INTRODUCTION

4.1 The basic method for classifying units to categories in the ANZSIC is to classify each unit according to its predominant activity. The ABS and Statistics NZ classify each unit at the finest level of the classification. The hierarchical nature of the classification also means that the unit's classification at the ANZSIC group, subdivision and division levels can be readily established. This characteristic allows statistics to be produced at all levels of the classification if required. If users of the classification do not require the lowest level of detail of the classification, they can classify units to a higher level (e.g. at the two digit subdivision level) to suit their respective needs.

4.2 At each level of the classification, a unit can be classified to only one category. Categories for the classification of a unit at the different levels must be related to each other by aggregation or disaggregation i.e. a unit classified to the Manufacturing Division can be classified to a subdivision only within the Manufacturing Division.

4.3 There are few problems classifying units engaged in only one kind of activity (i.e. a unit would be classified according to that one activity it undertakes). While it would be ideal if units could be defined such that each unit undertakes only a single activity, this is not practicable in the real world due to data availability, provider load and resource constraints.

4.4 Many units are engaged in activities which belong to two or more industry categories, and for these 'multi-activity' units it is necessary to specify methods for classifying them to their predominant activity. This chapter describes these general methods of classification, including assessing the predominant activity of a unit.

ASSESSING THE PREDOMINANT ACTIVITY OF A UNIT

4.5 As recommended by the ISIC, the ABS and Statistics NZ use the concept of Value Added (refer to the Australian System of National Accounts: Concepts, Sources and Methods (cat. no. 5216.0) for the definition of Value Added) to determine the predominant activity of a unit undertaking multiple activities, that is, the activity with the highest value added is the predominant activity.

4.6 In some cases it is difficult to determine predominance of a multi-activity unit based on value added because the necessary data are not available. In these instances, a proxy for value added is used. These measures are listed in order of preference below:

- sales of goods and services;
- wages and salaries; or
- number of employees.

4.7 Care needs to be taken with the use of these proxy measures in determining the predominant activity of a unit as they may not be the most reliable indicator of value added. This is particularly so in the case of units undertaking both market and non-market activities, where reliance on measures of sales of goods and services is inappropriate.
4.13 The ANZSIC contains a number of classes which are defined as undertaking combined activities. The most commonly recognised area where these activities occur is in agriculture, where farms are specifically set up to produce both livestock and crops, or combinations of different livestock.

4.14 The ANZSIC includes two combined activity classes within Division A Agriculture, Forestry and Fishing, namely Class 0144 Sheep-Beef Cattle Farming and Class 0145 Grain-Sheep or Grain-Beef Cattle Farming. These classes are representative of common combinations of farming activities in Australia and New Zealand.

4.15 Units engaged in these combined farming activities have fundamentally different production functions when compared with units specialising in farming one type of livestock or crop, as different types of inputs, capital and labour are required. While the ABS and Statistics NZ both use the ANZSIC to classify agriculture units, they have previously applied different coding rules to assign units to the combined farming classes. For ANZSIC 2006, the two statistical agencies use the same coding rules.

4.8 For example, a Parent and Teacher Association receives some of its income from the sale of goods through the operation of a school canteen. Using sales as the proxy for value added in this case would result in this unit being classified to Class 4512 Takeaway Food Services. However, the main function of the unit is to act as an interest group promoting educational issues and not operating a takeaway food outlet. Therefore, the Parent and Teacher Association would be classified to Class 9559 Other Interest Group Services n.e.c.

4.9 Vertically integrated units are a particular type of multi-activity unit, where the different stages of production are carried out in succession by different parts of the same business unit. The output of one stage becomes the input to the next stage, with only the output of the final stage being sold on the market.

4.10 Vertical integration is common in some multi-activity units involved in both agricultural and manufacturing activity e.g. grape growing and wine manufacturing; olive growing and olive oil product manufacturing; chicken farming and chicken meat processing; pig farming and pig meat processing. These combinations of activities are often undertaken by single business units, often on the same premises. Vertical integration also occurs in a number of other industries and circumstances.

4.11 Vertically integrated units are classified according to their predominant activity, using value added in the same way as other units. If no information is available to assess value added, or there are two or more activities of equal value, then the unit is classified to the activity which represents the last or final stage of production. This is where most of the value added is generally assumed to lie.

4.12 In some circumstances, calculation of value added for each of the activities undertaken by vertically integrated units is not possible due to the lack of market transactions to value the activities. In these cases, it may be appropriate to use one of the proxy measures discussed previously in this chapter. If it is clear that an activity is predominant, but no actual data are available, the unit should be coded to its predominant activity.

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4.16 Other ANZSIC classes that include combined activities are Classes 3601 General Line Grocery Wholesaling, 4110 Supermarket and Grocery Stores and 4260 Department Stores. If these combined activity classes were not formed, the classification would fail to recognise distinct and identifiable segments of Australian and New Zealand industry.

4.17 There are two different methods used to classify business units to industry, in accordance with the principles outlined above:

- classification to categories at the broadest level of the classification in the first instance i.e. an ANZSIC division, and subsequently to categories at successively lower levels (‘top-down’); or
- classification directly to a category at the lowest level of the classification i.e. an ANZSIC class.

4.18 Using the top-down method, units are first classified to a division, then to a subdivision within that division, and so on until the unit is finally classified to a class. The ABS and Statistics NZ use the top-down method of classification to the ANZSIC. ISIC also recommends the use of this method because it ensures better consistency of aggregate data at the higher levels of classification.

4.19 Using the direct method, units are classified directly to the lowest level of classification (i.e. ANZSIC class). Therefore, the unit will inherit the higher level categories to which the class belongs.

4.20 In some cases very different outcomes can result from the two methods. For example, a unit undertakes activities which are primary to three classes where:

- 40% of its income is derived from activities of wholesaling motor vehicles;
- 35% of its income is derived from retailing motor vehicles; and
- 25% of its income is derived from retailing motor vehicle parts.

4.21 Using the ‘top-down’ method.

**STEP 1 DETERMINE THE DIVISION TO WHICH THE UNIT BELONGS.**

In this case the unit would be classified to Division G Retail Trade, as this is the Division where most activity occurs (i.e. 60% of the unit’s income is derived from its retail activities, compared with 40% from wholesale activities).

**STEP 2 DETERMINE THE SUBDIVISION TO WHICH THE UNIT BELONGS.**

In this case the unit would be classified to Subdivision 39 Motor Vehicle and Motor Vehicle Parts Retailing, as both retail activities belong to this subdivision.

**STEP 3 DETERMINE THE GROUP TO WHICH THE UNIT BELONGS.**

In this case the unit would be classified to Group 391 Motor Vehicle Retailing, as the income derived from retailing motor vehicles is greater than that derived from retailing motor vehicle parts.
Apart from the general classification principles, methods and issues outlined above, a wide range of more specific issues arise in the treatment of certain activities in the ANZSIC. The more significant of these are discussed in Chapter 5 of this publication.

It is common for businesses to change their mix of activities over time such that the predominant activity of a unit can be affected. This can occur for many reasons, including changes in product profitability, seasonal price changes, growth opportunities, the release of new products or business restructuring.

In some situations, minor shifts in the value of sales from the separate activities undertaken can result in a temporary change in the unit's predominant activity. Theoretically, this change could result in a change to the ANZSIC of the unit.

Temporary fluctuations, based on minor shifts in activity, should not be reflected in the unit's industry classification. Resistance factors can be applied which reduce 'flipping' of units between classes from year to year. This ensures that any changes in classification reflect relatively permanent changes in the predominant activity of the business.

Both the ABS and Statistics NZ apply ISIC recommended resistance factors to prevent units changing industry on the basis of temporary activity shifts. This rule states that the change to a unit’s activity must be in place for a minimum of two years before a change in the ANZSIC can be applied.

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