

## Pestel

Pestel is analysing the external factors that may present opportunities or threats to a business. These are all generally considered to be outside the control of the business although many, business will go to great lengths to try and control them.

The Pestel analysis particularly identifies key dangers that are taking place which influence the organisation in the future.

The acronym stands for:

**P**olitical  
**E**conomic  
**S**ocial  
**T**echnological  
**E**nvironment  
**L**egal

### **Political**

The political factors that may affect a business may include

- a) War
- b) IRA attacks
- c) Elections
- d) Privatisation policy
- e) Influence of the EU 'harmonisation'
  - Encourages competition – market should work more efficiently
- f) Compliance
  - More willing to abolish paper work to government (red tape)
  - Competitive law
  - Labour law
  - Product standards
  - Environmental law
  - Planning law

Nike is not likely to be affected by any political factors apart from war. As a war will affect what people buy and spend their money on. As people will want to save all the money that they can so they won't want to spend their money on luxury items such as a pair of trainers.

An election might also affect Nike as the Lib Dems and the Labour party are for raising taxes. If taxes are raised then it puts up the price of buying anything, so people will not have much money to spend, as they will be giving more of their earning to the government.

The only other political factor that might affect Nike is problems over seas. As Nike is an American company and trade over seas, they may loss business from some countries if they are having political problems such as a war. The

country may not want to invest in imports of luxury items as they may wish to put the money into more political uses, such as defence.

### **Economic**

Economic factors that may affect a business are

- a) Interest rates
- b) Tax rates
- c) Inflation rates
- d) Recession – slump- recovery - boom
- e) Economic climate
- f) Success in exporting
- g) Chancellor set economic
- h) Frame work
  - Targets for growth
  - Targets for inflations
- i) Cost of imported raw materials
- j) The cost of production in the UK
- k) Exchange rates
- l) Rising incomes stimulate demand
- m) Want to increase growth/produce more goods

The interest rates will affect Nike. If the interest rates are high then people will want to save more and spend less on cards as it will cost them more in interest. This means that people will not want to buy luxury items.

If interest rates are low then people are more likely to spend more money on cards as it doesn't cost them as much to make a purchase.

If interest rates are high it is good for the saver as they get more for their money, but bad for the spender as it costs more to make a purchase as they will be paying more to the credit card companies.

The interest rates will also affect the amount of research and development a company can do. If the interest rates are high it will cost the company more to research but this is the time when Nike need to do the most as people will not be willing to purchase Nike products as they will want to save.

Tax rates will affect Nike in the same way as interest rates. If taxes are high the people will have less money to spend on luxury items such as Nike products. Also if the taxes are high it means that Nike will have to pay more to the government. As all business have to pay the government

Exchange rates will affect Nike if they want to export their products to other countries. Nike are an American company so they work in dollars. If there is a strong dollar it means that it will be more expensive for overseas countries to import as they will have to pay more to get the same amount. This is good for Nike as they get more money for fewer products sold.

If income rises it will mean that people will have more money to spend on luxury items, which will be good for Nike, as all of Nike's products are considered luxury items because they are not essentials for every day living

But if incomes does rise it will also mean that Nike will need to increase the wages of their employees, which then means that the cost of production will increase, which may lead to the cost of the products rising.

## **Social**

The social factors that may affect businesses

- a) Population changes (demographics)
- b) Trends which affect social class e.g. education
- c) Changes in social attitudes
- d) Cultural preferences e.g. animal welfare, vegetarianism
- e) Health issues
- f) Changes in structure of labour market
- g) Black economy – black market

If the population rises then it will mean that there are more people that could be potential buyers of Nike products, which could lead to a higher profit margin.

If the population decreases then it may lead to fewer consumers of Nike products, which could potentially decrease the profits.

The black market is quite a high treat to Nike. The black market sells branded products at half the price of the brand. The products that are sold on the black market are either stolen from the brand or are fakes. The black market is illegal, but some consumers are not aware that what they are buying is not genuine. The consumers may think that they are getting a barging. If p eople are purchasing from the black market it will mean that they are not purchasing directly from Nike, which could lead to a lower profit for Nike.

If the population rises then it will mean that there are more people that could be potential buyers, which will lead to higher profit margin.

If the population decreases then it may lead to less consumers of a product, which could decrease the profit margin.

## **Technological**

The technological factors that could affect a business

- a) Product innovation – coming up with new designs, images, products – CAD (computer aided design)
- b) Process innovation – making the product with machinery – CAM (computer aided manufacture)

All of Nikes products are designed using CAD. All the aesthetic and ergonomics will be calculated using CAD packages to insure accuracy. Once

the products are designed on the CAD packages they will then be manufactured using CAM which will be heavy industrial machinery.

### **Environmental**

The environmental factors which could affect a business may include try to avoid using too many natural products which cannot be replaced e.g. oil

- a) Pollution
- b) Climate change
- c) Gases from production
- d) Traffic congestion
- e) Waste disposal
- f) Disposing of packaging

The traffic congestion affects Nike's workers, as they have to get to work like all the other thousands of people in the country. The workers may not live within an easy distance of the work place and so they may have to use their cars. Due to the amount of cars on the roads it also makes the distribution of the Nike goods harder. It will take longer for the products to get from point A to point B. The longer that it takes for a product to get to the selling points such as shops, which means, that time can not be used to sell that product. The cars and lorries that Nike workers use and the goods are distributed in cause air pollution, which affects the environment.

Nike will also have the problem of waste disposal and disposing of packaging. There are some environmental groups that protest the minute a company does something wrong that affects the environment. To stop this from happening Nike needs to recycle everything that is being wasted.

### **Legal**

The legal factors, which could affect the business

#### - Consumer protection

- a) Sales of goods act 1979 (goods must be of merchantable quantity)
- b) Trades description act 1968 (no misleading claims)
- c) Food safety act 1990
- d) Weights and measure

#### - Competition law

- a) Restrictive practices act 1956, 1968, 1976
- b) Fair trading act 1973
- c) Competition act 1980, 1998

#### - Employment law

- a) Minimum wage
- b) Health and safety

- c) Redundancy
- d) Equal opportunities
- e) Trade unions
- f) Un fair dismissal
- g) Working time directions – EU law
- h) Paternal laws

Nike are restricted by certain laws to say what they can and can't do. There are many laws that protect the consumer against faulty or bad products. All products that Nike sell in the U.K must meet the BSI (British Standards Institution), which is shown on all products with a small logo known as the kite, mark. If a product shows the ISO (International Standards Organisation) symbol it means that it is of good quality and has reached the standards required.

If Nike advertise any one of their products they must not state anything that is not true, they also must not say anything that could be a disadvantage to one of there competitors. Nike must trade with fair competition.

There are also a lot of laws about employment.

All employees that are over the age of 18 must be paid at least the minimum wage. The minimum wage is set by the cost of living in the area around the business.

Nike must employ an equal amount of males and females. A percentage of the work force must also be from different ethnic backgrounds and another percentage must be of people with a disability. This is to ensure equal opportunities.