



PEST Analysis: The case of E-shop

Dimitrios Nikolaou Koumparoulis

Full-time Professor of Economics and Management, Universidad Azteca – Mexico.

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ABSTRACT

PEST analysis stands for "Political, Economic, Social, and Technological analysis" and describes a framework of macro-environmental factors used in the environmental scanning component of strategic management. At this paper we study the case of E-shop, a private company in Greece, illustrating the reasons why a company should work on pest framework.

The author would like to dedicate this paper to Mr. David Scott and his family.

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1. Introduction

In the new economic environment that has emerged as an impact of the recent 'crisis', the complexity of each industry forms a demanding context that affects consistently both the internal and external environment of organizations. As a result, the majority of the firms need to maintain their competitive advantage. However, a firm have to constantly increase the value of their products offered to clients in order to sustain their competitive advantage (Barney, 2008), as well as being profitable in order to exist (Egan, 1998). The industries can be described as a set of external and internal environment so, every firm is affected by external environment such as the market, client, etc and the internal environment including the employees of the firm, contractors, sub-contractors, suppliers etc. (Kelly and Bowles, 2006).

The key research question is to investigate what are the forces affecting the organization's macro business context.

The purpose of the study is practical and will be conducted in order to examine the forces affecting the organization's macro business environment. For confidentiality reasons, the real name of the company will not be mentioned. 'A' company will be the pseudo name.

The results of the study will provide an insight for 'A' company's external environment.

In the second chapter of the study which is concerned with the literature review a bibliography research including books and up to day journals, will be carried out in which definitions and theories of change and change management on internal and external environment will be investigated. The third chapter of the study will investigate the methodology to present the firm. A case study will be investigated through this company. In the conclusion, the results that will be produced from the research and bibliography search will be developing. Afterwards, a list of references is indicated, including all books, up to date science papers and websites that were used in this assignment.

2. Literature review

The sales of computers towards the Greek market are collapsing for the last three months of 2011. During the Christmas Holidays period, which usually is the higher in sales, 191.578 pieces were sold, while last year 293.182 pieces were sold. The sales are reduced by 34.7%. The local PCs market situation is obvious by regarding the sales of information systems towards the corporations. The information systems in the past were the development engine of the sector, while today are the break. During the last four months of 2011, 69,000 computers were sold for professional purposes versus 119,000 computers during the last four months of 2010. The sales decrease was 41%. The end users market showed greater degree of resistance, as the sales were decreased by 30%. The numbers of this category were 212,000 computers during the last four months of 2011 compared to 173,000 computers during the last four months of 2010. Regarding the level of corporate sales for desktop PCs, with respect to the sales of the information systems, it has been decreased by 38%, from 88,000 last four months 2010, to 54,000 pieces last four months 2011. Regarding the level of corporate sales for lap tops, it has been decreased by 33%, from 205,000 pieces last four months 2010 to 137,000 last four months 2011

3. Change

Usually, problems within the companies are a result of lack of relationship and contact between clients (Wilkinson, 2001). Clients are lacking knowledge as they do not have awareness of the full range of activities, neither do they understand the real limits (Wallace, 2005).

* Corresponding author.

Email address: dnkoumparoulis@gmail.com

According to a research by Cumming (1998) (as cited in Reed and Vakola, 2006) a company must be able to make changes in order for an organization to continue exist. Furthermore, Taylor and Cooper (2007) argue that in order for an organisation to be successful, an effective management is required to control the forces of change. Furthermore, the development in the economy in our days, does not allow any company to relax, but in contrast it requires speed, flexibility to decision making and paying attention to the management of any change. It is true that changes that are not managed effectively have as a result to increase the cost of the company, discourage skilful employees and negatively confronting any new effort for change. All these reasons highlight the significance of making change management.

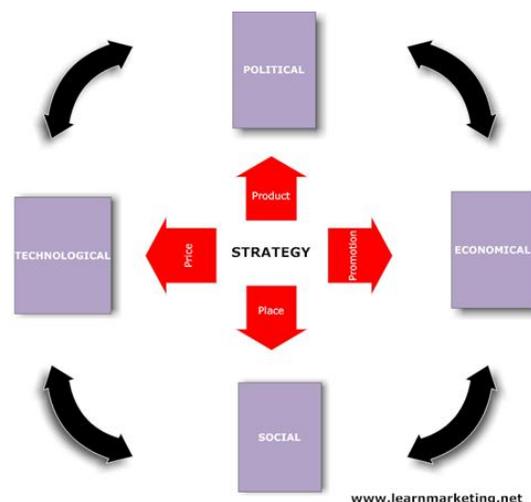
The main types of changes are: “client dissatisfaction with service provided, declining quality standards, poor financial returns and large-scale unemployment amongst professionals in construction” (Hindle and Rwelamila, 1998, p.153). Factors that make difficult change management as Matheson 2002, p48) states are “internal factors, lack of credibility, secrecy, lack of proper skills, lack of resources, lack of strategy, tendency to oversimplify, power and politics and that people are reluctant to change”. A company must have courage and clear mind to change and try new efforts. (Management today, 2011).

The 21st century led to many changes in the computer industries as mass production and standardization products have been replaced by flexibility and customization. This can be proved as techno-economic rationale has replaced the energy or material intensive product with information intensive. Also, global development has also changed as new works are created and the global market place is increased. The fast changes of technology, society and economy environment bring new challenges for organizations to develop new structure and management process. In the economic environment, the old hierarchal organization is coping with a new world order with permeable geo-political boundaries. These changes lead organizations to manage in various ways in order to continuous living in the new environment. In order to face changes, management in the 21st century is founded on networks, partnering and on technological advance (Jamali, 2005).

4. PEST Analysis

In analyzing the macro-environment of an organization, it is important to identify the factors that might in turn affect a number of vital variables that are likely to influence the organization’s supply and demand levels and its costs (Johnson and Scholes, 1993).

The analysis examines the impact of each of the factors on the business. The results can be used to take advantage of opportunities and to make contingency plans for threats when preparing business and strategic plans (Byars, 1991). Kotler (1998) claims that P.E.S.T analysis is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations. The use of P.E.S.T. analysis can be seen effective for business and strategic planning, marketing planning, business and product development and research reports. P.E.S.T. also ensures that company’s performance is aligned positively with the powerful forces of change that are affecting business environment (Porter, 1985).



Main Aspects of PEST Analysis

Economic conditions affect how easy or how difficult it is to be successful and profitable at any time because they affect both capital availability and cost, and demand (Thompson, 2002). If demand is buyout, for example, and the cost of capital is low, it will be attractive for firms to invest and grow with expectations of being profitable. In opposite circumstances firms might find that profitability throughout the industry is low. The timing and relative success of particular strategies can be influences by economic conditions. When the economy, as a whole or certain sectors of the economy, are growing, demand may exist for a product or service which would not be in demand in more depressed circumstances. Similarity, the opportunity to exploit a particular strategy successfully may depend on demand which exists

in growth conditions and does not in recession. Although a depressed economy will generally be a treat which results in a number of organizations going out of business, it can provide opportunities for some (Thompson, 2002).

Economic conditions are influenced by political and government policy, being a major influence affecting government decisions. The issue of whether European countries join, or remain outside, the single European currency is a case in point. At any one time either exported or imported goods can seem expensive or inexpensive, dependent upon currency exchange rates. There are many other ways, however, in which government decisions will affect organizations both directly and indirectly, as they provide both opportunities and threats.

While economic conditions and government policy are closely related, they both influence a number of other environmental forces that can affect organizations. Capital markets determine the conditions for alternative types of funding for organizations. They tend to be a subject to government controls, and they will be guided by the prevailing economic conditions. The rate of interest charged for loans will be affected by inflation and by international economics and, although the determining rate may be fixed by a central bank, which will also be influenced by stated government priorities.

According to Thompson (2002), government spending can increase the money supply and make capital markets more buoyant. The expectations of shareholders with regard to company performance, their willingness to provide more equity funding or their willingness to sell their shares will also be affected.

The labor market reflects the availability of particular skills at national and regional levels; this is affected by training, which is influenced by government and other regional agencies. Labor costs will be influenced by inflation and by general trends in other industries, and by the role and power of trade unions.

The socio-cultural environment encapsulates demand and tastes, which vary with fashion and disposable income, and general changes can again provide both opportunities and threats for particular companies (Thompson, 2002). Over-time most products change from being a novelty to a situation of market saturation, and as this happens pricing and promotion strategies have to change. Similarly, some products and services will sell around the world with little variation, but these are relatively unusual. Organizations should be aware of demographics changes as the structure of the population by ages, affluence, regions, numbers working and so on can have an important bearing on demand as a whole and on demand for particular products and services. Threats to existing products might be increasing: opportunities for differentiation and market segmentation might be emerging.

Technology is widely recognized by various literature on strategic management (Capron and Glazer, 1987; Johnson and Scholes, 1993; Jan, 2002), as part of the organization and the industry part of the model as it is used for the creation of competitive advantage. However, technology external to the industry can also be captured and used, and this again can be influenced by government support and encouragement. Technological breakthroughs can create new industries which might prove a threat to existing organizations whose products or services might be rendered redundant, and those firms which might be affected in this way should be alert to the possibility. Equally, new technology could provide a useful input, in both manufacturing and service industries, but in turn its purchase will require funding and possibly employee training before it can be used.

According to Porter (1985) "The essence of formulating competitive strategy is relating a company to its environment" (p. 3) in relation to the industry or industries in which it competes. To assess the market for the business of "Simply Travel" I will conduct PEST analysis to find out about the Political, Economic, Social and Technological factors in the external macro-environment. PEST analysis identifies the political, economic, social and technological factors that influences affecting an industry.

Political Factors

- There are structural changes in Public Administration.
- Actions are taken to reduce the budget deficit
- Non-implementation of electronic governance.
- Government cutbacks.
- Political environment of Greece is very unstable.
- Government's taxation policies and decision about the increasing prices have and VAT increase affected the market by affecting the buying power of the individuals in Greece
- Governments do not encourage the development of entrepreneurship. Tax is quite heavy, and consists one of the barriers for new companies' entrance.
- Employment laws: A lot of demonstrations and strikes.
- European Union announces new regulation and especially in high tech sector in regards to the raw materials, electromagnetic interference in production stage as well as in usage and in recycling policy.
- Due to EU trade restrictions and tariffs do almost not exist, Europe and the rest of world is an open field for everybody.

Economic Factors

- Loan growth is further decelerating and the deposit outflow slowed down but did not stop.
- Against the background of the weak economic environment, credit growth continued slowing down in 2010

- The interest rate margin of banks is under pressure. The liquidity needs of the banking sector and
- The competition for deposits led to an increase of interest rates on new deposits since the beginning of 2010.
- Unemployment, currently at 14% and still is on the increase. The total number of unemployed reached approximately 712,100 – the largest figure in at least 12 years and it is expected to stand around 15.5% on average in 2011.
- Economic growth is negative and its prospects look bleak. Very strict austerity measures have been taken ,in the form of taxes, income and its deficit contracted by 1.9 percentage points of GDP to reach 10.1% of GDP,
- Recession deepening to 4.5%. The continued for a third year recession of the Greek economy, with its relatively strong intensity given its duration, will not allow improvement of the conditions in the labor market
- The inflation rate fell to 4.4% in February from 5.2% in December, despite the increase of the reduced VAT rate from 11% to 13% from the beginning of 2011. Inflation will decline in 2011, reaching 3.0%.
- Economic factors affect the purchasing power of potential customers and also affect the individual company's offerings.
- The fall of industrial production in 2011 decelerated, reaching 5.8% against 10% in the previous year.
- Computer Programming, Consultancy and Related Activities continued in 2010, with turnover declining by 33% (against 12.8% in 2009).
- Public consumption is low and it is expected to fall further in 2011.
- Latest predictions for the Greece economy suggest that it will become one of the worst economies in the world over the next five years, with low inflation, with high unemployment.

Social Factors

- A trend of getting internet access at home and buying online is developing in the Greece. Watching TV is a popular choice among the Greece residents and 92% of people spend their evenings and weekends watching TV. To socialize, most people think to entertain family and friends at home rather than going out (79%).
- Population growth rate & Age distribution: Population is growing older due the extension of life mean and the lower birth figures, the combination of these facts among the immigration gives an insignificant growth rate which could not affect, in the near future, market evolution.

Technological Factors

- Global communications
- The rapid development of technology is affecting the businesses in Greece and all over the world. Changes in the technology have changed the way businesses operate i.e. Internet. Faster changing development in technology creates a need to react quickly for different businesses in order they want to maintain the competitive environment by providing the same innovative services, which their competitors are offering.
Distribution of products by the use of technologies e.g. marketing information systems, customer relationship management are also common practices with different businesses for effective services to their customers.
- Rate of technological change. The market sector with the higher technological change rate is the IT, following Moor's law every 18 months at the same price level performance is doubled. This high rate gives a lot of opportunities and leads the market to update equipments faster than any other technology and therefore to sustain the need for IT suppliers.

5. E-shop

E-shop.gr is a company providing electronic commerce as well as various internet services in Greece. E-shop.gr was founded in 1998 and possesses a dominant leading position in the Greek electronic commerce market. In the Greek market, e-shop.gr provides integrated computer systems. The brand E-shop.gr uses is the **Innovator™**. Furthermore, E-shop.gr provides the customers with a variety of products such as hardware, software, peripherals, audio and video equipment, mobile telephony equipment, books, video games etc, E-shop.gr is assembling more than 2500 personal computers and laptops per month, tailor made to the needs of the customers.E-shop.gr prepares and sends via postal services more than 4000 orders daily.

At the same time E-shop.gr has a very visible presence in the electronics market in Greece by the establishment of 70 regular stores all over the country. This part of the commercial activities acts complementary to the virtual part, and has a rapid growth. The customers have the choice to place their order via the internet, via a telephone call or via one of the 70 regular stores developed in the country.

E-shop.gr has a constant policy to assure and provide the customers with products of lower prices by taking advantage of the usage of technology and the low operational costs due to the fact that it is a virtual market store. At the same time E-shop.gr gives the customers the assurance of the high quality and the reliability the brands provide.

In 2008 E-shop.gr completed works of more than 112 mil. Euros. Today, E-shop.gr employs more than 400 employees. The rate of development from 2007 to 2008 was up to +55% while in 2009 it reached +15%. We do not have to forget that the economic crisis brought a decline to the computer market.

The headquarters of E-shop.gr are located in Chalandri, Athens where the first regular store is operating. The main warehouse and the various complementary facilities such as logistics, service, personal computer assembling line, are located in 10.000 square meters building in Menidi, Attica.

Investment has been done in building, information technology systems, corporate organization, and in employees training. This is the policy of the E-shop.gr and the commitment for continuous development.

6. Conclusions

It is now turn to look at the external environment of the e-shop in Greece and that is accomplished through the PEST investigation. The political stand used to be relatively stable in Greece compared to other Balkan countries. During the crisis period it is turned into an unstable environment. This paper has analyzed the business environment, key drivers of change within the electronics' industry. Focusing on e-shop Analysis has shown that:

- The non-implementation of electronic governance is fundamentally a systemic problem. Resulting into low interest into individual engagement with the government and low interest into buying computers.
- Political environment of Greece is very unstable. While the issues of European Union had created an effect on the political stability of the government, due to the crisis and EU the stability was reduced dramatically. New efforts should be avoided and the unproductive efforts should be terminated. The Governments does not encourage the development of entrepreneurship.
- Proposals and measures are emerging for the taxation of the citizens and companies and the increase in the VAT affected the market by affecting the buying power of the individuals in Greece. Individuals should buy computers very economically via internet.
- Employment laws: A lot of buzz, demonstrations and strikes are completing the picture of a quite unstable factor at present time. New effort could cost less money and be more flexible, positively affecting the e-shop.
- Trade restrictions and tariffs: Due to EU trade restrictions and tariffs do almost not exist, Europe and the rest of world is an open field for everybody. So, individuals can buy from anywhere in the world cheaper with no tariffs.
- Loan growth is decelerating and the deposit outflow slowed down. Individuals can not buy expensive equipment without a loan. Furthermore, most of the purchases require a credit card.
- A trend of getting internet access at home and buying online is developing in the Greece. So, individuals are more familiar with on-line buys.
- Population aging is negative to e-buys because the older people does not know the usage of computers and internet.

7. Recommendations

Regarding the present economic situation and the trends, and taking into account the PEST analysis and the projection on the E-shop case study, the recommendation concerns the further cut-off of the expenses by minimizing the regular stores and the costs associated with their operations.

- The rents a decreasing and the company can take advantage of that.
- Furthermore, an E-shop should be an e-shop, in the virtual dimension.
- An E-shop does not require a vast warehouse.

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