

PEST analysis – Johnson Matthey

Johnson Matthey is a leading global speciality chemicals company. Science and technology are embedded in everything that it does. Johnson Matthey operates in an industry driven by advancements in technology. To remain competitive the company needs a highly skilled workforce to establish new and more efficient ways of meeting the challenges faced by the industry. To do this the company carefully monitors changes in its external environment. This refers to those things outside of the operations of an organisation which impact upon it but over which the business has no control. One method that Johnson Matthey uses to monitor its external environment is a PEST analysis. This analysis looks at the Political, Economic, Social and Technological changes in the business' environment. Through monitoring these factors, Johnson Matthey has been able to protect its future by making informed decisions regarding its business operations and strategies to grow the business.



Changes in the political arena influence many organisations. For Johnson Matthey, which operates globally, changes in laws and taxes in these countries can have a range of impacts on the company's operations and strategies. For example, since the 1970s more and more countries have passed laws to control air pollution. Poor air quality affects peoples' health and is bad for the environment. Governments set limits to reduce emissions from vehicles and to control what pollutants are legal, putting pressure on car manufacturers. This means new technology is required to improve the efficiency of catalytic converters. Johnson Matthey's highly skilled research and development (R&D) team develop this technology. Its converters use chemistry to convert harmful pollutants in exhaust fumes into less harmful gases.

The world's economies affect most organisations to a certain degree. For Johnson Matthey there are three main areas where economic factors influence its operations. These are the global recession, economic growth in China and price changes in the precious metals market. The 2008 banking crisis, when many major banks failed, caused a fall in growth around the world because companies could no longer obtain the loans they needed for investment. This recession meant a fall in demand for many organisations' products, including Johnson Matthey. Like many companies, Johnson Matthey looked for ways to reduce costs. One solution was to increase efficiency. The company set targets to reduce the use of natural resources and decrease waste through lean production techniques. This created a more sustainable model of production. It also focused on developing products that contained fewer rare non-renewable raw materials such as platinum. Achieving these targets meant Johnson Matthey reduced costs and became more sustainable. The benefits of this were two-fold – saving the company money whilst at the same time conserving the planet's valuable natural resources. As the world tries to emerge from recession, Johnson Matthey's focus on being more sustainable and manufacturing more efficiently has improved its position beyond where it stood in 2008.

Social changes that affect Johnson Matthey's operations include changes in education, the population and environmental concerns. As sustainability and protecting the environment are high on the public agenda, the need for products that do the most good whilst taking as little as possible from the natural world increases. Johnson Matthey specialises in products that benefit society and the environment.

Johnson Matthey must not only try to benefit from technological change, it must also be a driver of such change. It is a world leader in R&D. Currently it is working on:

- new chemical processes that use bio-based materials, cutting down the use of non-renewable natural resources such as oil and gas
- low carbon, green power for cars and homes, based on fuel cell and battery technologies
- methods to make water cleaner and purer
- production processes based on using fewer materials and less energy and water.

Questions

1. What does PEST stand for?

2. Describe what is meant by the 'external business environment'.

3. Analyse why PEST analysis is used by firms.

4. Evaluate the impact that the 2008 banking crisis had on Johnson Matthey.

Task

Create a mind-map of the learning from the session on external factors.

What have you learned?

Ready, steady, GO...write as many things as you can about external factors in 60 seconds.