RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

PEST Analysis: A Simple Framework for Spotting What's Coming

A quick way for small business owners to review the outside world for the ***changes that could affect them next.***

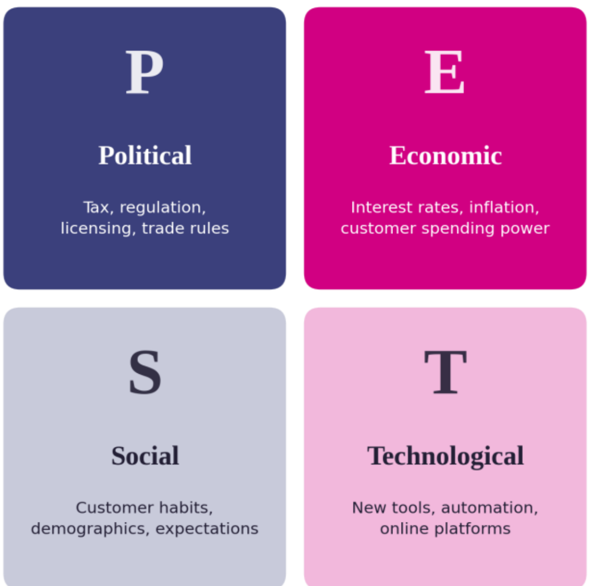
Why this matters

Most small business owners spend their time looking inward: cash flow, staff, customers, stock. PEST analysis asks you to look outward instead. It is a simple tool for scanning the Political, Economic, Social and Technological forces around your business (in the world) so that you can spot opportunities and risks before they have an effect. An extreme prime example was COVID; none of us saw it coming but it massively affected almost every small business in the country and worldwide. What about the change in weather patterns? How would the temperature increases affect an ice-cream company or an umbrella company, one negatively and one positively? Can businesses prepare for this, perhaps by increasing production in the ice-cream company and changing to parasols in the umbrella company?

The four factors

- Political: government policy, tax rules, regulation, trade rules and local licensing that affect how you operate. MTD or the change in the VAT threshold are examples.
- Economic: interest rates, inflation, wage costs, exchange rates and how much your customers have available to spend. The changes in minimum wage or the new SSP rules are examples.
- Social: changing customer habits, demographics, attitudes and what people expect from a business like yours. New movies or music that come out create new trends.
- Technological: new tools, automation, online platforms and the pace at which your industry is changing. New software, not just accounting, especially the increased use of AI.

The framework at a glance



Putting it into practice

You do not need a strategy department to use PEST. A page of notes and twenty minutes is enough. For each of the four factors, run through the same four questions: -

The four questions to ask

- What is changing?
- Why does it matter to us?
- Is this an opportunity to chase or a risk to plan around?
- What, if anything, should we do about it?

Keep it current

Revisit it every quarter, every year or whenever something significant happens in your industry or the wider economy. The value is not in the document itself. It is in the habit of stepping back and looking outward.

KEY TAKEAWAY

PEST will not tell you what to do but it will tell you what to watch. Four questions, asked regularly, are usually enough to keep the outside world from catching you by surprise.

What to do next

- Block out twenty minutes and run through the four factors for your business
- Note one opportunity and one risk under each heading
- Set a quarterly reminder to revisit it
- Book a free chat with us if you would like a hand thinking it through