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What's in Store for Retailers When It Comes to R&D Tax Credits?

The retail industry has undergone many changes in recent times, including the rise of globalization, the growth of e-commerce, the demand for richer omni-channel customer experiences, increased competition, and decreasing profit margins. Combined, these elements create a requirement for retailers to re-examine their overall strategies, including



their supply chain, processes and market segmentation. To remain competitive, they must streamline operations where they can, improve the way customers interact with their brand, and look for ways to increase profits. However, undertaking projects that align with these initiatives requires what is often a significant

investment on the part of the retailer. This leads to a requirement for funds retailers may be hesitant to part with given their already low profit margins. However, those that choose not to evolve may be left behind as their competitors focus on keeping up with market demands. So, where can retailers turn when looking to fund activities and projects that could contribute to their growth? The answer may be surprising.

R&D Is Broader Than You Think

There is a misconception when it comes to R&D that it only applies to activities conducted in a lab. For this reason, among others, 80% of the \$8 billion in R&D tax credits in the United States go to the nation's largest companies, while many eligible companies do not claim at all or are under claiming.



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Based on this misconception, companies belonging to sectors such as retail are often unaware that they may qualify for the credit. Thus, they do not explore how the activities they are performing to improve customer experience and inventory management may render them eligible. However, research and development, especially when referring to R&D tax credits at both federal and state levels, encompasses so much more than traditional research activities.

When claims are prepared according to government requirements, the tax credit can become a reliable source of funding for any corporation performing any type of R&D, especially activities involving the improvement of existing processes, products or software are eligible.

Eligible expenses include:

- Salaries
- Subcontractors
- Materials
- Supplies
- Research contracts

Taking Stock of R&D When It Comes to Retail

The U.S. R&D tax credit is one of the most open R&D incentives in the world and can be claimed retroactively up to 3 years. It consists of very broad eligibility criteria, including many of the activities being performed by the manufacturing, e-commerce and point-of-sale sides of the retail sector. Although the broad range of eligible projects creates potentially significant funding opportunities for retailers, it can be difficult to identify less obvious R&D activities and ascertain whether they qualify. The following are just some examples of less known R&D activities applicable to the retail sector that align with the program's criteria:



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Inventory Management

Omni-channel selling means omni-channel warehousing and distribution, rendering fulfillment and replenishment difficult to manage without programs developed to the way retailers administer their inventory. Add global sourcing to that equation and tracking inventory so it's in the right place at the right time can become very challenging. Designing and creating software that effectively manages inventory throughout various distribution channels and geographies require understanding the retailer's processes every step of the way. Therefore, either by partnering with an software company or by developing it house, these activities could qualify to the R&D tax credit program.



Data Security

Data security has become a very important issue for retailers, especially when it comes to capturing and storing customer information. A single security breach can lead to customers no longer trusting a brand and could result in large fines for the retailer as well. Retailers therefore need to implement software that allows them to capture the customer data they require to conduct proper market segmentation and targeting, while adhering to government regulations and customer expectations regarding privacy. Depending on how this software is developed, it could qualify for the R&D tax credit.

Manufacturing

While some retailers simply act as distributors of goods produced by their suppliers, many wish to retain control over their brand throughout the entire supply chain and opt to manufacture some or all their goods themselves. Clothing retailers that delve into production may develop new materials, dyes or processes that distinguish their brand or reduce their carbon footprint. Food retailers may look at new ways of extending shelf life, creating new flavors, or altering current recipes or packaging to meet increasing demand for healthier



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options. The work required to implement these improvements qualifies under the R&D tax credit.

Retailers Cannot Afford to Check Out When It Comes to Claiming

While many retail companies are already performing eligible activities, identifying and documenting them according to government requirements can be challenging. Claiming the R&D tax credit can yield significant funding towards past and future investments and projects, but the activities must be properly positioned and supported for a claim to be accepted. Retail companies that recognize the benefits of claiming the tax credit will offset **up to 14%**¹ of the costs associated with performing the type of activities that are required for them to stay ahead of the competition. The rest will likely fall behind, succumbing to increasingly tight margins and losing market share as the cost of innovating across the entire sales and supply chain increases. Retailers simply cannot afford to turn their backs on funding that can contribute to their overall growth.

About Ayming

Ayming is a leading international business performance consulting group serving 20,000 clients and backed by 30 years of proven results. Dedicated to helping companies increase funding and decrease costs, Ayming completes 15,000 R&D and innovation projects and secures \$1.5B in funding for its clients annually using a comprehensive and non-intrusive approach.

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¹ Simplified calculation of the Federal and State tax credits