

Natural Medicine

Business Scenario

Natural Glow produces quality organic skincare made of the purest ingredients direct from distillers and growers around the world. The company continuously improves its existing ingredients through researching new filtration methods and extraction processes for aromatherapy and skin care. The company uses base ingredients as well as aromatherapy oils to ensure the therapeutic value, safety for use and appeal to users.

Due to the nature of its work, Natural Glow constantly performs R&D work. For this particular project, Natural Glow believed that new products could be developed by reformulating existing ingredients on the condition that sufficient research and testing was performed to ensure that the products were safe for human use while meeting all the appropriate expectations.

Natural Glow's Core R&D Activities:

Design and development of a series of prototypes to achieve the technical objectives (design and development of the new product range).

Trials and analysis of data to achieve results that can be reproduced to a satisfactory standard and to test the hypothesis (prototype development and testing of the new product range).

The hypothesis for this experiment was that designing, testing and evaluating various concepts would contribute to a more efficient and effective prototype testing phase.

Natural Glow conducted multiple experiments to try and create top-of-the-line products. It then concluded that such a design was feasible, but needed to be prototyped and fully tested to prove the hypothesis.

The hypothesis for this experiment was that developing and implementing various designed components would allow refinement and tweaking of the final result to achieve the objectives of the project.

Natural Glow's testing proved that the theoretical conclusions from the design phase could be realised through prototype development and related tests. The new knowledge generated would be used for further iterations of design and development and further field testing.

Commentary

Identifying Core R&D Activities

There are two types of core R&D activities:

1. Experimental activities whose outcome can not be determined in advance on the basis of current knowledge, information or experience, but can only be known by exercising a systematic progression of work that follows the principles of established science, proceeding from hypothesis to experiment, observation and evaluation, and lead to logical conclusions.
2. Experimental activities that are conducted for the purpose of creating new knowledge.

Hypothesis Defined

AusIndustry recognises a hypothesis as a statement or proposition about what result is expected if certain conditions are put in place and certain actions are carried out in an experiment. It can range from an assumption or proposition to a theory, but it must establish the experimental activity and form part of a broader systematic progression of work undertaken by the company. It must be evident that the claimed experiment has been designed to test the hypothesis.

If the outcome of an activity can be obtained without a hypothesis, then the activity will not be considered R&D.

Natural Glow's Supporting R&D Activities

Background research to evaluate current knowledge gaps and determine feasibility (background research for the new product range).

Natural Glow's background research included:

- Literature search and review.
- Field trips to India and Greece to locate, source and conduct preliminary testing of potential ingredients; to analyse competitors.
- Analysis of consumer behaviour and wants (e.g. anti-ageing).
- Consultation with industry professionals and potential customers to determine the level of interest and commercial feasibility of such a project.
- Preliminary equipment and resources review with respect to capacity, performance and suitability for the project.
- Consultation with key component/part/assembly suppliers to determine the factors they considered important in the design and to gain an understanding of how the design needed to be structured accordingly.

The activities conducted during the background research were necessary to support the core activities because they assisted in identifying the key elements of the research project.

Ongoing analysis of customer or user feedback to improve the prototype design (feedback R&D of the new product range).

R&D activity included:

- Ongoing analysis and testing to improve the efficiency and safety of the project.
- Ongoing development and modification to interpret the experimental results and draw conclusions that served as starting points for the development of new hypotheses.
- Commercial analysis and functionality review.
- Consumer trials and feedback.
- Industry evaluations.

These activities were directly related to Natural Glow's core R&D activities because the feedback was necessary to evaluate the performance capabilities of the new design in the field and to improve any flaws.

Commentary

Identifying Supporting R&D Activities

Activities that do not form part of the core experimental activities may still be eligible as supporting R&D activities. Supporting R&D activities are directly related to an eligible core R&D activity. They must have been performed for the primary purpose of supporting a qualified R&D activity.

What records and specific documentation did Natural Glow keep?

To meet the R&D Tax Incentive requirements, Natural Glow had to save documents that outlined what it did in its core R&D activities, including experimental activities and documents to prove that the work took place in a systematic manner.

As a company claiming R&D, you always want to be 'compliance ready' – meaning if you were audited by the ATO, you could present documentation to show the progression of your R&D activity. Here are some types of documentation that would be beneficial to save:

- Project records/ lab notes
- Photographs/ videos of various stages of build/ assembly/ testing
- Prototypes
- Testing protocols
- Results or records of analysis from testing/ trial runs
- Tax invoices
- Patent application number
- Meeting notes or progress reports