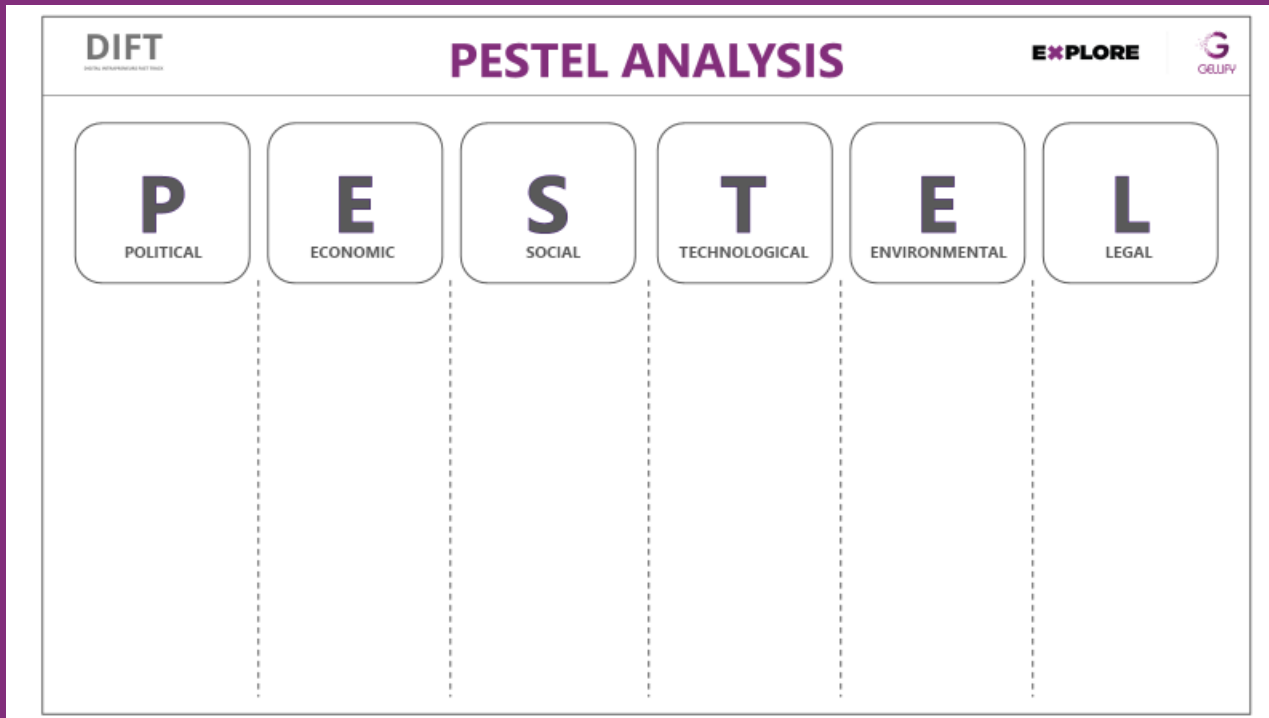
RECURRING MARKET CHECK-UPS

Especially useful for multinational companies, already operating in different countries and regions. They need to carry out periodical checks (i.e. **every 6 months**) on the state of the markets they have stake in, in order to prevent unexpected negative events and possibly raise early warnings in case new threats are on the rise.

PESTEL analysis is usually performed by HQ strategy & marketing team (who knows mother company strategy) together with local teams (who know local market situation and circumstances).

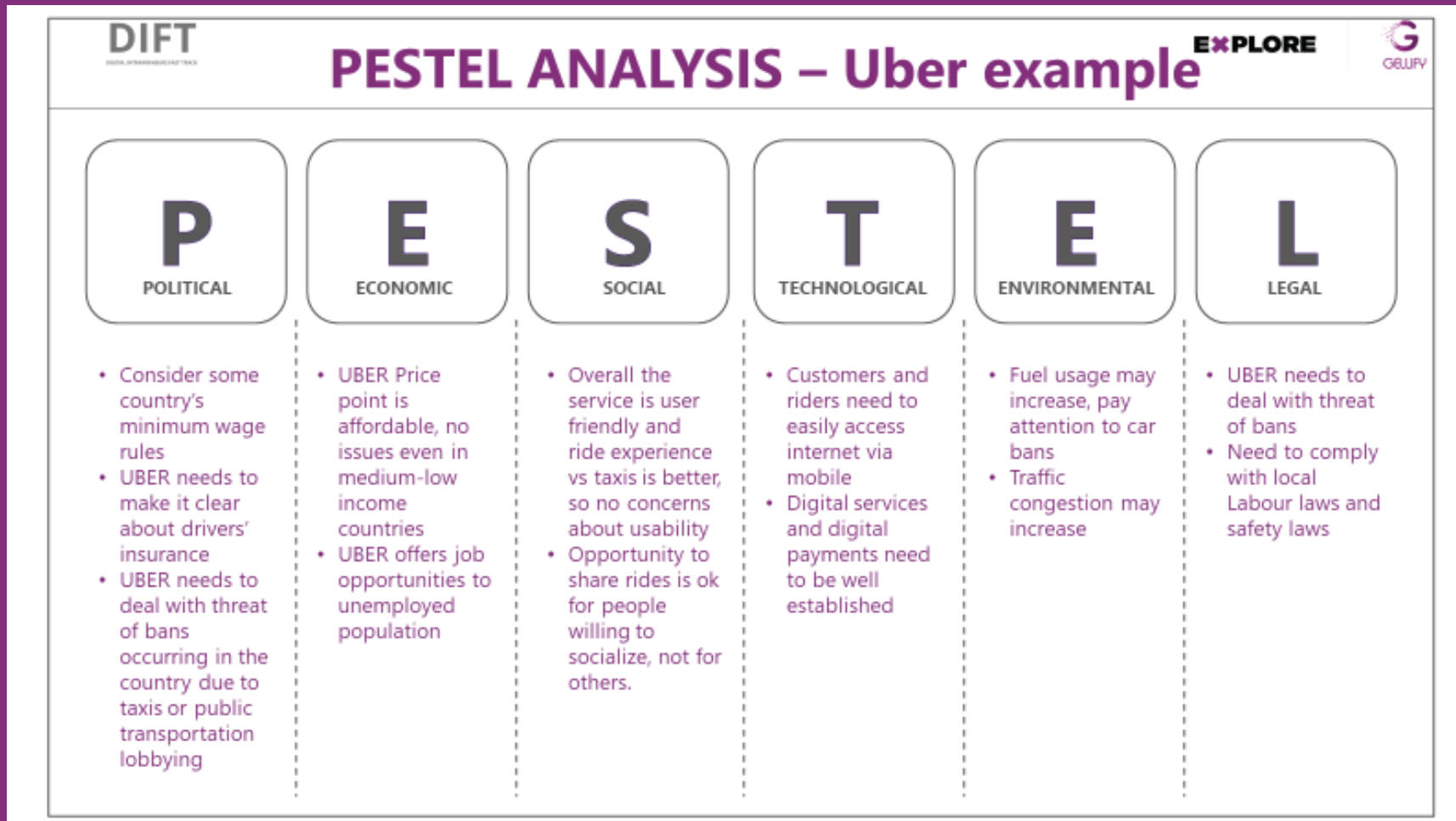
PESTEL Analysis

TOOL: PESTEL FRAMEWORK



Understanding the context in which to operate your business also means getting a comprehensive view of external macro-factors potentially affecting your business. That is why you should perform the PESTEL analysis each time you consider entering a new market (country or region).

TOOL: PESTEL ANALYSIS



Hints and tips

YOU HAVE A TARGET MARKET

PESTEL is to be performed with respect to a specific market you want to target (e.g. for launching a startup). So have clear in your mind the market perimeter: a city, a country, a larger region.

THINK OF EXTERNAL FACTORS

While completing the analysis make sure to only consider external factors affecting your business. So take into account only those events and market dynamics that you do not directly control.

FOR NOW JUST TAKE A PICTURE

Once realizing a threat overhangs, it is usually straightforward to think about possible solutions or risk-mitigating actions, and that is good – but currently just focus on mapping the context. Time for action plan will follow afterwards.

NOT JUST THREATS, BUT ALSO OPPORTUNITIES

We use to think of PESTEL in a negative way, and that is because we always focus on negative events. There's good news though: PESTEL is for mapping positive opportunities your target market is likely to generate as well!

How to approach PESTEL for your project

1. BRAINSTORM

You have a brilliant idea in mind, now think of the market you want to address first. It might be your current country or city, or another one. Take your time, you and the team, to discuss and identify a couple of markets you'd like to put on test through PESTEL.

2. INTERVIEWS

Completing the PESTEL requires you and your team to make an effort in understanding peculiarities of the target market, but do not just trust your own common sense and knowledge, take into account also experts opinions. Try to reach and schedule interviews with subject matter experts who know better the market, both from within your Company and from your network outside of it.

3. PUT EVERYTHING TOGETHER

Now that you have gathered information, from your team, from within the Company and from outside, try to wrap everything up and build a structured PESTEL out of it. Please remember to consider both threats and opportunities.

Next steps & offline activities

ACTIVITY OFFLINE

PESTEL ANALYSIS

1 week

PESTEL ANALYSIS					
P POLITICAL	E ECONOMIC	S SOCIAL	T TECHNOLOGICAL	E ENVIRONMENTAL	L LEGAL

Complete the PESTEL analysis:

- Brainstorm – first identify the target market (city, country, region, etc.).
- Interviews – deep dive into each of 6 areas of analysis considering experts opinions.
- Put together – wrap-up everything and make sure that PESTEL opportunities are mapped too.

SESSION 01

Introduction to PESTEL analysis