



Australian Government



Australian
Small Business and
Family Enterprise
Ombudsman



Small Business Counts

December 2020

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Foreword



2020 has been a year like no other in living memory. It has also been a year that most of Australia's 2.3 million small businesses would prefer to forget.

Statistical reports like this one are important because they help create a picture of small business in Australia and its contribution to our economy.

This picture is complicated by the fact that we still don't have a consistent definition of small business across government. This report uses two primary definitions: a small business is one that employs less than 20 people (the ABS definition), or that has a turnover under \$10 million (the ATO definition) and each section is clear on the definition being used.

This year's report must come with two important qualifiers.

Firstly, because of the lags that are associated with national statistics, much of the data in this report paints a picture of a past that already feels like a long time ago. A past before the bushfires and before COVID-19. Bear that in mind as you look at the figures presented. We have included special sections on the impacts of COVID-19 and the bushfires later in the report, but the analysis is only preliminary and limited by the availability of data.

Secondly, behind every number in this report is a person. That is true every year, but it's particularly important to remember this year. When people talk about small business as the "engine room" of the Australian economy, they are talking about millions of hard-working Australians. Those Australians have to overcome obstacles every day to create value for customers, jobs for employees, and community for our societies.

In 2020, the obstacles were enormous and the true toll of this year on small businesses, including the mental health toll, won't be clear for some time. However, it is also true that small businesses have shown this year that they can be resilient and agile in the face of even the most challenging conditions.

A handwritten signature in black ink, appearing to read "Kate Carnell".

Kate Carnell
Australian Small Business and Family Enterprise Ombudsman

Overview

Small business and family enterprise in Australia represent the ‘engine room’ of the economy and the heart of our community.

Small business accounts for between 97.4% and 98.4% of all businesses, depending on whether you define a small business based on number of employees or turnover.

Small business contributed almost \$418 billion to Gross Domestic Product (GDP) in 2018-19, equivalent to over 32% of Australia’s total economy. Small business accounts for 76% of value added in the agriculture, forestry and fishing sector and 74% of value added in the rental, hiring, and real estate services sector. In terms of value, the largest contribution by small business to GDP is in the construction sector, where it accounted for \$71.3 billion in value added in 2018-19.

Small business employs over 4.7 million people and 41% of the business workforce, making it Australia’s biggest employer. By sector, small business employment is largest in the construction sector, where it employed almost 750,000 people in 2018-19. As at December 2019, small business also employed 165,197 apprentices and trainees, which represents 61% of Australia’s apprentices and trainees.

In terms of contribution to tax revenue, Australian Taxation Office (ATO) data shows that small companies accounted for 22% of total tax revenue from companies in 2017-18.

In terms of profitability, turnover and net income fell for the median small business between 2016 and 2018, while turnover increased but net income stayed flat for the mean small business over the same period. The fact that mean turnover increased while mean net income stayed flat suggests that cost pressures are keeping net incomes low. Small business also continues to have lower survival rates compared to medium and large business.

40% of small business owners in Australia are aged 45-59 years with a further almost 33% aged 30-44 years. Over 19% of small business owners are over 60 years of age, proving the importance of that age group to small business and the economy more broadly. Less than 8% are under 30 years of age.

While there is limited data available on women in small business, the available data suggests a steady upwards trend in the proportion of women small business owners/managers over the last 20 years and an increase in the number of both full-time and part-time women small business owner/managers.

In terms of innovation, small business makes up 84% of all innovating businesses in Australia. The data shows that innovative small businesses outperform non-innovative ones on all key metrics, including productivity and profitability. Small business also comprised 23% of total business research and development (R&D) spending in 2017-2018, up from 19% in 2016-17.

Small business is increasingly digitally capable. Rates of internet access, web presence, social media presence, and engagement in e-commerce increased from 2016-17 to 2018-19. However, small business still lags medium and large business across all these measures of digital adoption.

The number of small businesses exporting merchandise continues to increase, while the share of small business exporters amongst total exporters remains steady at 59%.

1. Introduction

This report draws from a variety of data sources, both Australian Government and non-government, to present a statistical picture of the contribution of small business to the Australian economy. Its purpose is to be an information resource for governments, public policy makers, and researchers to improve their knowledge and understanding of the small business sector. It does not comment on policy issues.

This report uses two primary definitions of small business. A small business is one that employs less than 20 people (the ABS definition), or that has a turnover under \$10 million (the ATO definition). Each section will provide the definition of small business used in that analysis. Furthermore, unless otherwise stated, the data will not include very small businesses that have an ABN but are not GST active. The data also excludes self-managed super funds.

Charts and tables in this report use the Australian and New Zealand Standard Industrial Classification (ANZSIC), 2006 (Revision 2.0). One of these classifications, 'Other Services', requires further explanation. This classification includes:

- a) 'Repair and Maintenance': This includes Automotive Repair and Maintenance, Machinery and Equipment Repair and Maintenance, and Other Repair and Maintenance;
- b) Personal and Other Services: This includes Personal care Services, such as Hairdressing and Beauty Services, and Diet and Weight Reduction Centre Operations; Funeral, Crematorium and Cemetery Services; Religious Services; Civic Professional and Other Interest Group Services; and
- c) Other Personal Services, which includes Laundry and Dry-Cleaning Services, Brothel Keeping and Prostitution Services, and Other Personal Services not elsewhere classified; and Private Households Employing Staff and Undifferentiated Goods and Service-Producing Activities of Households for own use.¹

Note that, due to rounding, not all totals of percentages equal 100 per cent.

¹ ANZSIC 2006 Division, Subdivision, Group and Class Codes and Titles, Australian Bureau of Statistics, Accessed October 2020.

2. Contribution to the economy

2.1 Number of small businesses by employment

The definition of a small business applied in this section is the ABS definition related to employment (less than 20 employees).

Small business continues to account for over 97% of all Australian businesses (Table 1). From June 2018 to June 2019, the number of small businesses increased by over 55,000.

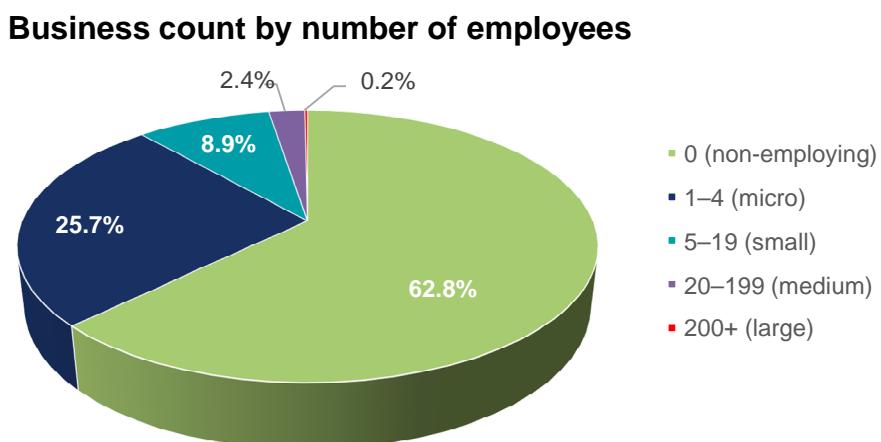
Table 1: Business size measured by employment as at June 2019

Employees	Firm Count	%
0–19 (small)	2,314,647	97.4
20–199 (medium)	56,835	2.4
200+ (large)	4,271	0.2
Total	2,375,753	100.0

Source: ABS Counts of Australian Business 8165.0, Table 13, February 2020 and ASBFEO Calculations (Excludes nano businesses with no GST role)

Most businesses are non-employing businesses (e.g. sole traders), which account for 62.8% of all businesses (Chart 1). Micro businesses that employ 1-4 people account for a further 25.7% of all businesses, while the remainder of the small business category is comprised of businesses that employ 5-19 people, which account for 8.9% of all businesses.

Chart 1: Counts of Australian businesses measured by employment size as at June 2019



Source: ABS Counts of Australian Business 8165.0 Table 13, Feb 2020 and ASBFEO calculations (excludes nano businesses)

2.2 Number of small businesses by turnover

The definition of a small business applied in this section is the ATO definition related to turnover (turnover of \$10 million or less).

Using this definition, 98.4% of Australian businesses are small businesses. The vast majority (93%) of these businesses have a turnover of less than \$2 million. It is worth noting that, as businesses are not required to register for GST unless their current or projected turnover is \$75,000 or more, and businesses not registered for GST are not captured in this data, the number of businesses listed in the \$0-\$50k turnover range is likely an underestimate.

Table 2: Business numbers by annual turnover in 2018-19

Turnover	No. of businesses	%
\$0 to less than \$50k	592,896	25.0
\$50k to less than \$200k	810,470	34.1
\$200k to less than \$2m	806,248	33.9
\$2m to less than \$5m	95,032	4.0
\$5m to less than \$10m	33,643	1.4
\$10m or more	37,464	1.6
Total	2,375,753	100.0

Source: ABS Counts of Australian Business 8165.0, Table 17, Feb 2020 and ASBFEO calculations (excludes nano businesses with no GST role)

2.3 Contribution to GDP

Value added is the contribution to Australian Gross Domestic Product (GDP), which is the total value of all the final goods and services produced in the Australian economy in a year. Small business contributed almost \$418 billion of value added in 2018-19, which represents over 32% of Australia's total GDP (Table 3).

Table 3: Value added by business size from FY15 to FY19

Value added by Business size	2014-15	2015-16	2016-17	2017-18	2018-19
	\$m	\$m	\$m	\$m	\$m
Small Business	375,811	378,400	393,219	413,929	417,946
Medium Business	230,601	236,547	250,519	260,971	287,441
Large Business	463,512	468,918	490,991	534,065	583,893
Total	1,069,924	1,083,865	1,134,730	1,208,964	1,289,280

Source: ABS Counts of Australian Business 8155.0, Table 5, May 2020 and ASBFEO Calculations

As well as the significant contribution to total value added, small business adds more value than any other size of business in the following sectors (Table 4):

- Agriculture, forestry and fishing (76% of total)
- Rental, hiring and real estate services (74% of total)
- Construction (56% of total)
- Other services (56% of total)
- Professional, scientific and technical services (42% of total)

Table 4: Small business share of the total value added by industry 2018-19

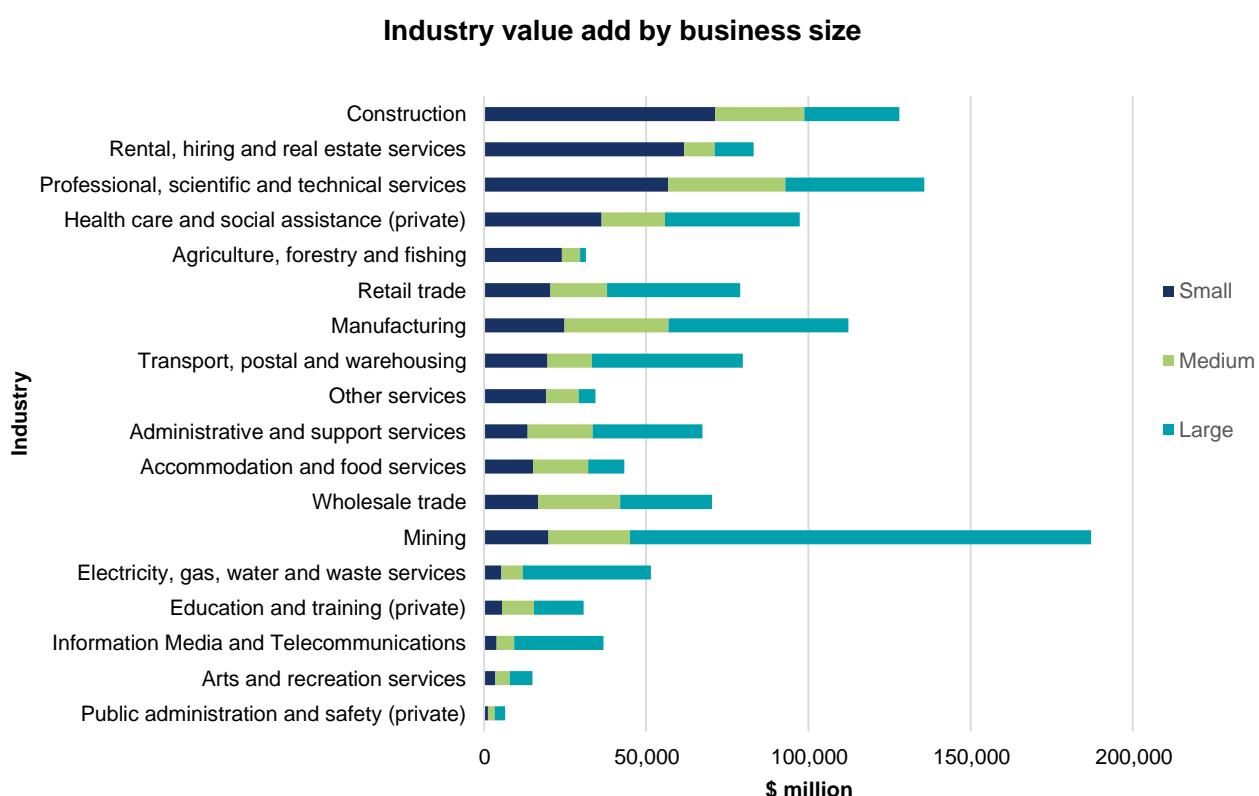
Industry sector	Small	Medium	Large	All	Small Business share
	\$m	\$m	\$m	\$m	%
Agriculture, forestry and fishing	23,964	5,555	1,907	31,425	76%
Rental, hiring and real estate services	61,733	9,354	11,986	83,072	74%
Construction	71,310	27,386	29,307	128,003	56%
Other services	19,124	10,044	5,253	34,420	56%
Professional, scientific and technical services	56,798	36,037	42,910	135,745	42%
Health care and social assistance (private)	36,261	19,568	41,447	97,275	37%
Accommodation and food services	15,023	17,056	11,197	43,275	35%
Retail trade	20,418	17,539	40,969	78,927	26%
Transport, postal and warehousing	19,503	13,801	46,479	79,782	24%
Wholesale trade	16,689	25,275	28,335	70,300	24%
Arts and recreation services	3,400	4,486	7,015	14,901	23%
Manufacturing	24,710	32,140	55,420	112,271	22%
Administrative and support services	13,383	20,149	33,753	67,285	20%
Public administration and safety (private)	1,217	2,021	3,239	6,477	19%
Education and training (private)	5,533	9,825	15,397	30,756	18%
Mining	19,794	25,125	142,212	187,131	11%
Electricity, gas, water and waste services	5,295	6,597	39,522	51,414	10%
Information Media and Telecommunications	3,791	5,483	27,545	36,819	10%
Total selected industries	417,946	287,441	583,893	1,289,280	32%

Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2018-19, May 2020 and ASBFEO Calculations

In dollar terms, the largest contributions by small business to GDP are in the following sectors (Chart 2):

- Construction (\$71.3 billion);
- Rental, hiring and real estate services (\$61.7 billion); and
- Professional, scientific and technical services (\$56.8 billion).

Chart 2: Industry value added by business size 2018-19 (\$ million)



Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2018-19, May 2020 and ASBFEO Calculations

2.4 Contribution to employment

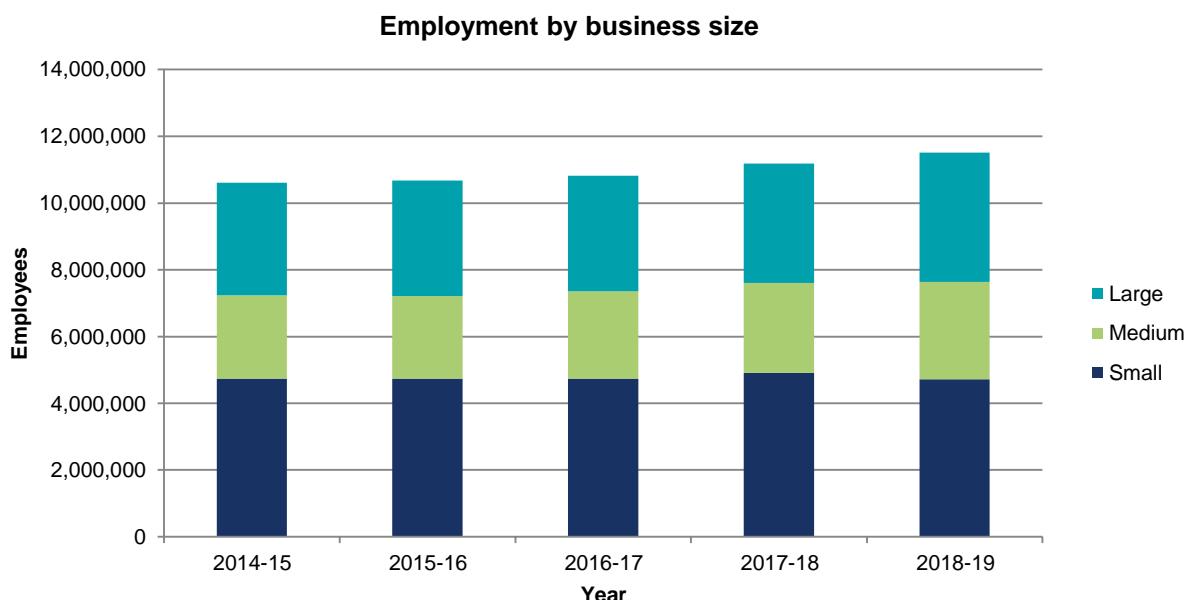
While the number of people employed by small business fell slightly from 2017-18 to 2018-19, small business still employed over 4.7 million people and 41% of the business workforce in 2018-19, making it Australia's biggest employer (Table 5 and Chart 3).

Table 5: Employment by business size

Size	2014-15		2015-16		2016-17		2017-18		2018-19	
	('000)	%	('000)	%	('000)	%	('000)	%	('000)	%
Small	4,739	45	4,731	44	4,768	44	4,940	44	4,718	41
Medium	2,495	24	2,489	23	2,616	24	2,694	24	2,919	25
Large	3,378	32	3,458	32	3,498	32	3,544	32	3,871	34
Total	10,612	101	10,678	99	10,882	100	11,177	100	11,508	100

Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2018-19, May 2020 and ASBFEO Calculations. Note rounding means that not all totals equal 100 per cent.

Chart 3: Employment by business size



Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2018-19, May 2020 and ASBFEO Calculations

Small business is a particularly significant employer in the following industries (Table 6 and Chart 4):

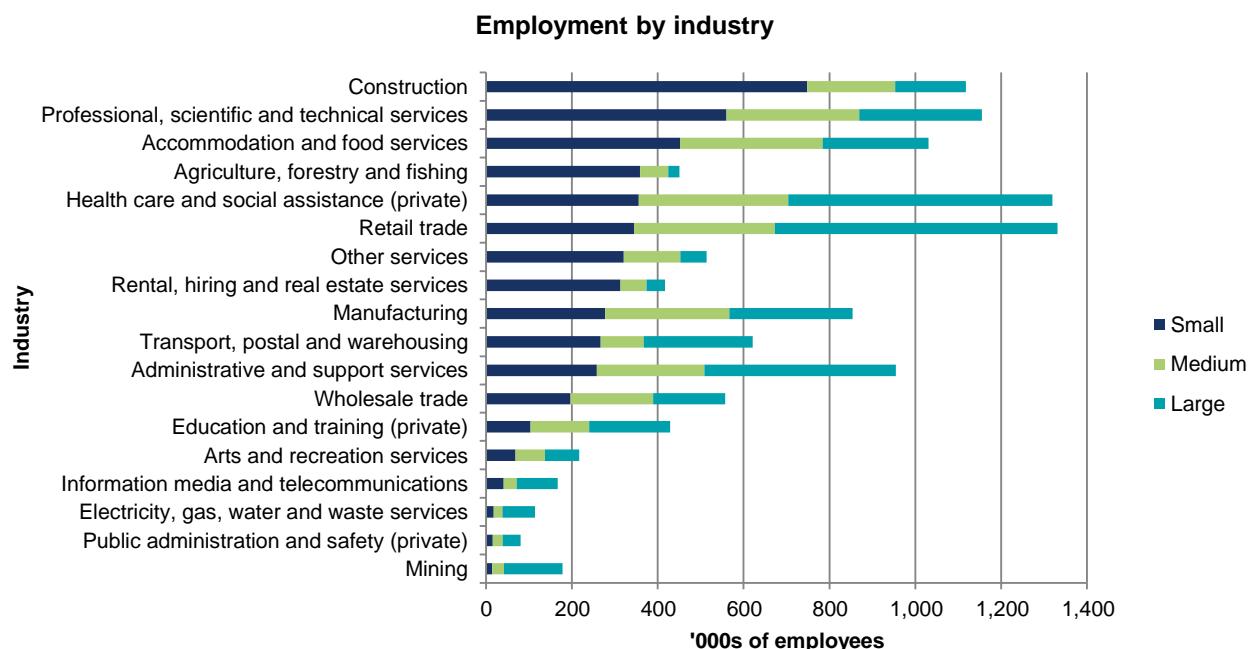
- Agriculture, forestry and fishing (small business employs 359,000 people, representing 80% of total employment in the sector);
- Rental, hiring and real estate services (small business employs 314,000 people, representing 75% of total employment in the sector);
- Construction (small business employs 748,000 people, representing 67% of total employment in the sector);
- Other services (small business employs 321,000 people, representing 62% of total employment in the sector);
- Professional, scientific and technical services (small business employs 560,000 people, representing 48% of total employment in the sector);
- Accommodation and food services (small business employs 452,000 people, representing 44% of total employment in the sector);
- Transport, postal and warehousing (small business employs 267,000 people, representing 43% of total employment in the sector); and
- Wholesale trade (small business employs 197,000 people, representing 35% of total employment in the sector).

Table 6: Employment by industry, ordered by small business proportionate share – 2018-19

Industry Sector	Small (‘000)	Medium (‘000)	Large (‘000)	All (‘000)	Small Business share (%)
Agriculture, forestry and fishing	359	66	26	451	80
Rental, hiring and real estate services	314	60	43	417	75
Construction	748	205	165	1,117	67
Other services	321	132	61	514	62
Professional, scientific and technical services	560	309	286	1,155	48
Accommodation and food services	452	332	247	1,031	44
Transport, postal and warehousing	267	101	253	620	43
Wholesale trade	197	193	167	557	35
Manufacturing	277	290	287	854	32
Arts and recreation services	69	68	80	216	32
Administrative and support services	258	251	445	954	27
Health care and social assistance (private)	356	348	615	1,319	27
Retail trade	345	328	658	1,331	26
Information media and telecommunications	41	31	95	167	25
Education and training (private)	104	136	189	430	24
Public administration and safety (private)	16	23	42	82	20
Electricity, gas, water and waste services	18	20	76	113	16
Mining	14	28	136	179	8
Total selected industries	4,716	2,919	3,871	11,508	41

Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2018-19, May 2020 and ASBFEO Calculations

Chart 4: Total employment by industry ranked by number of employees, 2018-19

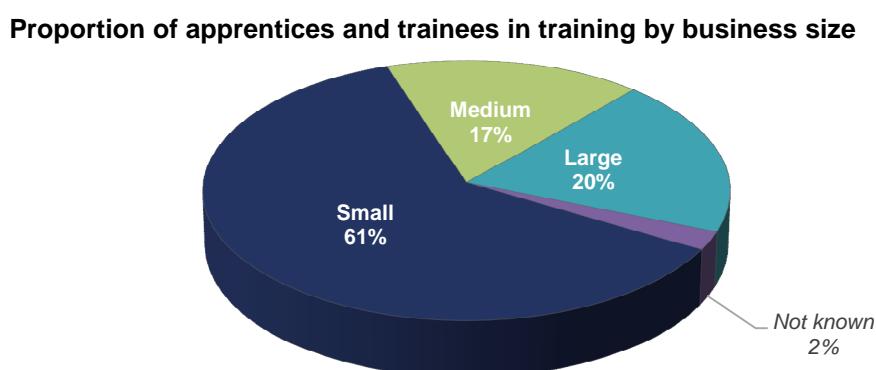


Source: ABS Catalogue No. 8155.0 Australian Industry Table 5 2018-19, May 2020 and ASBFEO Calculations

2.5 Apprentice and trainee employment

Small business employed 165,197 apprentices and trainees as at December 2019. This makes small business the largest employer of apprentices and trainees, representing 61% of the total (Chart 5). As part of the 2020 budget the Australian Government announced the Boosting Apprenticeship Commencements wage subsidy for new apprentices and trainees, which is expected to support 100,000 new apprenticeships between October 2020 and September 2021. Based on current proportions, 61,000 of these will be employed by small business.

Chart 5: Apprentices and trainees by employer size, in training Oct - Dec quarter 2019

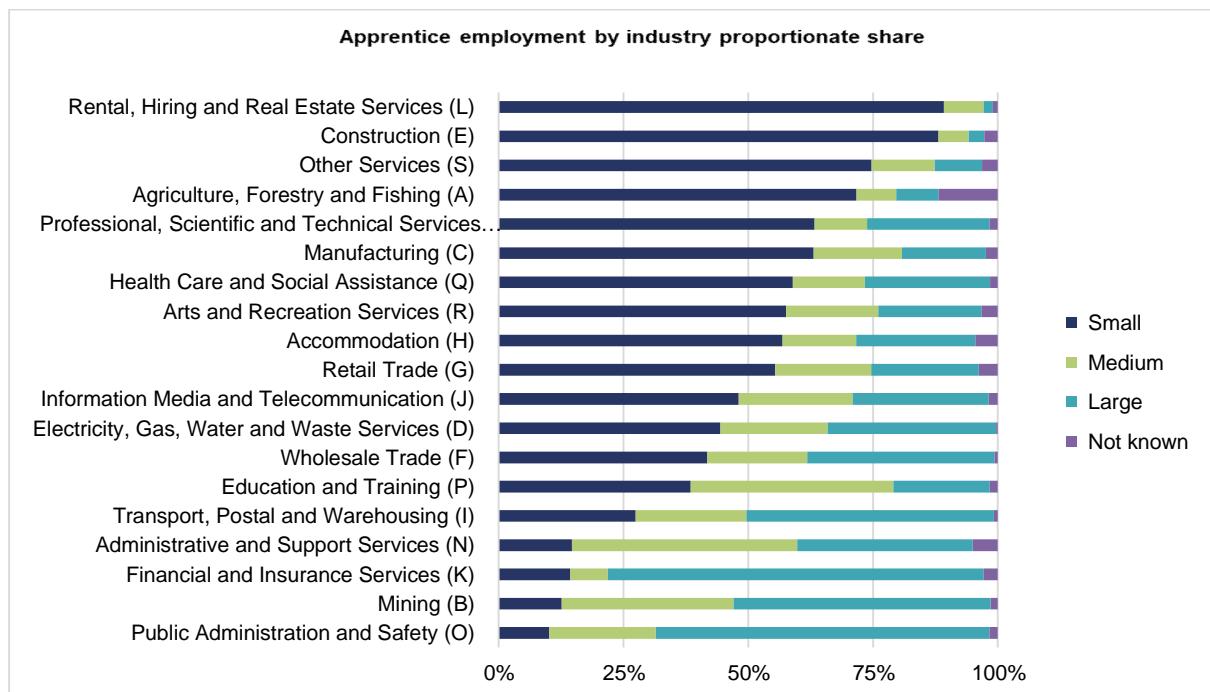


Source: VOCSTATS Apprentice and Trainee Collection <<http://www.ncver.edu.au/resources/vocstats.html>>, extracted on 07/09/2020.

Note: Changes in classification of data from VOCSTATS has resulted in a reduced number of "not known" business sizes.

Chart 6 shows the small business share of apprentice and trainee employment across a range of sectors. Small business accounts for over 75% of all apprentices and trainees in the rental, hiring and real-estate services sector and the construction sector.

Chart 6: Apprentice and trainee employment by industry proportionate share, Oct – Dec quarter 2019



Source: VOCSTATS Apprentice and Trainee Collection <<http://www.ncver.edu.au/resources/vocstats.html>>, accessed on 7 September 2020.

2.6 Contribution to tax revenue

Table 7 shows that small companies accounted for 22% of total tax revenue from companies in 2017-18. This share decreased from 24% in 2015-16.

Table 7: Company tax revenue by business size

Business size classed by revenue	2015-2016		2016-2017		2017-2018	
	\$m	%	\$m	%	\$m	%
Small (\$1 - < \$10m)	16,239	24	16,988	22	18,320	22
Medium (\$10m - < \$100m)	10,158	15	10,832	14	11,788	14
Large (\$100m or more)	40,219	60	47,764	63	54,747	65
Total	66,616	99	75,584	99	84,855	101

Source: ATO, Taxation Statistics 2017-18, Snapshot Table. Note rounding means that not all totals equal 100 per cent.

Table 8 shows that, for small businesses up to \$5 million turnover, half of all income tax is paid by those businesses with turnover between \$200,000 and \$2 million. These businesses also account for 71% of GST paid.

Table 8: Key numbers by annual turnover in 2017-18

Turnover Financial Year 2018	% of small businesses	% income tax paid by small business	% net GST paid by small business
\$0 to less than \$50k	25	11	1
\$50k to less than \$200k	40	38	26
\$200k to less than \$2m	35	50	71
\$2m to less than \$5m	1	2	2

Source: ATO sample datasets for 2017-18 and ASBFEO calculations (excludes nano businesses with no GST role). Note rounding means that the percentage total does equal 100 per cent.

The ATO also calculates ‘tax gaps’ for specific categories of taxpayers and for the different types of tax revenue. The tax gap represents the difference between the actual tax revenue the ATO collects and an estimation of what would be collected if every taxpayer was fully compliant with the law.² The ATO reports a tax gap where it believes taxpayers have misreported, which could be due to an error or misunderstanding, taking a tax position that differs from the ATO position, or by choice. It should be noted that the calculation includes non-pursuable debt (e.g. a business in liquidation without sufficient assets to pay its tax debt) and concealed income from unreported activity in the shadow economy, which can only ever be estimated.

For 2017–18 the ATO calculated the net income tax gap for the small business population to be \$11.1 billion or 11.5% of ‘total theoretical tax payable’.³ This means the ATO estimates that small business paid more than 88% of the total theoretical tax payable in 2017–18. It is also important to note that, in percentage terms, the small business tax gap has been getting smaller.

The main components of the small business income tax gap are:

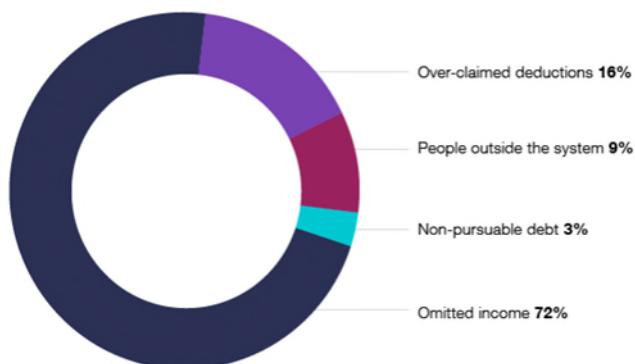
- omitted income;
- over-claimed deductions;
- people outside the tax system, e.g. cash-only businesses operating without an Australian business number (ABN); and
- non-pursuable debt, i.e. debt that is not economical for the ATO to pursue.

Charts 7-9 show the make-up of the small business income tax gap for small companies, individuals in business, and for the combination of these two categories. For individuals, omitted income accounts for almost three-quarters of the total tax gap and ‘people outside the system’ accounts for almost 10%. By comparison, omitted income (48%) is less significant for companies, while over-claimed deductions (38%) and non-pursuable debt (13%) account for a greater share.

² ‘Australian tax gaps – overview’, ATO webpage, October 2020

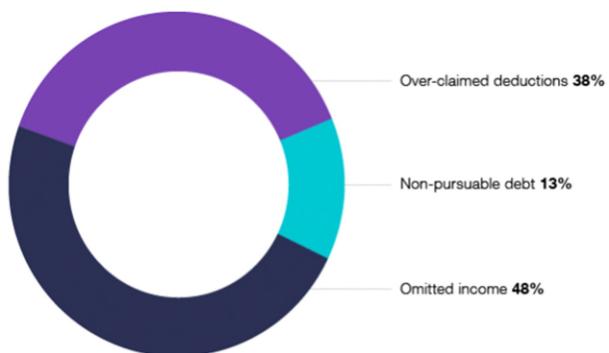
³ ‘Small business income tax gap’, ATO webpage, October 2020

Chart 7: Small business income tax gap for individuals in business



Source: ATO, 'Small business income tax gap' webpage, October 2020.

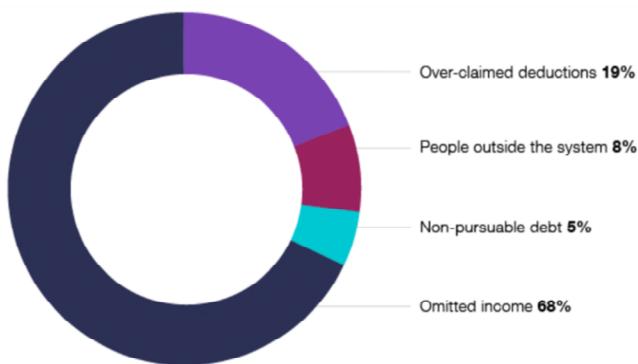
Chart 8: Small business income tax gap for small companies



Source: ATO, 'Small business income tax gap' webpage, October 2020.

The combined group, shown in Figure 9, is dominated by individuals and so presents similarly to Figure 7.

Chart 9: Small business income tax gap for combined categories



Source: ATO, 'Small business income tax gap' webpage, October 2020.

3. Small business characteristics

3.1 Turnover and net income

Turnover increased for the mean small business but decreased for the median small business between 2016 and 2018 (Table 9). This suggests that some high turnover small businesses have lifted the mean but that turnover for the ‘average’ small business has actually fallen.

Net income fell for the median small business and stayed flat for the mean small business over the same period. The fact that mean turnover increased while mean net income stayed flat suggests that cost pressures are keeping net income low.

Table 9: Key business metrics

Small Business				
	Financial Year 2016		Financial Year 2018	
	Median (\$)	Mean (\$)	Median (\$)	Mean (\$)
Turnover	122,000	227,000	118,000	245,000
Net Income	15,000	24,000	13,000	24,000

Source: ATO, Taxation Statistics 2017-18, Snapshot Table

3.2 Survival over five years

Looking at the survival of businesses over a four-year period shows that larger businesses generally survive for longer (Table 10). Non-employing businesses have the lowest survival rate at 60%, which is less than the average survival rate of 65% and did not change from the previous period of June 2014 to June 2018.

Table 10: Business survival rates from June 2015 to June 2019

Employment Size	Businesses June 2015	Survived to June 2019	Survival rate %
Non-employing	1,284,615	772,711	60
1–4 Employees	584,744	405,838	69
5–19 Employees	197,164	152,968	78
20–199 Employees	50,995	41,931	82
200+ Employees	3,717	3,220	87
Total employing	836,620	603,957	72
Total	2,121,235	1,376,668	65 (Average)

Source: ABS Counts of Australian Business 8165.0, Table 15, Feb 2020 and ASBFEO Calculations (excludes nano businesses with no GST role)

3.3 Nano businesses

The ABS defines a business as a legal entity engaging in productive activity, with “productive activity” being where the entity is registered for and remitting GST through Business Activity Statements (BAS).⁴ As the compulsory threshold for GST registration is \$75,000 turnover, the ABS definition does not capture very small businesses. The ATO does collect information on these businesses, which we have called ‘nano businesses’ in previous reports. In this year’s report, we look at the key characteristics of these small businesses and how different definitions change the statistical picture.

Businesses that are not remitting GST will generally have turnover under the \$75,000 threshold. These very small businesses are also less likely to have employees. For these reasons, we look at three different definitions and key business metrics of turnover and net income across each. The definitions are:

- Definition 1: Less than \$75,000 turnover.
- Definition 2: Less than \$75,000 turnover AND no employees.
- Definition 3: Less than \$75,000 turnover AND no employees AND zero net GST remitted.

Definition 3 is a subset of definition 2, which is in turn a subset of definition 1. Table 11.3 shows how the number of businesses included falls from definitions 1 to 3.

What is common across the three definitions is that mean and median turnover has been falling over time, while mean and median net income has been falling or flat depending on the definition.

In terms of differences, we can see that turnover falls between definition 1 and 2 and again between definition 2 and 3. This means that, for businesses with less than \$75,000 turnover, having employees and remitting GST is associated with higher turnover, which is not surprising.

What is surprising is that, while turnover falls reading down the table from definition 1 to 3, mean and median net income in 2016 actually increased from definition 1 to 3. Although the same pattern was not as clear in the 2018 data, the fact that turnover and net income were inversely related in 2016 most likely relates to a movement to sole (small) independent contractors with larger deductions for contractor expenses.

Table 11: Number of businesses by definition

Definition	Financial Year 2016	Financial Year 2018
Definition 1	n = 4,927	n = 5,343
Definition 2	n = 4,746	n = 5,123
Definition 3	n = 3,183	n = 3,736

Source: ATO sample datasets for 2015-16 and 2017-18 and ASBFEO calculations. Figures rounded to the nearest thousand.

Table 12: Turnover for nano businesses in Financial Year 2016 and Financial Year 2018

Definition	Financial Year 2016		Financial Year 2018	
	Mean Turnover (\$)	Median Turnover (\$)	Mean Turnover (\$)	Median Turnover (\$)
Definition 1	27,000	22,000	24,000	18,000
Definition 2	26,000	21,000	23,000	17,000
Definition 3	23,000	18,000	20,000	14,000

Source: ATO sample datasets for 2015-16 and 2017-18 and ASBFEO calculations. Figures rounded to the nearest thousand.

⁴ ABS, “Counts of Australian Businesses, including Entries and Exits methodology”, 2020

Table 13: Net Income for nano businesses in Financial Year 2016 and Financial Year 2018

Definition	Financial Year 2016		Financial Year 2018	
	Mean Net Income (\$)	Median Net Income (\$)	Mean Net Income (\$)	Median Net Income (\$)
Definition 1	9,000	5,000	9,000	5,000
Definition 2	9,000	6,000	9,000	5,000
Definition 3	11,000	7,000	10,000	5,000

Source: ATO sample datasets for 2015-16 and 2017-18 and ASBFEO calculations. Figures rounded to the nearest thousand.

3.4 Age

According to the data from the 2016 census, 40% of small business owners in Australia are aged 45-59 years with a further almost 33% aged 30-44 years (Table 12). Over 19% of small business owners are over 60 years of age, proving the importance of that age group to small business and the economy more broadly. Less than 8% are under 30 years of age.

Younger business owners account for a higher percentage of non-employing small business owners than of employing small business owners. People in the 45-59 age group account for a lower percentage of non-employing businesses compared to employing businesses. This suggests a life-cycle for some business owners who start young with a non-employing business and then take on employees as they get older.

Table 14: Age of small business owners

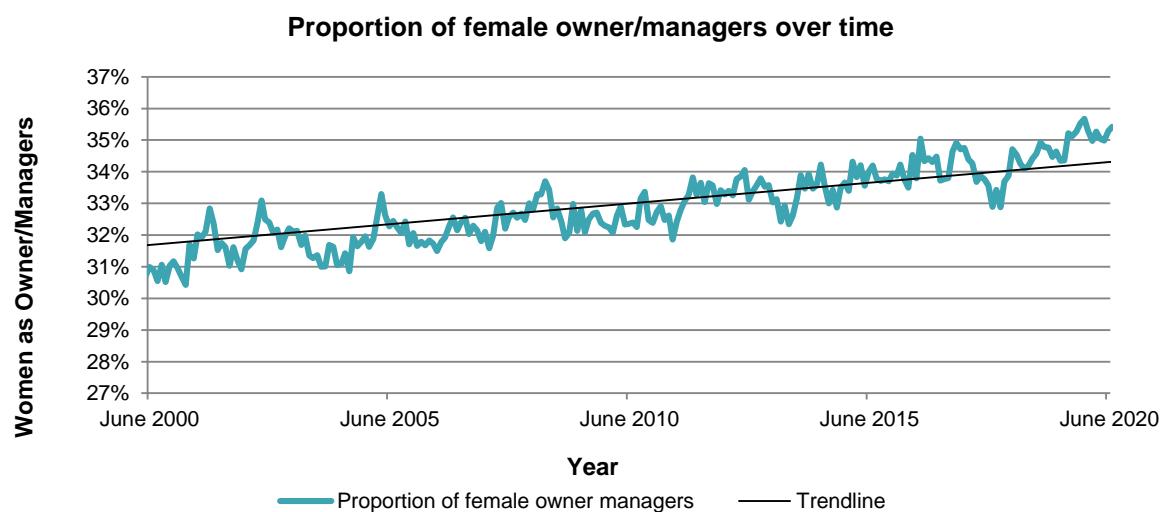
	15-29 years		30-44 years		45-59 years		60+ years		Total
	#	%	#	%	#	%	#	%	#
No employees	83,293	9.6	280,264	32.2	331,267	38.0	176,581	20.3	871,405
1-19 employees	30,934	5.4	194,026	33.6	247,704	43.0	104,052	18.0	576,716
Total	114,227	7.9%	474,290	32.8%	578,971	40.0%	280,633	19.4%	1,448,121

Source: 2016 Census data and ASBFEO calculations

3.5 Women in small business

The ABS Labour Force data used here gives the number of business owners/managers by gender. The data is for all businesses, not just small businesses. However, given that small businesses account for between 97.4% and 98.4% of all Australian businesses, the data is a reasonable approximation for ownership/management of small business by women. The data shows a steady upwards trend in the proportion of female business owners/managers over the last 20 years, with women now representing 35.4% of business owner/managers (Chart 10).

Chart 10: Proportion of female business owner/managers 1999-2020



Source: ABS cat. no. 6291.0.55.001, 'Table 08. Employed persons by Status in employment of main job and Sex', Labour Force, Australia, Detailed - Electronic Delivery, Aug 2020

Looking deeper, the number of full-time women owner/managers and part-time women owner/managers have both been rising. As at July 2020, there were almost 715,000 women business owner/managers, including 381,000 part-time and almost 334,000 full-time. While the proportion of full-time women owner/managers has increased since 2000, the proportion of part-time women owner/managers has fallen due to the number of part-time male owner/managers more than doubling over the same period (Chart 11).

Chart 11: Change in the proportion of female owner/managers from 2000-2020



Source: ASBFEO and ABS 6291.0.55.001 Labour Force, Australia, Detailed – Electronic Delivery, August 2020.

4. Innovative behaviour

4.1 Innovation by activity and size

Small business in Australia does not get the credit it deserves when it comes to innovation, which can be defined as the development or introduction of new or significantly improved goods, services, processes or methods.⁵ Small business accounts for 87.6% of all innovating businesses in Australia and 46.5% of small businesses with 5-19 employees were innovating ones in 2018-19.⁶ This is despite the fact that a smaller percentage of small businesses receive government financial assistance to innovate compared to medium and large businesses (Table 13).

Table 15: Business innovation by activity and size 2018-19

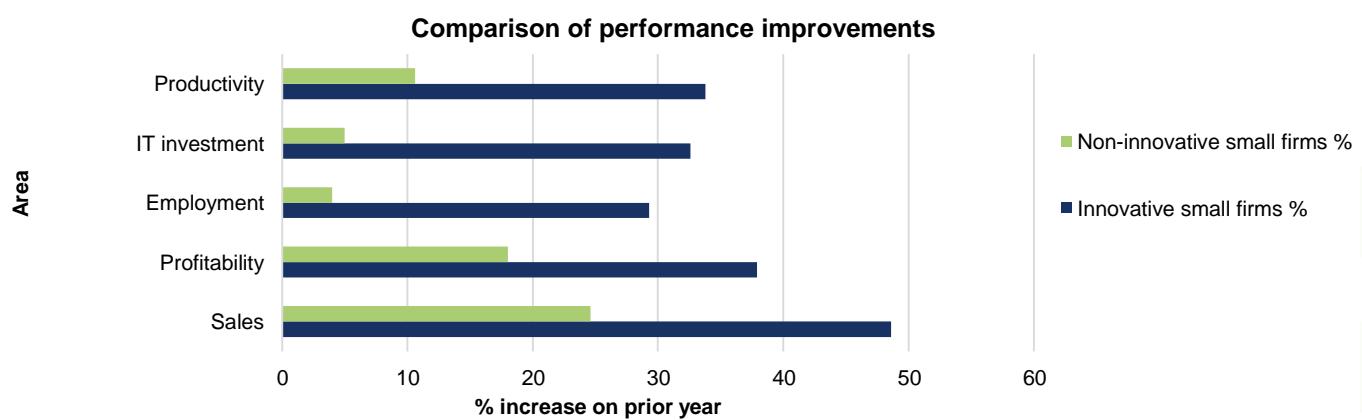
	0-4 employees	5-19 employees	20-199 employees	200+ employees	All businesses
Goods/services innovation (%)	14.7	21.7	22.4	23.7	17.5
Innovating businesses (%)	30.0	46.5	52.1	52.2	36.9
Total number of businesses ('000)	522	259	70	5	857
Government financial assistance to Innovation active businesses (%)	2.5	4.1	10.8	7.7	4.1

Source: ABS Catalogue No. 8167.0 Characteristics of Australian Businesses 2018-19, June 2020 and ASBFEO Calculations

4.2 Innovation and business performance

Innovation pays, with innovating small businesses outperforming their non-innovating counterparts on every measure, including employment, profitability, and productivity (Chart 12).

Chart 12: Performance improvements for innovative vs non-innovative small businesses, 2018-19



Source: ABS Act No. 8167.0 Characteristics of Australian Business 2018-19

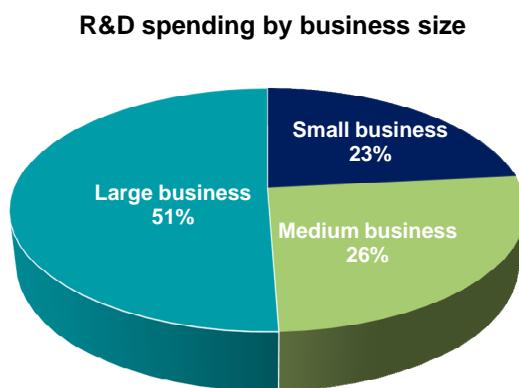
⁵ ABS, "Innovation in Australian Business", accessed 18 October 2020

⁶ Innovating businesses are those that introduced at least one type of innovation during the reference period. Innovation-active businesses are those that undertook any innovative activity irrespective of whether the innovation was introduced, still in development or abandoned during the reference period. For the 2018-19 ABS data, there were significant changes to the measure of innovation. Changes were based on updates to international innovation standards and concepts outlined in the revised 2018 'Oslo Manual: Guidelines for Collecting, Reporting and Using Data on Innovation, Fourth edition'.

4.3 Investment in Research and Development

Small business comprised 23% of total business research and development (R&D) spending in 2017-18. In 2016-17, small business represented only 19% of total business R&D, indicating growing R&D activity amongst small business. While large business still accounted for 51% of the total business R&D spending in 2017-18, this represented a decrease from 57% from 2015-16 (Chart 13).

Chart 13: Small business share of total business research and development spending - 2017-18



Source: ABS Cat. No. 8104.0 Research and Experimental Development, Businesses, Australia, Sep 2019

4.4 Investment by sector

Table 14 shows R&D expenditure by sector. It shows that the top 3 sectors for small business R&D spending are:

- Professional, Scientific and Technical Services (\$2.08 billion);
- Manufacturing (\$511 million); and
- Mining (\$308 million).

As a share of total business R&D spending, small business is the most significant in the following sectors:

- Rental, Hiring and Real Estate Services (42%);
- Other Services (42%);
- Professional, Scientific and Technical Services (41%); and
- Health Care and Social Assistance (41%).

Table 16: Business expenditure on R&D by industry and firm size – 2017-18

Industry	Small business \$'000	Medium business \$'000	Large business \$'000	Expenditure on R&D \$'000	Small business share %
Rental, Hiring and Real Estate Services	81,718	75,084	37,012	193,815	42
Other Services	73,251	61,128	40,274	174,653	42
Professional, Scientific and Technical Services	2,084,426	1,801,250	1,227,447	5,113,123	41
Health Care and Social Assistance	57,330	48,177	35,317	140,823	41
Retail Trade	87,780	94,079	60,345	242,204	36
Education and Training	8,004	21,713	-	27,112	30
Mining	308,423	168,484	572,899	1,049,805	29
Electricity, Gas, Water and Waste Services	98,281	19,493	235,245	353,020	28
Information Media and Telecommunications	167,354	131,914	310,783	610,052	27
Construction	87,112	96,837	165,215	349,164	25
Wholesale Trade	215,372	375,911	339,250	930,532	23
Administrative and Support Services	36,459	51,188	79,154	166,800	22
Agriculture, Forestry and Fishing	64,527	161,259	87,811	313,596	21
Accommodation and Food Services	6,290	12,045	19,503	37,838	17
Public Administration and Safety	3,056	13,533	-	21,889	14
Transport, Postal and Warehousing	16,021	31,084	73,318	120,423	13
Manufacturing	510,896	1,039,336	3,049,232	4,599,464	11
Arts and Recreation Services	12,632	46,213	63,943	122,788	10
Financial and Insurance Services	141,743	288,419	2,416,829	2,846,990	5
All Industries	4,060,675	4,537,147	8,813,577	17,414,091	23%

Source: ABS Cat. No. 8104.0 Research and Experimental Development, Businesses, Australia, Sep 2019

5. Being online

5.1 Internet usage

Small business is increasingly digitally capable. Rates of internet access, web presence, social media presence, and engagement in e-commerce increased amongst both the 0-4 employees and 5-9 employee categories from 2016-17 to 2018-19. However, small business still lags medium and large business across all these measures of digital adoption. It will be interesting to see the increase in digital adoption amongst small business in response to COVID-19 when the next dataset is released in 2021.

Table 17: Business use of the internet – 2018-19

Proportion of businesses with/that	0-4 employees	5-19 employees	20-199 employees	200+ employees	Total proportion in businesses
	%	%	%	%	%
Internet access	96.2	97.6	99.8	96.1	97.0
Web presence	44.1	66.4	84.7	96.1	54.5
Social media presence	38.4	58.9	73.8	87.0	47.8
Placed orders via the internet	55.9	72.4	78.6	88.4	63.0
Received orders via the internet	35.3	50.5	51.0	66.3	41.4

Source: ABS Cat. No. 8167.0 Characteristics of Australian Business, Jun 2020

6. Exporting

6.1 By size of business

The number of small businesses exporting merchandise continues to increase. Over the three year period from 2014-15 to 2017-18, over 2700 additional small businesses engaged in exporting merchandise. This represented an increase of 9.5%, which was higher than the increase for medium businesses. By contrast, small business represents less than 1% of total exports by value.⁷

Table 18: Number of exporters of merchandise

Business Size	Number of businesses			
	2014-15	2015-16	2016-17	2017-18
Large Business	6,085	6,275	6,464	6,763
Medium Business	14,126	14,827	14,854	15,075
Small Business	28,470	30,190	30,674	31,177
Total Merchandise Exporters	48,681	51,292	51,992	53,015
% of Exporters that are Small Business	58%	59%	59%	59%

Source: ABS Cat 5368.0.55.006 Characteristics of Australian Exporters, 2017-18, August 2019 and ASBFEO calculations

The top 3 largest small business export industries by value in 2017-2018 were:⁸

- Wholesale trade (\$963 million);
- Other services⁹ \$459 million); and
- Manufacturing (\$379 million).

⁷ ABS Cat 5368.0.55.006 Characteristics of Australian Exporters, 2017-18, August 2019 and ASBFEO calculations

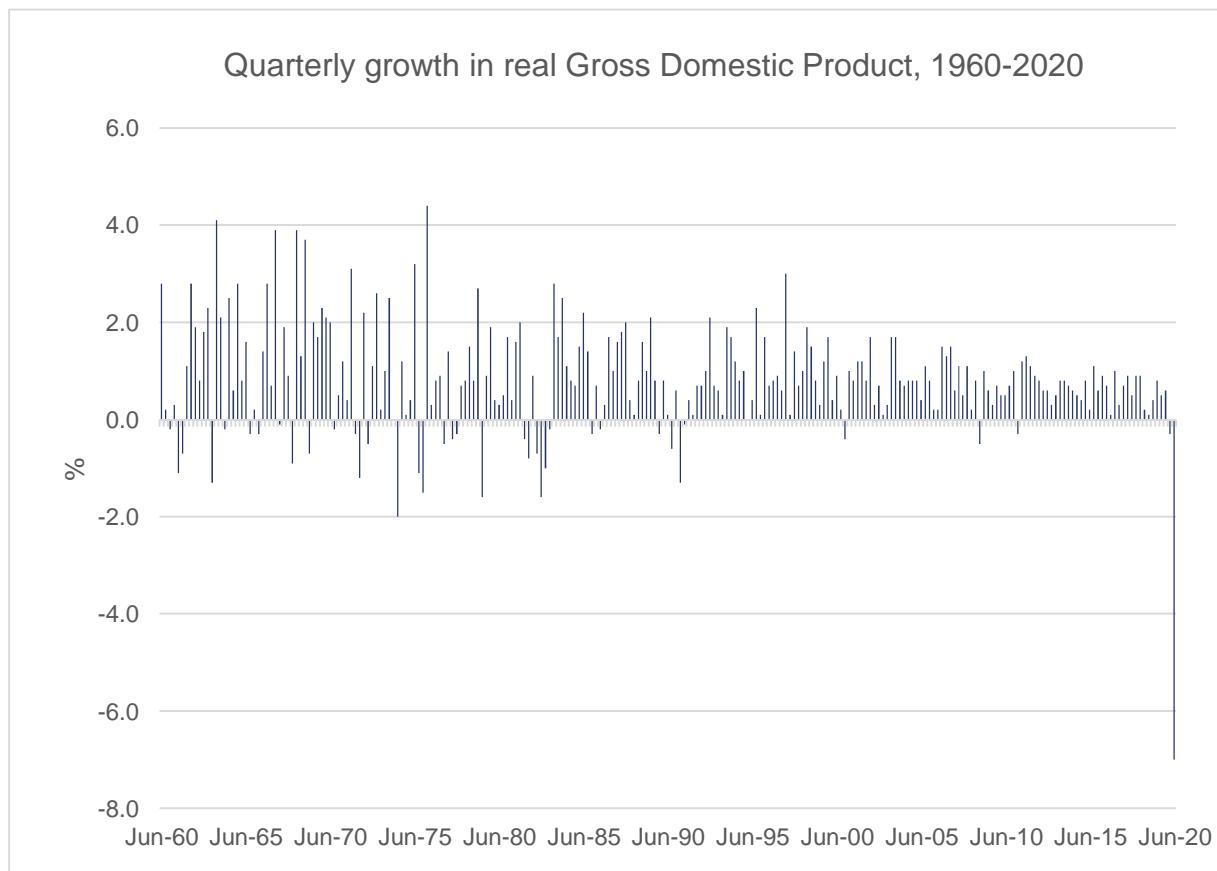
⁸ ABS Cat 5368.0.55.006 Characteristics of Australian Exporters, 2017-18, August 2019 and ASBFEO calculations

⁹ See explanatory note in Introduction.

7. Challenges - COVID-19

The COVID-19 pandemic has caused simultaneous health and economic crises around the world. In Australia, as at 8 October 2020 there had been 27,182 confirmed cases with 24,794 cases recovered and 897 deaths.¹⁰ The crisis has also caused our first recession in 30 years (Chart 14) and the largest drop in quarterly GDP growth on record.¹¹ Most of this report is based on government datasets that have not been updated since the onset of the crisis and therefore do not reflect its impact. This section draws on more current data sources to present a brief snapshot of the impact of the crisis on small business and the broader economy.

Chart 14: GDP growth rate chain volume measures, seasonally adjusted



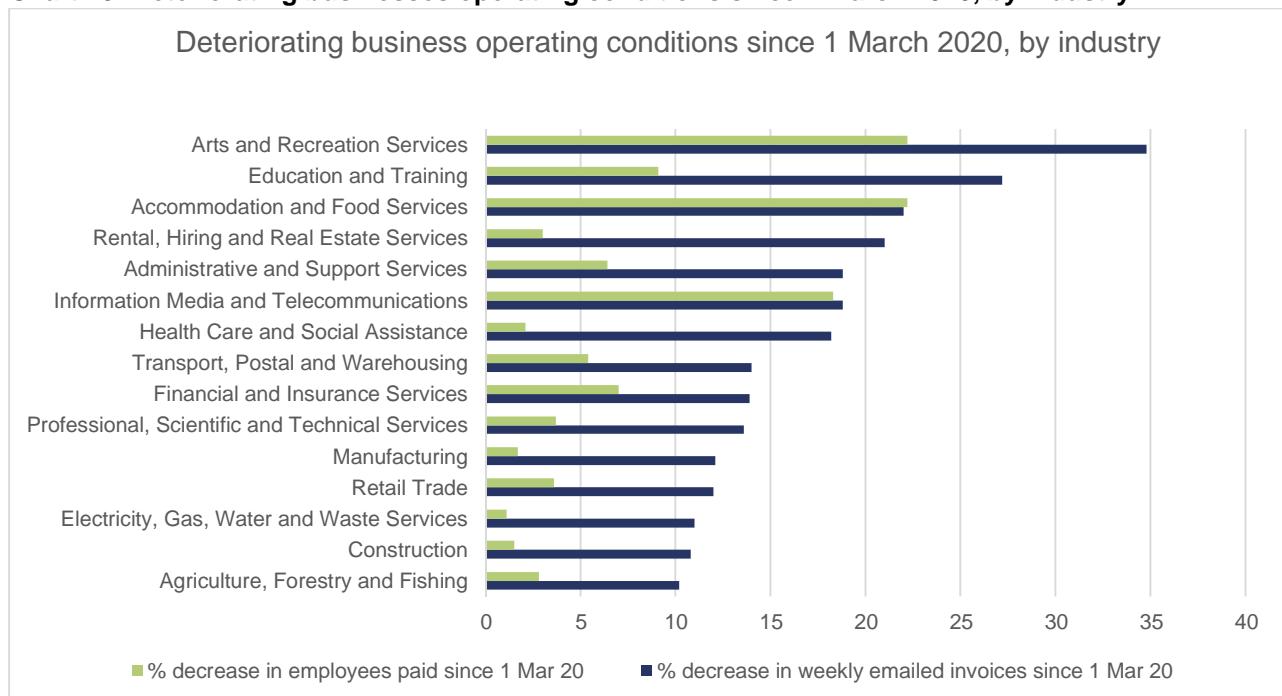
Source: ABS, June 2020

While the range of measures taken by government and the financial services sector have helped cushion the blow for small business and the broader economy, the impact of COVID-19 has still been enormous. Chart 15 shows the decrease in employees and in issued invoices by industry sector between 1 March and 26 August 2020.

¹⁰ Coronavirus (COVID-19) current situation and case numbers, Department of Health, accessed 8 October 2020

¹¹ "Economic activity fell 7.0 per cent in June quarter", ABS Media Release, 2 September 2020

Chart 15: Deteriorating businesses operating conditions since 1 March 2020, by industry



Source: MYOB Small Business Health Index 26 August 2020 – Australia, and ASBFEO calculations

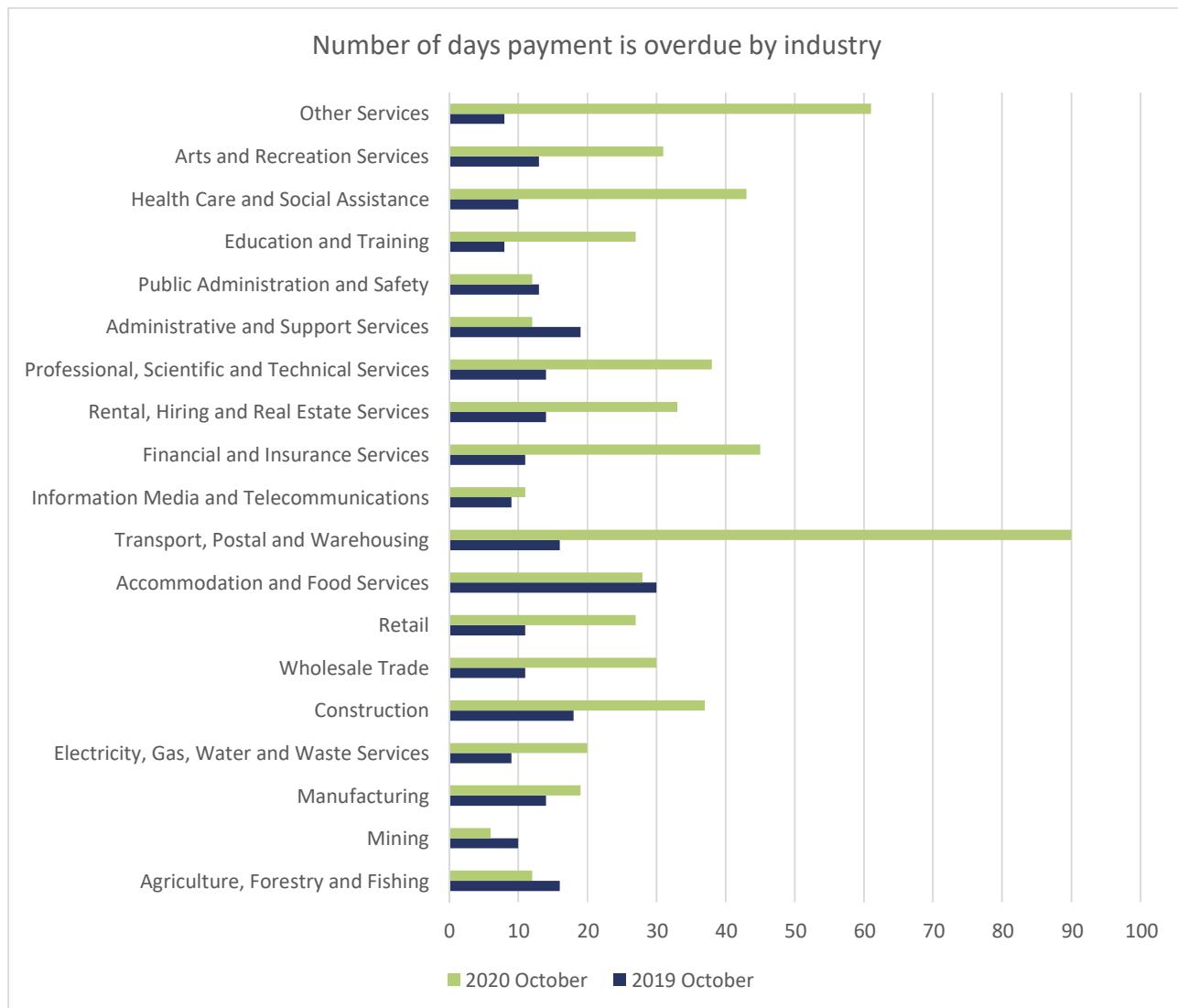
Late payment times

Late payment times and extended payment terms are an ongoing challenge for small businesses. This impacts on cash flow, with low cash flow being the leading cause of small business insolvency.¹² An important impact of the COVID-19 crisis is that payment times have further deteriorated. CreditorWatch monitors how many days on average a payment is made after it is due and has found that late payments were being paid 30.6 days late in October 2020 compared to 13.4 days late in October 2019.¹³ It must be noted that this data does not capture payments made within agreed payment terms, which may themselves be as long as 180 days. The biggest increase in payment delays occurred in the Transport, Postal and Warehousing sector, where late payments are now an average of 90 days late compared to 9 days late in October 2019 (Chart 16).

¹² ASBFEO Payment Times and Practices Report 2017

¹³ CreditorWatch October 2020 data provided at the request of ASBFEO.

Chart 16: Average payment times by industry



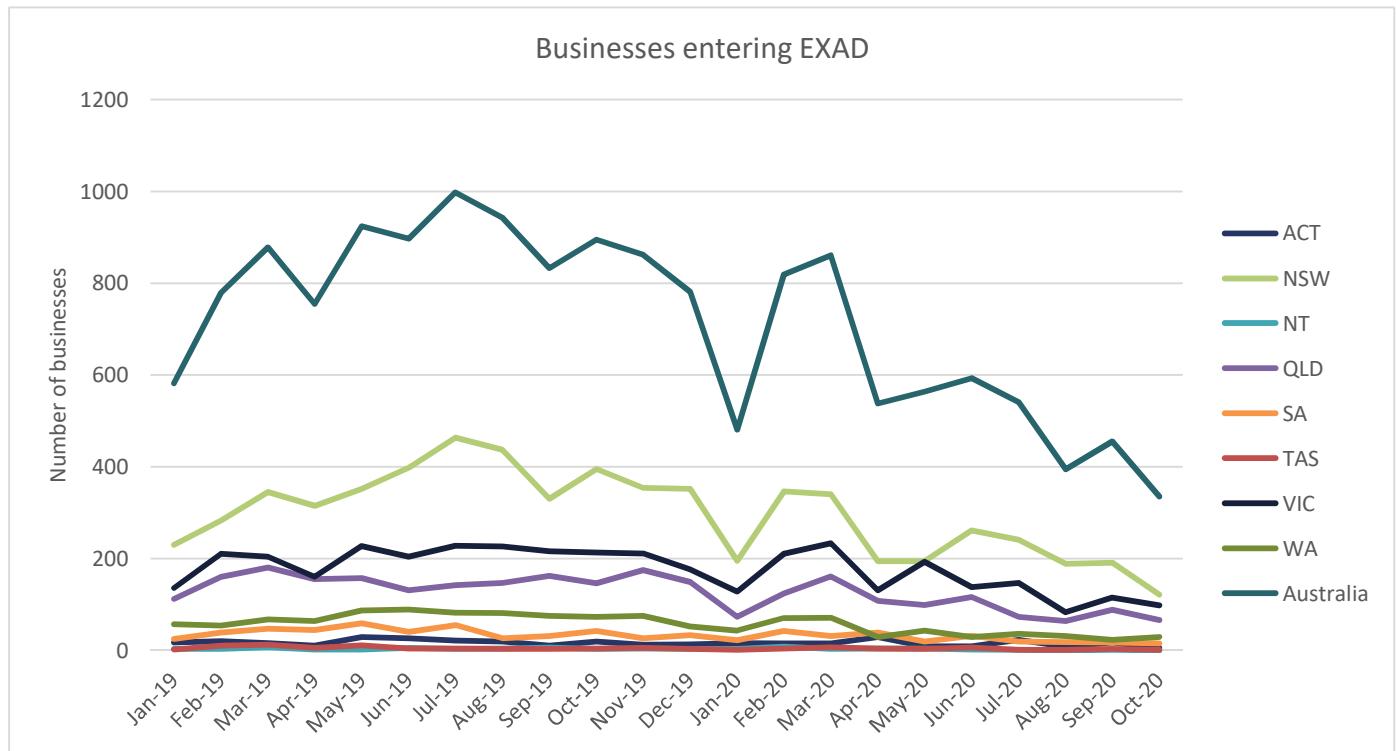
Source: CreditorWatch October 2020 data

Insolvency

Normally, such challenging business conditions would see a large increase in the number of small businesses going insolvent. Interestingly, this has not been the case to date. The number of businesses entering external voluntary administration declined sharply in March 2020 and has remained below 2019 levels since (Chart 17). This is likely the result of both the various financial support measures delivered in response to the crisis and the temporary changes to insolvent trading protections.

The concern around low insolvency numbers in the current climate is that, when businesses that are not viable delay entering external voluntary administration, they continue to accrue debts. These debts may never be repaid and could have significant negative impacts on the suppliers' cash flow, which could then ripple through the economy.

Chart 17: Business entering external voluntary administration (EXAD)

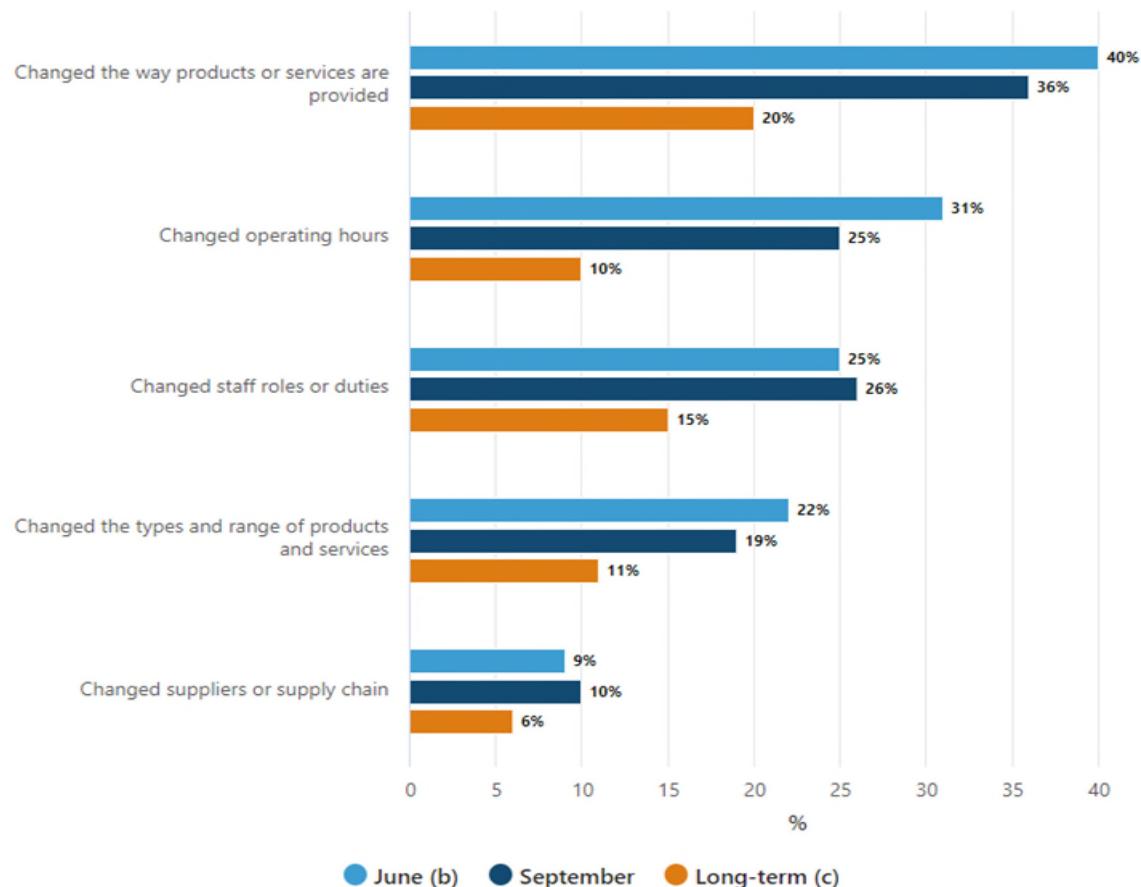


Source: CreditorWatch October 2020 data

On a more positive note, many businesses have demonstrated their remarkable resilience and adaptability in response to the crisis. For example, 40% of businesses surveyed by the ABS in June 2020 indicated that they had changed the way they provided products or services, with 20% indicating that they intended to keep these changes over the long-term (Chart 18).

Chart 18: Modifications to business operations, June, September and long-term

Modifications to business operations, June, September and long-term (a)



(a) Proportions are of all businesses

(b) Data is from Business Indicators, Business Impacts of COVID-19, June 2020

(c) Businesses were asked whether the modifications were expected to remain in place long-term

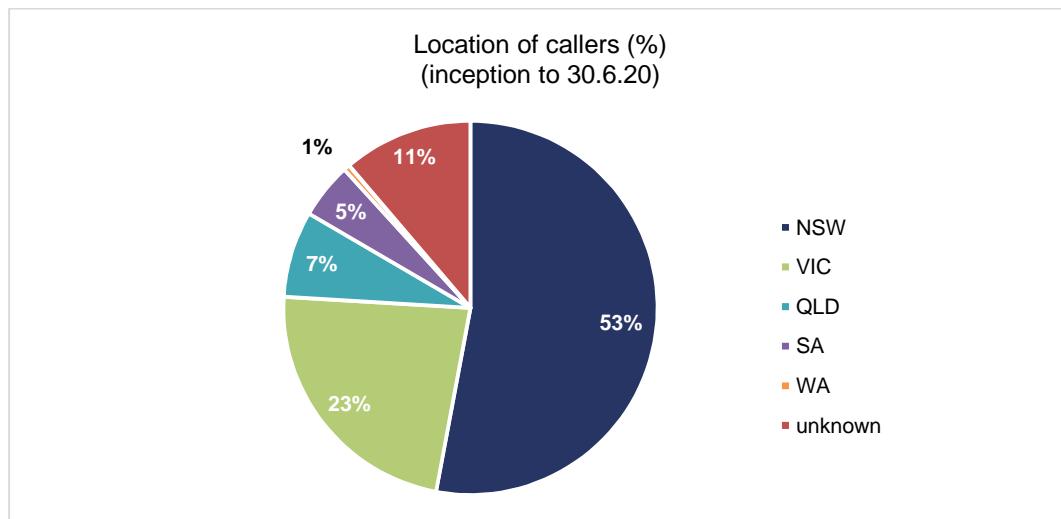
Source: ABS Catalogue No. 5676.0.55.003 - Business Indicators, Business Impacts of COVID-19, September 2020

8. Challenges - Bushfires

The 2019-20 Australian bush fires devastated rural and regional Australia. The fires burned more than 12.6 million hectares of land, destroyed over 3,000 houses, and claimed the lives of 33 people.¹⁴ It is hard to quantify the impacts on the economy and on small business in particular as there is limited available data and the impacts are ongoing. In this section, we draw on data generously provided by the Small Business Financial Counselling Support Line, together with other sources, to provide some preliminary analysis.

Data provided by the Small Business Financial Counselling Support Line suggests that the highest number of small businesses affected by the fires was in NSW, followed by Victoria and Queensland (Chart 19).

Chart 19: Location of Callers from Inception until 30th of June 2020

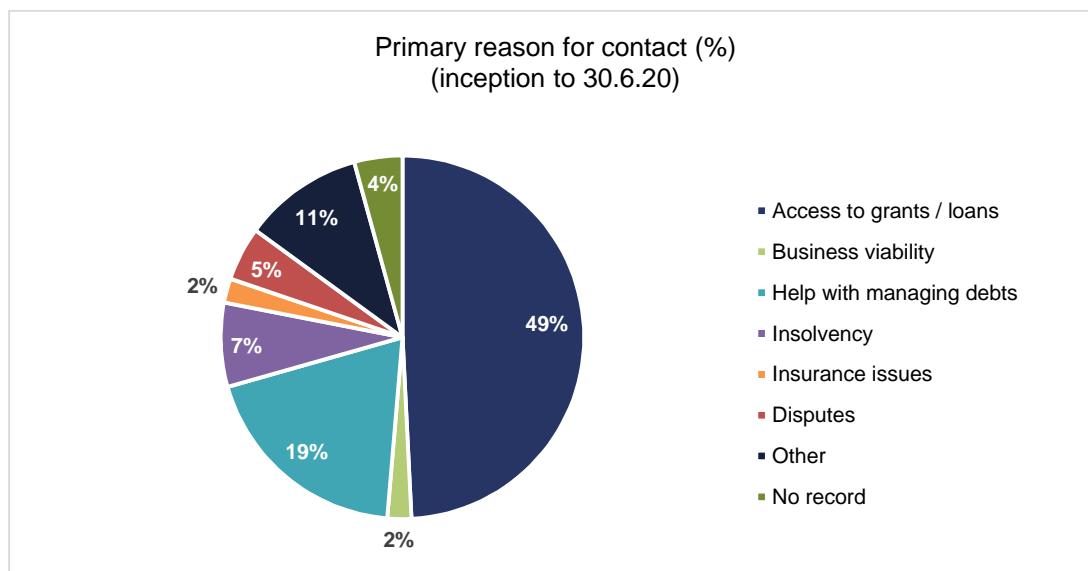


Source: Small Business Bushfire Financial Counselling Support Line Insight Report July 2020

Chart 20 shows that the primary reasons callers sought assistance from the Support Line were access to grants (49%) and help with managing debts (19%). The assistance line also found that callers were distressed and experienced a level of 'disaster fatigue', and that navigating the wide range of available support was challenging for small business owners in a state of distress.

¹⁴ Ministerial Statement – Disaster Risk Reduction published by Department of Home Affairs on 26 February 2020

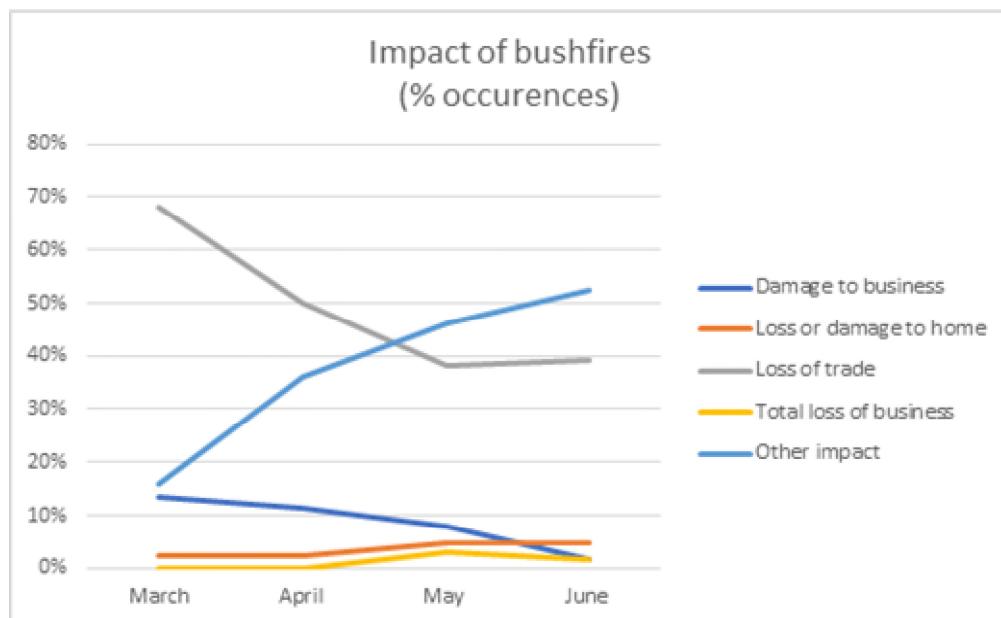
Chart 20: Primary reason for contacting the Support service from inception to 30th of June.



Source: Small Business Bushfire Financial Counselling Support Line Insight Report July 2020.

Businesses impacted by the fires continue to be affected (Chart 21). In June 2020, just under 40% of callers reported loss of trade. Businesses that were recovering from the impacts of the fires may have been counting on an improved local business environment, which did not eventuate due to COVID-19.¹⁵

Chart 21: Impact of Bushfires.



Source: Small Business Bushfire Financial Counselling Support Line Insight Report July 2020.

The total economic impact will be more than the destruction of assets and loss of trade that was a direct result of the bushfires, as substantial as those costs were. Businesses in areas considered to be high risk will now also face higher insurance costs and find it harder to obtain finance and insurance coverage.¹⁶ Some estimates put the total cost of the bushfires to the Australian economy at over \$100 billion.¹⁷

¹⁵ Small Business Bushfire Financial Counselling Support Line Insight Report July 2020.

¹⁶ Take care when examining the economic impact of fires. GDP doesn't tell the full story Published by The Conversation Authored by Victoria University Economist Janine Dixon

¹⁷Australia is promising \$2 billion for the fires. I estimate recovery will cost \$100 billion published by CNN Perspectives Authored by: University of Queensland economist John Quiggin