

Use IBISWorld Research for PESTLE Analysis

August 2020

IBISWorld's extensive coverage of industries across the UK and Ireland provides all the information you need to conduct a thorough PESTLE analysis, as well as deeper dives into specific industries using SWOT or Porter's Five Forces frameworks.

PESTLE analysis is, in effect, a broad assessment of the key features of the external environment facing a business. Developed since the late 1960s, a PESTLE analysis delves into six key factors affecting a company's operations: Political, Economic, Social, Technological, Legal and Environmental (or Ethical). Although many of these factors involve issues outside the direct control of a business, awareness and effective management of the external environment is vital for attaining a competitive advantage and ensuring a company is better placed to respond to any upheaval or opportunities on the horizon.

The granularity of IBISWorld industry research, and the breadth and interlinkage of the full report collection, provides an essential tool for businesses seeking to conduct a PESTLE analysis, providing extensive industry information and key external drivers from the UK and

global Business Environment Database. In considering the broad context of a business's operations, a PESTLE analysis offers useful information in isolation, looking at the 'big picture' factors that may influence a decision, market, or potential new business. The PESTLE framework, however, becomes substantially more potent when used in conjunction with an assessment of a business utilising a SWOT or Porter's Five Forces framework. A SWOT analysis, for example, explores these factors at a business or product level, and the complementary nature of such frameworks means they are often best employed together.

In this case, using IBISWorld research for a PESTLE analysis will be demonstrated with the Motor Vehicle Manufacturing industry, but the method is the same for each industry in our growing collection of 460+ UK industry reports and 100 reports on industries in the Irish economy.

1. Political

This factor considers the way in which a company's operating environment is influenced by government practice, whether at the international, national, regional or local level. Considerations that may affect business plans include upcoming changes of government, prevailing instability, competition policy, spending and tax regimes, business and labour regulations, business policy and incentives, the government's approach to trade and tariffs and a range of other short- and long-term issues. It is important to note the distinction between specifically political and more broadly legislative factors.

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IBISWorld Chapter: Brexit Impact Statement

Each report in IBISWorld's UK collection includes a Brexit Impact Statement, detailing the extant effects, industry concerns, and future impacts of the UK's exit from the European Union. The political ramifications of UK's decision to leave on a company's operating environment are extensive, ranging from short-term upheaval and the need for no-deal planning, for example, to the longer-term impact of future trade and immigration policy as the United Kingdom develops new international relationships.

'Under a no-deal exit, tariff barriers would be considerable, with a 10% tariff on cars and a 4.5% tariff on car parts, pushing up cost and affecting competitiveness. Indeed, the Society of Motor Manufacturers and Traders (SMMT) has suggested that potential EU tariffs on cars alone could add at least £2.7 billion to imports and £1.8 billion to exports annually.

Over the longer term, the industry could be hit significantly by non-tariff barriers, as its supply chain is highly globalised and many operators rely on just-in-time production. Companies in the industry rely on smooth movement of component parts across borders to be used shortly after arrival in assembly lines across the United Kingdom. In a report to the parliamentary select committee, industry operators have noted that every 15 minutes of customs delays could cost motor vehicle manufacturers £850,000 per year. Such delays and additional costs could therefore affect profitability and the competitiveness of the industry on the international market. As a result, the majority of UK car manufacturers have stockpiled components and raw materials as well as evaluating suppliers that would be most affected if tariff and non-tariff barriers are introduced.



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In addition, the industry is currently facing a skills shortage and a potential limit to free movement could increase search and wage costs for car manufacturers. Limits to free movement could further reduce production, as the SMMT states that 10% of people employed in the UK automotive manufacturing sector are from the European Union.'

IBISWorld Chapter: Operating Conditions

Operating Conditions subsections to consider

Regulation & Policy – Medium & Increasing

The Regulation & Policy section of the report offers information on the international and domestic regulatory landscape, assessing the extent to which operators are governed by cross-border legislation, and indicating the direction of political and regulatory pressure.

'The industry is moderately regulated, with manufacturers having to adhere to legislation relating to vehicle safety and emissions standards. These standards are set by the European Commission and they have become more stringent in recent years as efforts to reduce CO2 emissions have intensified. New EU cars were required to emit less than an average of 130 grams of CO2 per kilometre in 2015. This limit is set to be reduced to 95 grams of CO2 per kilometre by 2021.'

Industry Assistance – Medium and Steady

Although many businesses receive little in the way of assistance beyond that acquired through membership of an industry association, the government plays an active role in the promotion of some industries. Understanding the importance of government assistance and the options available to a new firm is key in assessing the political landscape.

'On a domestic level, government funding for research and development has also supported innovation in recent years. In March 2017, Toyota secured £21.3 million in government funding to improve its Derbyshire facility's environmental performance. Ford's struggling engine plant in Bridgend received £15 million in state aid from the Welsh Government in 2015 to safeguard jobs and sustain production. In the March 2017 Budget, the Industrial Strategy Challenge Fund was announced, which included funding for research into batteries that can power electric cars. In February 2019, Nissan reapplied for £61 million in government funding after restating that the production of new models will take place in UK plants.'

Other IBISWorld Chapters to Consider: Operating Conditions

This section of IBISWorld reports covers the breadth of the industry's operating landscape, and includes detail on political developments affecting past five-year performance and expected performance over the coming five-year period.

Use IBISWorld Research for PESTLE Analysis

2. Economic

The Economic aspect of a PESTLE analysis considers the general state of the economy, goods, services and finances, including inflation, interest, economic growth, exchange rates and unemployment, as well as geographic factors influencing the economic environment. Consequently, information relating to the Economic factor may be found across IBISWorld reports, with the weighting differing depending on the industry.

IBISWorld Chapter: Industry Performance

Industry Performance subsections to consider

Key External Drivers

The Key External Drivers section of the report highlights the most important items from IBISWorld's Business Environment Database, indicating the scale and direction of the impact these have on a given industry.

Real Effective Exchange Rate

'There is a significant level of international trade in the industry. When the pound depreciates, domestically produced vehicles become cheaper on the global market, while imported vehicles become more expensive, benefiting manufacturers. However, the majority of motor vehicle parts are also imported before the vehicle is assembled, meaning that a weaker pound increases costs for domestic manufacturers, compromising profitability. The real effective exchange rate is expected to decrease in 2020-21. This would normally provide an opportunity for the industry, but the coronavirus outbreak has halted demand from foreign countries.'

IBISWorld Chapter: Products & Markets

Products & Markets subsections to consider

International Trade

An industry's exposure to international trade can have a significant impact when assessing Economic factors in a PESTLE analysis.

'Industry exports performed strongly at the beginning of the five-year period through 2020-21. Exports are expected to account for 50.5% of industry revenue in the current year. According to the SMMT, the volume of vehicles exported in 2017 declined slightly due to operators scaling back production, which is expected to affect export revenue despite the favourable exchange rate. The SMMT reported a 15.2% decline in export volumes over the 10 months through October 2019, compared with the same period in 2018. In February 2020, export volumes decreased by 3.1% when compared with the same month in the previous year. The value of exports is expected to fall significantly in 2020-21 due to the temporary closure of UK plants because of the coronavirus outbreak.'

Business Locations

The physical location of an establishment naturally affects its economic potential. This is particularly important for some industries, particularly extractive industries, and an industry's physical location has an impact on its supply chain relationships, regardless of the sector in which a company operates.

'The Midlands is traditionally a major transport and automotive hub. The East and West Midlands are expected to account for 9.5% and 16.7% industry establishments respectively. The Midlands has excellent transport links with both the populous south and the North West. Major player Jaguar Land Rover has all but one of its manufacturing facilities located in the West Midlands and Aston Martin is also located in the region. The East Midlands is home to Toyota's UK manufacturing operations.'

Use IBISWorld Research for PESTLE Analysis

3. Social

Social factors in a PESTLE analysis are varied and can differ substantially depending on the industry or business in question. Longer-term social factors, such as demographic trends, alongside shorter-term social trends, such as changing behaviour regarding social media and purchasing practices, all influence a company's performance.

Societal trends can have a considerable influence on business practices. Recently, this has been most notable regarding public concern over environmental issues, which has prompted a number of changes to business practices across many sectors of the economy. Reputation is intrinsically linked to the Social factor of the PESTLE framework, and consumer-facing companies can face substantial reputational damage if they do not effectively consider social and market trends. Ultimately, social factors affect how a company conducts business, and can also change the ways in which a company interacts with its customers.


IBISWorld Chapter: Industry Performance

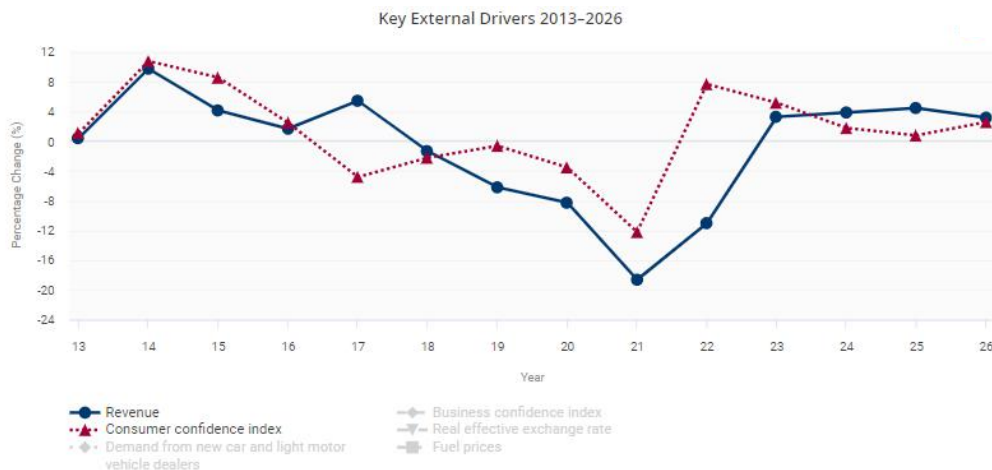
Industry Performance subsections to consider

Key External Drivers

Consumer Confidence Index

'Individuals purchase a significant proportion of the cars manufactured by the industry. When consumer confidence is low, households tend to scale back discretionary purchases such as new cars. By the same rationale, when consumer confidence is high, individuals are more likely to purchase big-ticket items such as motor vehicles. Consumer confidence is expected to fall in 2020-21, weakening demand for cars and posing a threat to the industry.'

 Our interactive chart allows you to select from all the Key External Drivers affecting the industry and compare them with its revenue performance.



Current Performance

'The Volkswagen emissions scandal has weighed on the popularity of diesel vehicles, along with high taxes imposed by the government. Air-quality concerns have decimated sales, with SMMT data showing that total new registrations for diesel vehicles were 17.1% lower in 2017 compared with 2016. This trend has continued, with new registrations for diesel fuel types declining by 22% over the 10 months through October 2019, compared with the same period in 2018. Diesel registrations decreased by 27.1% in February 2020, when compared to the same month in the previous year.'

Use IBISWorld Research for PESTLE Analysis

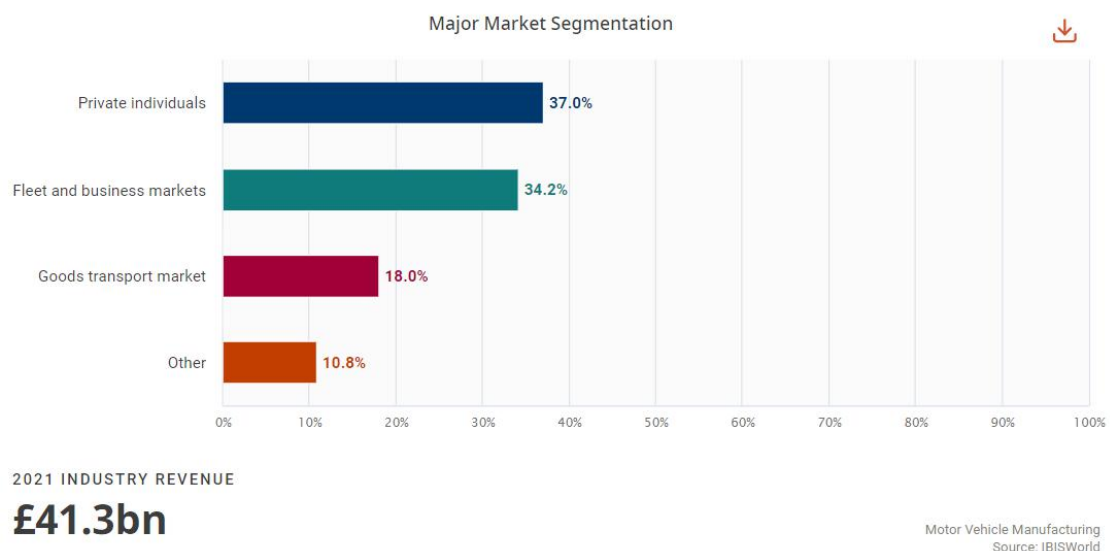
IBISWorld Chapter: Products & Markets

Products & Markets subsections to consider

Demand Determinants and Major Markets

The Demand Determinants section of IBISWorld reports provides an overview of the key factors affecting demand, including the impact of social trends. The Major Markets section details how major markets have changed over the past five years, including which are satisfying an increased or decreased share of revenue. This can provide a good indication of the social factors driving revenue.

'Industry demand is influenced by global economic conditions, fuel prices, the exchange rate and domestic economic indicators. Industry products are discretionary items and changes in economic conditions influence consumer confidence and inevitably demand. When economic conditions are more prosperous, higher levels of disposable income and consumer confidence encourage demand for big-ticket items such as cars. As a result, demand has been driven down by lower consumer confidence and subdued economic conditions over the past five years as customers and businesses have opted to delay purchases.'



IBISWorld Chapter: Competitive Landscape

Products & Markets subsections to consider

Basis of Competition

Reputation and brand strength are often key to competition in an industry, and broader social factors have a substantial influence on how companies must manage and improve their practices and reputation. For example, in the Motor Vehicle Manufacturing industry, diesel sales spluttered after the public fallout following Volkswagen's diesel emissions scandal.

'Being able to adapt manufacturing to suit changing consumer preferences provides a significant competitive advantage. For instance, Nissan had great success with its Qashqai model when economic conditions were subdued prior to the start of the period and motorists sought cheaper fuel-efficient alternatives to an SUV. Consumers are also more likely to purchase a recognised and trusted brand, so maintaining a positive brand image and having strong advertising and marketing campaigns improves competitiveness. This makes it especially important to abide by the tightening regulations governing vehicle emissions.'

Use IBISWorld Research for PESTLE Analysis

4. Technological

The Technological aspect of a PESTLE analysis covers the rate of technological changes, R&D activity and automation. This can be both in terms of an industry's direct activities and how it is affected by such changes through its supply chain. Digital technologies have been particularly prominent in recent years, but mechanical and physical technological development remains important. Technological developments can be in terms of production and operational practices or the product or service itself. An assessment of the technological factors that affect a company also includes disruptors to traditional modes of operation.

IBISWorld Chapter: Operating Conditions

Operating Conditions subsections to consider

Technology change

'The use of computer-aided design systems has allowed for the development of lighter, more fuel-efficient vehicles in a faster and more automated manufacturing process, while enhanced quality control procedures and superior manufacturing equipment have improved safety and vehicle reliability. Some manufacturers have developed platforms that require fewer components, reducing labour costs and boosting efficiency.'

Level ↓	Factor	Disruptive Effect
⚠ High	Rate of Innovation	Likely
⊖ Medium	Ease of Entry	Potential
⊖ Medium	Market Concentration	Potential
✔ Very Low	Innovation Concentration	Very Unlikely
✔ Very Low	Rate of Entry	Very Unlikely

5. Legal

A PESTLE analysis includes assessment of the legal and regulatory regime under which a company or industry operates. This factor is focused on the laws directly connected to a business and its area of activity. This can include employment law, such as the National Minimum Wage and National Living Wage, health and safety regulations, environmental regulation, GDPR and data protection laws, and numerous other standards and pieces of regulation governing operations, either domestic or international in character.

IBISWorld Chapter: Operating Conditions

Operating Conditions subsections to consider

Regulation & Policy

'The industry is moderately regulated, with manufacturers having to adhere to legislation relating to vehicle safety and emissions standards. These standards are set by the European Commission and they have become more stringent as efforts to reduce CO₂ emissions have intensified. New EU cars were required to emit less than an average of 130 grams of CO₂ per kilometre in 2015. This limit is to be reduced to 95 grams of CO₂ per kilometre by 2021. If a manufacturer's average among its fleet of vehicles exceeds the EU limit, they are required to pay an excess emissions premium for each car registered. Although this regulation has been determined at the EU level, stringent regulations are expected to remain in place after the United Kingdom leaves the European Union.'

Prior to September 2017, tests for CO₂ emissions only tested for specific pollutants and manufacturers only had to ensure their vehicles met standards in laboratory conditions. Real-world testing commenced in September 2017, which meant all newly launched car models in Britain are to be tested on road conditions and in the laboratory. Every new car sold in Britain is also subject to the Worldwide Harmonised Light Vehicle Test Procedure. The tests are conducted in a controlled laboratory for consistency. Additionally, new models being sold in the United Kingdom have to prove their air quality credentials by passing the new Real Driving Emissions tests, which uses a portable emissions measurement system.'

Use IBISWorld Research for PESTLE Analysis

6. Environmental

Environmental factors, naturally, influence some industries more than others. Although trends in environmental factors can be hard to predict, assessing an industry's exposure to environmental changes is an important part of a PESTLE analysis, both in terms of the extant impact of environmental factors and what future planning a business may need to undertake. As climate risk becomes an increasingly important factor in business analysis, this factor of the framework becomes more critical.

In addition to the direct impact of climate change, as consumers become more environmentally conscious, a business's sustainability strategy and its environmental reputation are also important factors to consider. Additionally, there can be a degree of overlap between the effect of this factor and Social and Legal pressures, as public opinion and the regulatory landscape are increasingly influenced by the state of the environment.

IBISWorld Chapter: Industry Performance

Industry Performance subsections to consider

Key External Drivers

IBISWorld's extensive Business Environment Database includes numerous items directly related to the environment, providing an essential backdrop for analysing a business using the PESTLE framework. In addition to direct physical factors, such as damage caused by natural disasters, level of annual rainfall, or the average maximum temperature, for example, IBISWorld also tracks public concern over environmental issues. This latter factor is particularly important when considering the market implications of a given company's sustainability and corporate environmental responsibility practices.

Current Performance

The Current Performance section of IBISWorld reports offers a holistic view of the business environment, taking into account the environmental factors influencing performance.

'Manufacturers have responded to rising environmental concern by launching hybrid cars and electric vehicles, and investing in marketing campaigns aimed at boosting sales of these vehicles. UK car makers are usually keen to highlight fuel economy and improved performance in their vehicles, though new models are generally less profitable, particularly when demand has not reached mass-market appeal. Profitability is contingent on large-scale production, and manufacturers can expect a short-term shortfall for a long-term gain when debuting a new model. UK car manufacturers have been relatively slow in producing alternative fuel vehicles (AFVs), which currently account for less than 10% of total registrations.'

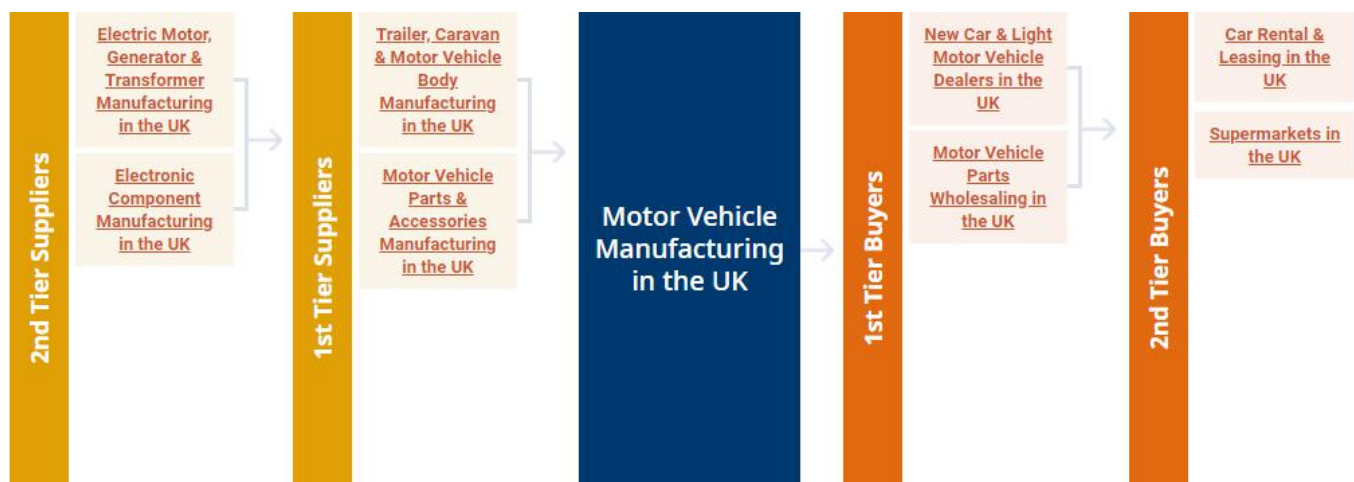
Use IBISWorld Research for PESTLE Analysis

IBISWorld Chapter: Products & Markets

Products & Markets subsections to consider

Supply Chain

Although a given industry may not be directly exposed to the physical risk of the Environmental factor or may be less exposed to the transitional effects of addressing environmental concerns, Environmental factors may have a considerable impact on its supply chain. IBISWorld's interactive supply chain allows you to explore the exposure of upstream and downstream industries, and how this affects a company's operations.



Business Locations

For some industries, the nature of their operations renders their physical establishments exposed to the environment. Coastal businesses or the agricultural sector, for example, are affected by the incidence of natural disasters, the level of rainfall, and average temperatures. The concentration of industry establishments and the physical location of operations therefore provides an indication of the importance of Environmental factors.

As evidenced above, IBISWorld reports complement the PESTLE framework, providing decision makers with the insight and analysis needed to make better, more strategic business decisions. By taking a deeper dive into a given industry, IBISWorld research also allows you to complement PESTLE analysis with insight gained using the SWOT or Porter's Five Forces Frameworks. A subscription to IBISWorld provides decision makers with access to our full suite of 460+ UK industry reports, with 100 UK Specialised reports and 100 Ireland industry reports also available. Want more information on IBISWorld and PESTLE? Contact us to speak with one of our representatives today.

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Make speedy market-ready, profit-maximising decisions

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WHERE KNOWLEDGE IS POWER

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