PEST, regulation, CSR and the business cycle

MODULE 1 | PART E.4 | STUDENT COMPANION

PEST and its wider versions

Industry forces matter, but the external environment is wider than one industry. Use the version that captures the factors that matter to the decision.

Version	Factors covered	Voltway Bikes (imagined e-bike retailer)
PEST	Political, economic, social, technological	State rebates under consideration; higher interest rates squeeze budgets; more people ride to work; batteries lighter and cheaper
SLEPT	PEST + legal	Maximum motor power before an e-bike counts as a motorbike
PESTEL	SLEPT + environmental	Councils build bike paths to cut traffic and emissions
STEEPLED	PESTEL + education and demographics	Older riders and commuters are growing customer groups

Three issues that appear in almost every PEST analysis

1. Regulation (political and legal)

How regulation affects strategy	Example
Limits which products may be offered; changes who may compete; pushes prices up or down	From 10 December 2025, platforms covered by Australia's social media minimum age law must take reasonable steps to stop under-16s having accounts, with fines of up to about A$49.5 million. A customer segment, and the advertising aimed at it, disappears; age-checking costs rise.
Deregulation and trade agreements open markets to new entrants	Lower trade barriers bring global opportunities and global threats

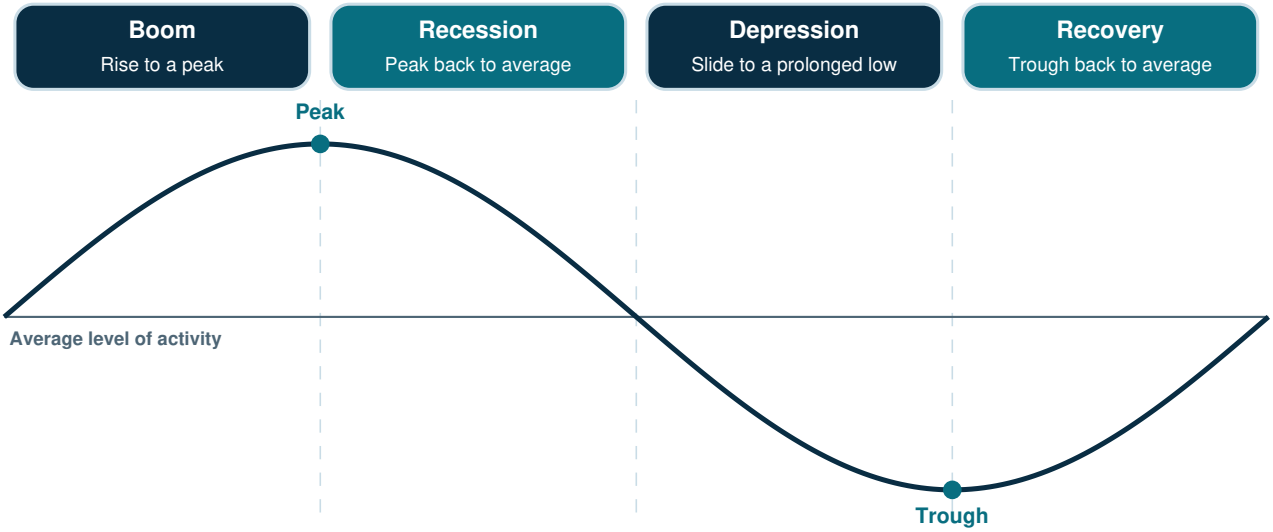
Source: eSafety Commissioner guidance and reporting by AP and Al Jazeera, December 2025.

2. Corporate social responsibility (social)

Porter and Kramer's framework helps an organisation **see** the social and environmental effects of what it does, **find** chances to benefit society and itself at once, and **choose** which initiatives to take on. Responsibility is a source of strategic opportunity, not just damage limitation. Research on Australian businesses found only about one in every eight organisations had built environmental strategy into overall strategy; most systems were compliance-focused.

Voltway (imagined): collecting and recycling old e-bike batteries reduces a real hazard, brings customers back to the store, and builds a reputation an online discounter cannot easily copy.

3. The business cycle (economic)



A recession is commonly defined as two quarters in a row of negative GDP growth. Turning points are hard to predict; cycles always recur.

Case note: Australia's 2020 recession

After almost three decades without a recession, Australia's economy shrank by about 0.3% in the March quarter of 2020 and then by about 7% in the June quarter, according to the first official estimates: the largest quarterly fall since records began in 1959. Household spending on services collapsed, then activity recovered as restrictions eased. Plans that assumed steady growth were wrong within months.

Source: Australian Bureau of Statistics national accounts, released 2 September 2020, as reported by The New Daily and InDaily.

Testing a plan against the cycle

Successful organisations test long-term decisions against negative, zero, low and high growth scenarios, and challenge the assumption of constant growth.

Scenario	What the new store would do	Implication
High growth	Strong sales; store profitable within a year	A triumph
Low growth	Sales just cover rent and wages	Acceptable, little margin for error
Zero growth	Losses each month; cash drains	Risky under a ten-year lease
Negative growth	Heavy losses; cash needed elsewhere	Could threaten the whole business

Practice questions

MODULE 1 | PART E.4 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - PESTEL for a childcare centre

Complete a PESTEL scan for a private childcare centre in a growing suburb.

Factor	One relevant issue	Possible response
Political		
Economic		
Social		
Technological		
Environmental		
Legal		

Question 2 - Which phase?

Headline	Phase of the business cycle
(a) 'Second quarter of falling output confirms downturn'	
(b) 'Unemployment stuck near record high as activity stays weak'	
(c) 'Hiring picks up as economy climbs back from the low point'	
(d) 'Spending surges; businesses report record orders'	

Question 3 - A cafe's expansion plan

A cafe owner plans to borrow $300,000 to open a second cafe, assuming sales grow 10% every year for five years. Test the plan against negative, zero, low and high growth, and recommend two ways to limit the downside.

Worked answers

MODULE 1 | PART E.4 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - PESTEL for a childcare centre

Factor	Issue	Response
Political	Government childcare subsidies may change	Model fees under different subsidy levels
Economic	Interest rates and household budgets; wage growth for educators	Plan fees and staffing costs carefully
Social	More two-income families in a growing suburb	Plan capacity; offer longer hours
Technological	Parent communication apps; online enrolment	Adopt apps to improve service
Environmental	Heat waves and shade; energy costs	Shade structures; solar panels
Legal	Staff-to-child ratios, qualification rules, safety standards	Budget for compliant staffing

Question 2 - Which phase?

Headline	Answer
(a)	Recession (two quarters of negative growth)
(b)	Depression (prolonged low activity)
(c)	Recovery (climbing from the trough)
(d)	Boom (rising towards a peak)

Question 3 - A cafe's expansion plan

High growth: loan repaid comfortably. **Low growth:** repayments met, little buffer. **Zero growth:** the second cafe may not cover its costs and loan repayments, draining cash from the first. **Negative growth:** both cafes could be at risk.

Limit the downside: a shorter lease with options to extend; a smaller fit-out or a pop-up trial first; borrow less or keep a cash buffer; agree flexible staffing; set a review point to pause expansion if sales fall below a trigger level.