Executive summary

The NSW Innovation and Productivity Council (IPC) is an independent statutory body of business and academic leaders that provides advice to the NSW Government on the best ways to support innovation, productivity and job creation. As part of our program to better understand the NSW innovation economy, we've been analysing data from the Australian Bureau of Statistics' (ABS) Business Longitudinal Analysis Data Environment (BLADE)* from 2015, together with a range of published surveys, commentary and other data.

This analysis has helped us understand about the diverse businesses in NSW, which come in all shapes and sizes** and each play a role in maintaining a strong economy, driving new innovations and boosting productivity.

This report illustrates the range and distribution of businesses in NSW and the Australian economy. It also looks at key characteristics of each business size from ABS survey data. The report provides a snapshot of business size and looks at trends over the last 5–10 years to build a clearer profile of each business size. This will help us develop a better picture of employing businesses and contribute to a greater understanding of NSW's economic potential.

The report does not draw any policy conclusions or make any recommendations. Instead, the IPC encourages the business community and other interested stakeholders to use this report to stimulate discussions around the growth and contributions of all business sizes, their innovation activity and productivity in the NSW economy.

NSW businesses range from:

- **Non-employing businesses** made up primarily of sole traders and partnerships with no employees (not included in this report), to

- **Employing businesses.**

* BLADE links tax and administrative data from Australian businesses, which helps us to create clearer profiles of each business size in NSW. It includes information on turnover, number of employees, export revenue and profit.

** For this report, we define business size according to the number of full-time equivalent (FTE) staff employed. FTE employment is the total number of hours worked by staff divided by the average number of hours worked in full-time jobs. Note: we do not use the Australian Taxation Office definition, which categorises business size by turnover amount (for example, where a small business has less than $10 million in turnover).

NSW business sizes

The ABS definition of small business includes non-employing (0 employees), micro (1–4 employees) and remaining small businesses (5–19 employees).* In this report using 2015 BLADE data, we look at small businesses split into micro and remaining small businesses with a focus on employing businesses because of their contribution to jobs. Similarly, we have split medium businesses into medium(-) and medium(+) to better capture their diverse characteristics. This report also considers large businesses.

SMALL BUSINESSES

Non-employing businesses (0 employees)

- In NSW there are 904,000 non-employing businesses

- They include sole proprietors, partnerships and trusts, which vastly outnumber employing business sizes. There were 904,000 non-employing businesses in 2015, compared to 271,277 employing businesses (micro, remaining small businesses, medium and large combined).

- They are more common in some industries, such as financial services, health and construction. They are least common in industries needing large amounts of capital investment and assets, such as manufacturing, utilities and mining.

Micro businesses (between 1–4 FTE employees)**

- In NSW, micro businesses make up 77% of all employing businesses (209,003)

- Micros stand out for their contribution to jobs and their profitability

- Only 40% of micros had an internet presence with which to engage with customers, compared to 65% of remaining small businesses

- Over one-third of micro businesses were innovating

- 36% used predictive analytics in their business.

Other Small businesses (between 5–19 FTE employees)

- In NSW, small businesses make up 17% of all employing businesses (46,716)

- They hire 13% of all employees

- Over 50% of small businesses were innovating

- They have a relatively high internet presence (65%)

- Two-thirds used key performance indicators (KPIs) to measure their business performance.

MEDIUM BUSINESSES

Medium businesses (between 20–199 FTE employees)

- In NSW, medium businesses make up 5.5% of all employing businesses (13,939)

- They consistently make up around 20% of employing businesses' total turnover, exports, jobs and profits in NSW

- 61% of medium businesses are involved in innovation activity

- 73% use data analytics in their business decision-making

- Most medium businesses use KPIs to track their performance (80%).

Medium businesses are often referred to by commentators as the 'mid-market', being in between small and large businesses. This category has a broad range in employee numbers and has diverse characteristics. To better understand medium businesses, we split them into two equal subcategories with:

- **Medium(-)** (20–109 FTE employees)

- **Medium(+)** (110–199 FTE employees)

A key factor for this choice was that we thought the majority of employing businesses within the ABS's definition of mediums (i.e. 20–199) were going to be at the smaller end of the range. This turned out to be the case, with more than 10 times as many medium businesses that had 20–109 staff as those with 110–199 staff. We also looked at data from the NSW Business Chamber's Business Conditions Surveys. The results suggested the barriers for innovation for medium(-) businesses are very similar to those of small businesses, while medium(+) businesses' concerns more matched those of large businesses.
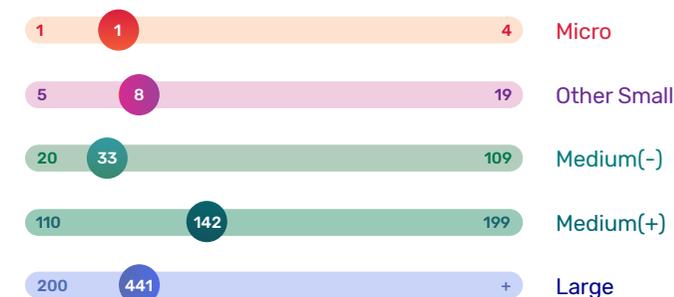
LARGE BUSINESSES

Large businesses (200 and over FTE employees)

- In NSW, large businesses make up 0.6% of all employing businesses

- Despite this, they earn 72 cents in every dollar of total employing business turnover

- Large businesses had the highest rate of innovation (70%) and unsurprisingly were the top investor in research and development ($9.5bn)

- Most large businesses had a written business strategy (72%)

- 86% used predictive analytics.

Median number of FTE employees in each business size

Like the medium business split, most businesses for each size category tend to be at the bottom end of the range for FTE employees. The following graphic shows the median or middle number of FTE employees in businesses across all sizes and sectors. (The median is the middle value in a dataset, where half of all businesses are above this number and half are below.)

Range	Median	End	Category
1	1	4	Micro
5	8	19	Other Small
20	33	109	Medium(-)
110	142	199	Medium(+)
200	441	+	Large