

DEPARTMENT OF INDUSTRY, INNOVATION AND SCIENCE

**SURVEY OF RESEARCH SERVICE PROVIDERS
REGISTERED UNDER THE R&D TAX INCENTIVE PROGRAMME**

REPORT

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I. Executive Summary

The Department Industry, Innovation and Science (the Department) is currently reviewing the R&D Tax Incentive Programme (the Programme). To inform the review, the Department engaged ORIMA Research to conduct an online census of registered Research Service Providers (RSPs) to obtain information on:

- ◆ the profile of RSP clients and projects;
- ◆ RSP views on collaboration with industry and business development opportunities; and
- ◆ overall satisfaction with the RSP component of the programme.

The census received responses from 100 of the 195 RSPs invited to participate, representing a response rate of 51%.

Key findings of the survey were:

- ◆ The majority of respondent RSPs (69%) were satisfied with their RSP registration, with only 1% reporting dissatisfaction.
 - The most common suggestion for improvement made by RSPs was to more actively promote and market the RSP component of the R&D Tax Incentive programme by industry and government. One suggested an RSP logo be created that could be used by RSPs in their marketing material, similar to companies with QA or ISO accreditation. Other suggested improvements included:
 - improving the RSP website by providing links to particular research groups and providing excel templates to assist RSPs to collect and report information about the research categories of projects; and
 - increasing the duration of RSP registration so it is not necessary to register every year.
- ◆ Nearly all respondent RSPs (96%) indicated that they intended to maintain their registration as an RSP in future years.
- ◆ The most significant benefit of RSP registration was adding credibility and reputation to RSP credentials (agreed by 81% of respondent RSPs).
 - Other key benefits related to enhancing the visible profile of RSPs (49%), increasing revenue (45%) and attracting additional clients for R&D services (38%).
- ◆ Most RSPs (55%) indicated that the administrative burden of the RSP component of the programme is minimal or low, with 9% indicating that there is a high level of burden.
- ◆ Two-thirds of respondent RSPs (67%) reported they had been registered under the previous Registered Research Agencies (RRA) system under the former R&D Tax Concession. Of these, 24% considered the current RSP registration was better than the previous RRA system, with the remainder reporting that it was about the same.
- ◆ Just over one-third of RSPs (38%) reported that they provided R&D services to clients who engaged either directly or indirectly through the RSP component of the R&D Tax Incentive Programme in 2014 to 2015. Data provided through the survey showed that there were 933 clients serviced across 32 RSPs in 2014 to 2015, of which around half of the total clients were RSP-related.

- ◆ The most common of RSP-related clients were from the private sector, with 31% of clients being from large businesses (more than 200 employees), 26% from small businesses (less than 20 employees) and 18% from medium-sized businesses (20 to 99 employees).
 - The majority of clients were from the Agriculture, Forestry and Fishing sector (45%). However, this was largely attributed to a single RSP who reported that they had 90 clients in 2014 to 2015 (19% of the total number of reported clients). Without this RSP, the proportion of clients in the Agriculture, Forestry and Fishing sector would be 16%. The next largest sectors were Mining (16%) and the Professional, Scientific and Technical Services sector (14%).
 - The Agriculture, Forestry and Fishing and Manufacturing sectors were most commonly cited by RSPs as large RSP-related research spenders (accounting for 39% and 36% of the \$105 million generated in revenue in 2014 to 2015 as reported through this survey).
- ◆ RSPs are very diverse in terms of the volume of R&D activity they conduct, with the number of RSP-related projects undertaken in 2014 to 2015 reported ranging from one to 550.
 - Almost half of RSP-related projects in 2014 to 2015 (48%) were in the field of Agricultural, Veterinary and Environmental Science. Again, this was significantly attributed to one RSP (as noted above) who reported that they undertook 550 RSP-related projects in this field in 2014 to 2015 (representing 36% of the total number of reported projects). Without this RSP, the proportion of projects in the field of Agricultural, Veterinary and Environmental Science would be 12%. The next largest field was Biological Sciences (13%).
 - The level of client involvement also varied considerably between the RSPs, with 37% of RSP respondents reporting that their clients were not involved and 25% reporting their clients were actively involved.
- ◆ Most RSPs believe that there are valuable opportunities for collaboration with industry: 42% of respondents indicated that there are a large number of highly valuable opportunities for more collaboration with industry; and a further 25% indicated there are a few highly valuable opportunities for collaboration. The largest perceived barriers to collaboration with industry were:
 - the ability of businesses to finance research activities (considered a large barrier by 66% of RSPs);
 - business/industry lack of awareness of the potential benefits of conducting R&D (49%); and
 - business/industry lack of knowledge about research services being offered (44%).
- ◆ The most common method used to promote R&D-related services was word of mouth/networking (cited by 75% of respondent RSPs), which was also by far the most successful method used by RSPs (reported by 50% of RSPs that use this method).
 - Other commonly used methods, such as repeat business (used by 62% of responding RSPs) and tender/grant applications (53%), tended to have a lower success rate (reported by 23% and 12% of the RSPs that used each of these methods respectively).
- ◆ A significant majority (60%) of respondent RSPs indicated that there was at least one particular industry sector they would like to conduct R&D services for, but have not been yet able to engage with.
 - The most common opportunities identified for future R&D services were in the Agriculture, Forestry and Fishing and the Professional, Scientific and Technical Services sectors (with 48% of RSPs identifying each of these). A significant proportion of RSPs also nominated

Manufacturing (45%), Mining (40%) and Health Care and Social Assistance (38%) as sectors offering potential business opportunities.

II. Introduction

A. Background

The Department of Industry, Innovation and Science (the Department) jointly administers the R&D Tax Incentive Programme (the Programme) with the Australian Taxation Office and shares policy responsibility for the Programme with Treasury. The Programme offers tax offsets that reduce the costs to business of undertaking R&D activities and also helps to bring businesses and researchers together through the Research Service Provider (RSP) component of the programme.

The Department is currently reviewing the R&D Tax Incentive to assess its appropriateness, effectiveness and efficiency. An important consideration in this context is the effectiveness of the RSP element of the programme. To inform the review and to help in the development of potential enhancements to the programme, the Department commissioned ORIMA Research to conduct an online census of registered RSPs. The survey also sought to obtain their views on the RSP component of the programme and their experience in connecting with business more generally.

B. Survey response Rate

The online census was conducted between 27 August and 11 September 2015. The survey received responses from 100 of the 195 RSPs invited to participate, representing a response rate of 51%.

C. Presentation of results

This report presents the results of the RSP survey. Percentages presented in this report are based on the total number of valid responses made to the particular question being reported on. In most cases, results reflect those of 'respondent RSPs' who had a view and so responded to the particular question. Percentage results throughout this report may not add up to 100% due to rounding.

D. Quality standards

This project was conducted in accordance with the international quality standard ISO 20252.

III. Profile of RSP clients

A total of 28 RSPs (or 38% of the 74 RSPs that answered the question) reported that they provided R&D services to any clients in 2014 to 2015 that came either directly or indirectly through their registration as an RSP under the R&D Tax Incentive Programme. Of these, 21% reported that their clients had come directly through their registration and a further 13% reported that their clientele came through a combined direct and indirect result of their registration.

RSPs were asked how many R&D-related clients they had in 2014 to 2015 and, of these, how many were RSP-related clients. The 32 respondent RSPs that answered both of these questions reported having a total of 933 R&D clients in 2014 to 2015 of which 477 (51%) were RSP-related. The survey sought to collect information on a range of attributes relating to their RSP-related clients in 2014 to 2015, for which the following findings were made amongst the 31 RSPs responding to these questions:

- ◆ 278 RSP-related clients (83%) were existing clients and 58 were new (17%).
- ◆ On average, 46% of RSP-related service requests were initiated by RSPs themselves, with 54% being initiated by their clients.
- ◆ Private businesses were the most common RSP-related clients, with 31% of clients being from large businesses (more than 200 employees), 26% from small businesses (less than 20 employees) and 18% from medium-sized businesses (20 to 99 employees) (see Figure 1 on the following page).
- ◆ The majority of clients were from the Agriculture, Forestry and Fishing sector (45%). However, this was largely attributed to a single RSP who reported that they had 90 clients in 2014 to 2015 (19% of the total number of reported clients). Without this RSP, the proportion of projects in the field of Agricultural, Veterinary and Environmental Science would be 12%. The next largest sectors were Mining (16%) and the Professional, Scientific and Technical Services sector (14%). Figure 2 (on the following page) illustrates the proportion of RSP-related clients in 2014 to 2015 by industry sector.
 - The industry sectors that most commonly sought RSP-related research (across all responding RSPs) were Professional, Scientific and Technical Services (39%), Agriculture, Forestry and Fishing (33%) and Manufacturing (also 33%) – The Mining sector was the next most common research requester at 22% (see Figure 3 on the page 8).
- ◆ RSP-related research generated around \$105 million in 2014 to 2015, or an average of around \$3.3 million per RSP. Note that these average revenue statistics are heavily influenced by large outliers, with five RSPs reported RSP-related revenue of more than \$10 million in 2014 to 2015.
 - The top sectors, in terms of RSP-related research spending, were Agriculture (39%) and Mining (36%), with a significant portion of spending also coming from the Manufacturing (28%), Information Media and Telecommunications (28%) and Professional, Scientific and Technical Service (25%) sectors (see Figure 3 on page 9).

Figure 1: Proportion of RSP-related clients in 2014 to 2015 – by client type

Base: n=336 clients (across 31 RSPs)

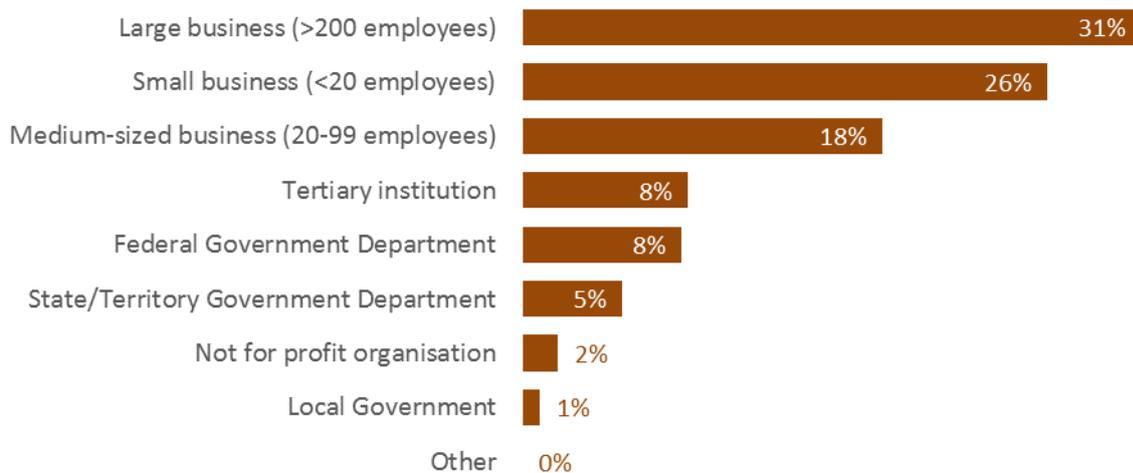


Figure 2: Proportion of RSP-related clients in 2014 to 2015 – by industry sector

Base: n=336 clients (across n=36 RSPs)

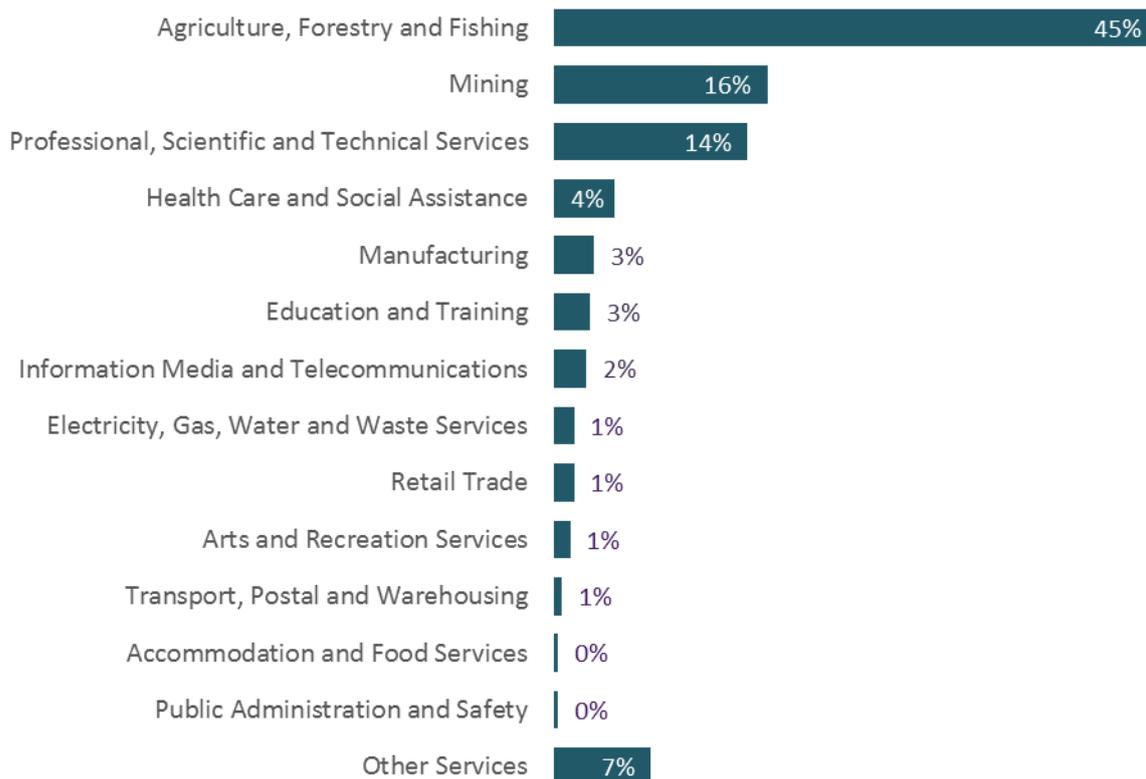
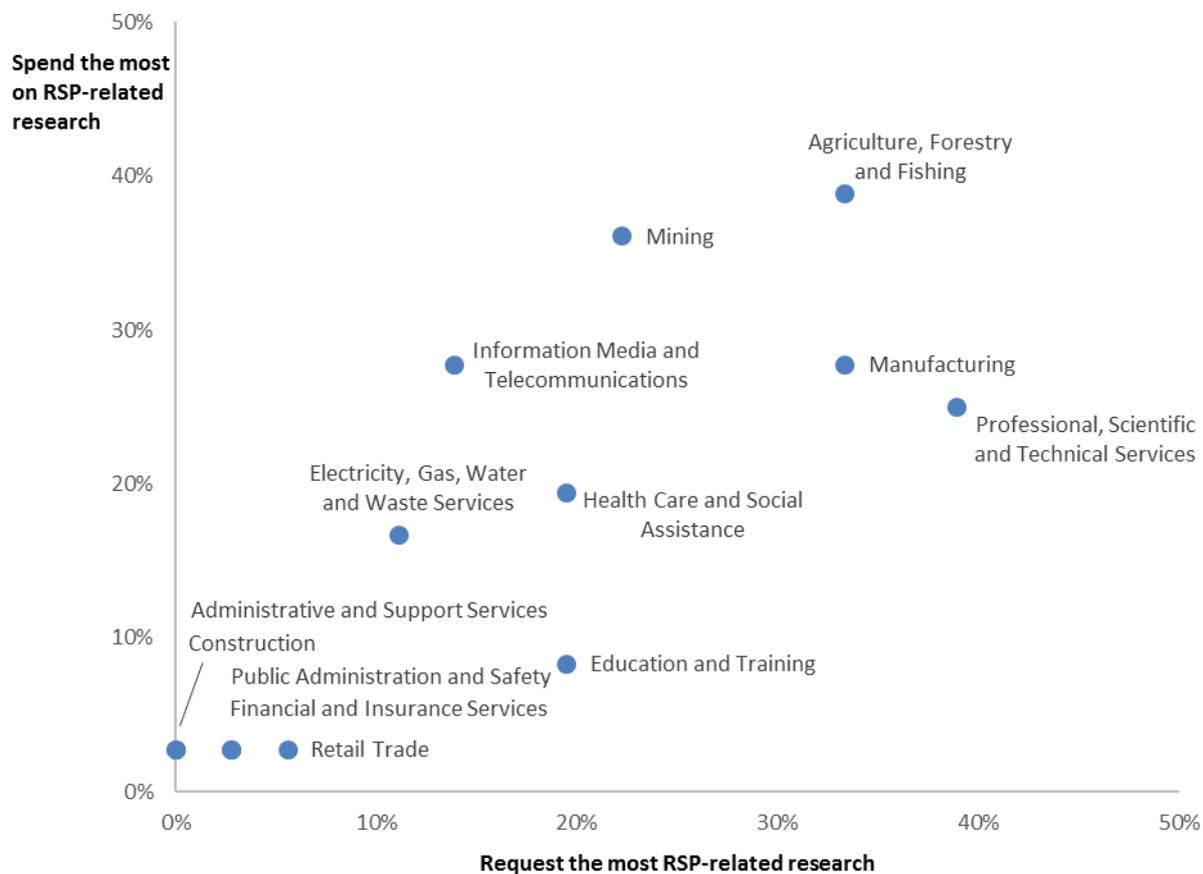


Figure 3: Top three RSP-related research requesters and spenders in 2014 to 2015 – by industry sector

Base: n=36 RSPs



IV. Profile of RSP projects

The survey also sought information about the RSP-related projects undertaken by RSPs in 2014 to 2015 (in addition to client profiles). These questions were answered by 31 responding RSPs. In total, these RSPs undertook 1,537 RSP-related R&D projects in 2014 to 2015 (an average of 47 RSP-related projects per provider), ranging from one to 550 projects per RSP.

The extent to which clients were engaged in RSP-related projects varied significantly for each RSP. Some RSPs reported that their clients were significantly involved in all their RSP-related projects, while others reported that their clients were not involved in their projects at all. Bearing this in mind, the average level of client engagement across RSP-related projects was:

- ◆ 37% of respondent RSPs reported their clients were **not involved** in the RSP-related R&D activities – they simply purchased the R&D on a fee-for-service basis;
- ◆ 23% reported their clients had **some level of involvement** in RSP-related R&D activities;
- ◆ 15% reported their clients had a **moderate level of involvement** in RSP-related R&D activities; and
- ◆ 25% reported their clients were **very actively involved** in RSP-related R&D activities.

Further analysis of RSP cohorts

Clients tended to have a higher level of engagement with the R&D activities when these were provided by an RSP dealing only with a small number of clients (31% of these RSPs reported moderate levels of engagement and 35% reported significant levels of engagement, compared to 9%-12% reported by RSPs with 20 or more clients).

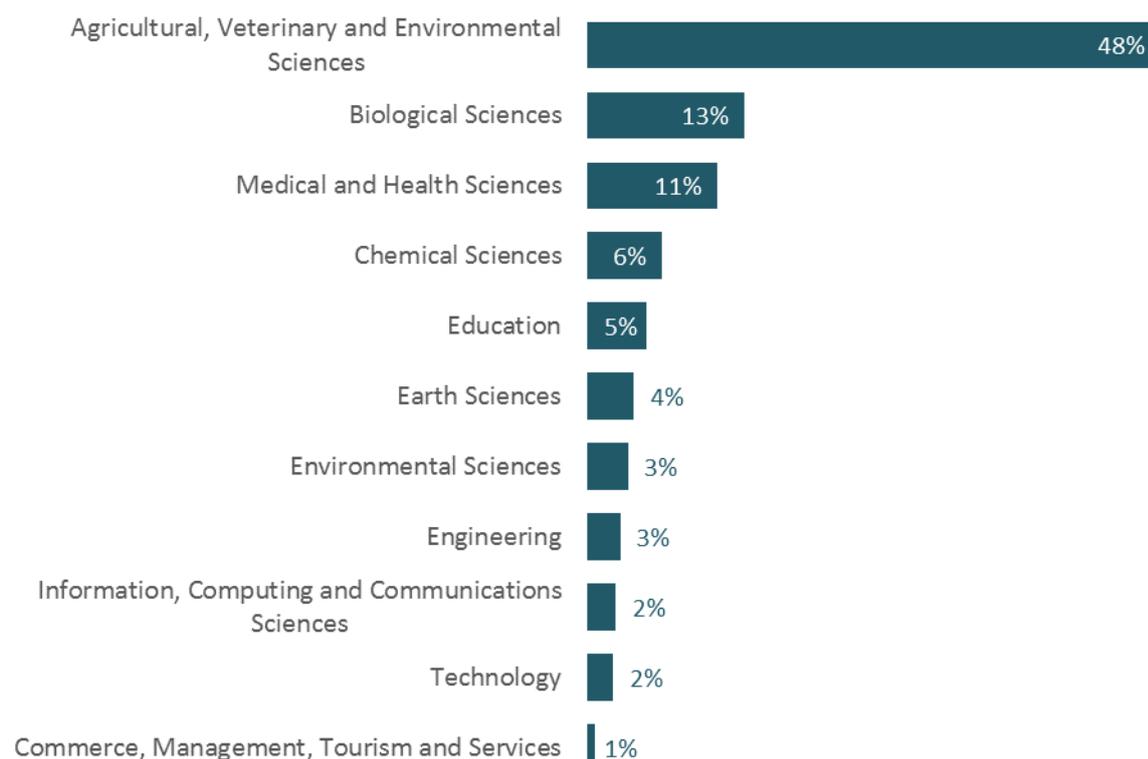
RSPs with large client lists (20 or more clients) were more likely to provide R&D services on a 'transaction only' basis, with no client involvement (66% of these RSPs, compared to 24%-31% of RSPs with medium or small client lists).

Moderate-sized RSPs (with between five and 19 clients) were more likely to have clients with a level of engagement between these two extremes.

RSPs were asked to categorise the RSP-related R&D projects they undertook in 2014 to 2015 by research field. As indicated by the profile of RSP clients in section III, the vast majority of projects (48%) were in the field of Agricultural, Veterinary and Environmental Science (see Figure 4). However, this was significantly attributed to one RSP (the same RSP with 90 clients noted on page 7) who reported that they undertook 550 RSP-related projects in this field in 2014 to 2015 (representing 36% of the total number of reported projects). Without this RSP, the proportion of projects in the field of Agricultural, Veterinary and Environmental Science would be 12%. The next largest field was Biological Sciences (13%).

Figure 4: Common research fields of RSP-related R&D projects (2014 to 2015)

Base: n=1,537 projects (across n=33 RSPs)



Further analysis of RSP cohorts

RSPs providing R&D services to government clients tended to cover more research fields (more than five fields on average) than those providing services to businesses, particularly small businesses (less than two fields on average).

RSPs with large client lists tended to spread their R&D activities across a wider range of research fields than those with smaller client lists.

V. RSP views about collaboration with industry

RSPs were asked how they would describe their organisation's view about the scope to increase the level of collaboration between researchers and industry. Most respondent RSPs were optimistic, indicating that there are a range of valuable opportunities for such collaboration, with 42% responding that there are a large number of highly valuable opportunities for more collaboration with industry.

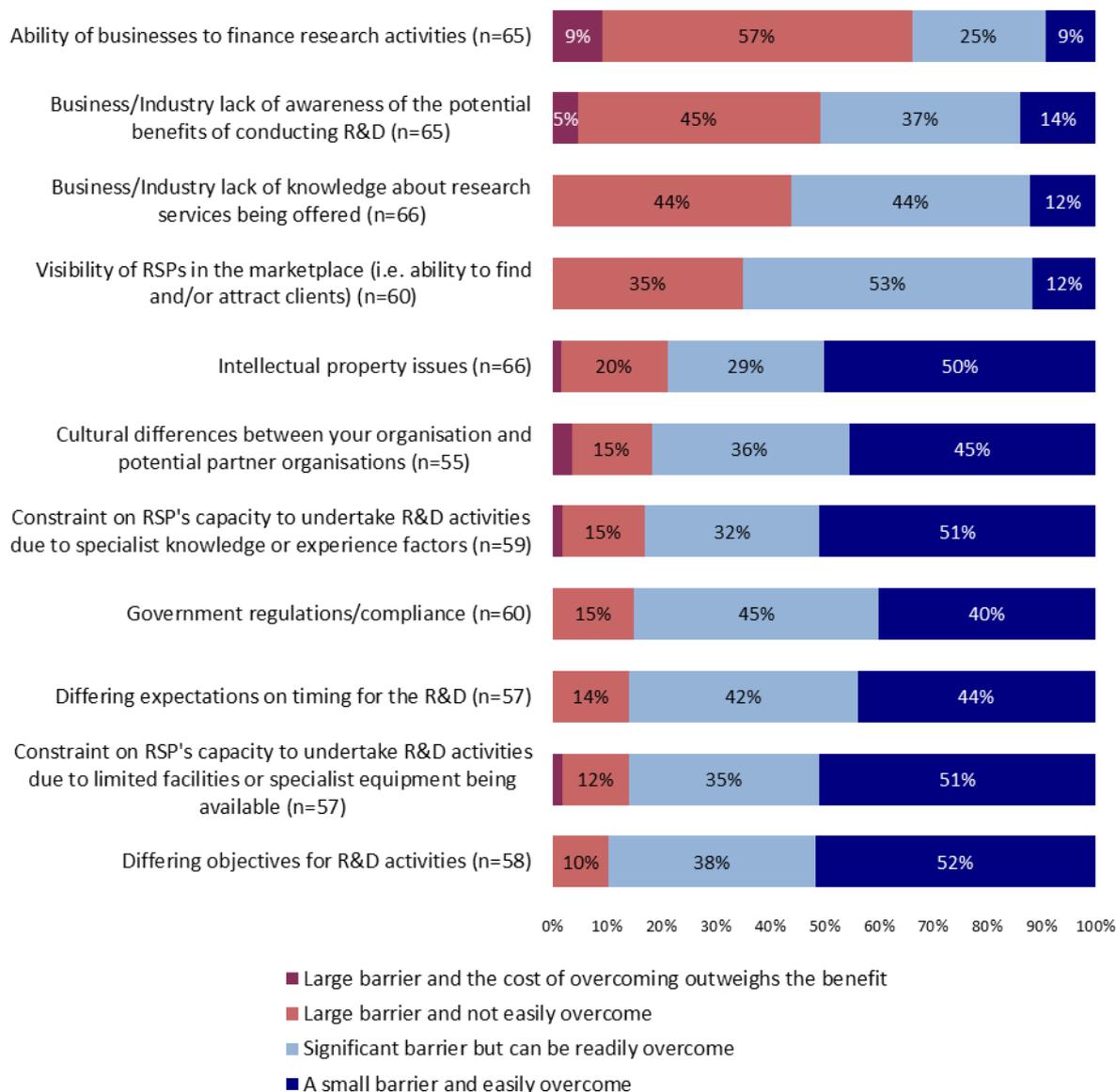
- ◆ A high proportion of RSPs also consider there are a few highly valuable opportunities for collaboration (25%) and there are many small value opportunities for collaboration (10%).
- ◆ A small minority (9%) consider there are a few small value opportunities for collaboration and only 1% considered there were no obvious opportunities for collaboration.
- ◆ The remaining 13% of RSPs reported that they were yet to explore the extent of collaboration opportunities.

As shown in Figure 5 (on the following page), the most significant barriers rated by RSPs to collaborating with industry and commercial entities were:

- ◆ the ability of businesses to finance research activities (considered a large barrier by 66% of responding RSPs);
- ◆ business/industry lack of awareness of the potential benefits of conducting R&D (considered a large barrier by 49% of responding RSPs); and
- ◆ business/industry lack of knowledge about research services being offered (considered a large barrier by 44% of responding RSPs).

Figure 5: Barriers to collaboration

Base: All responding RSPs, excluding 'not applicable' responses



Further analysis of RSP cohorts

Some barriers were seen as more significant by RSPs that had not been registered under the previous RRA system. These 'newer' RSPs were more likely than carried-over RRA registrants to consider the following as large barriers, either difficult or too costly to overcome:

- ◆ visibility of RSPs in the marketplace (42% of new RSPs considered this a large barrier, compared to 34% of former RRA registrants);
- ◆ cultural differences between the RSP and potential partners (29%, compared to 14%); and
- ◆ government regulations and compliance costs (22%, compared to 10%).

VI. RSP business development methods

RSPs were asked what methods they typically use to promote their R&D-related services and which promotion method is most successful for them. The most common methods RSPs use to promote their R&D-related services is through word of mouth/networking (cited by 75% of respondent RSPs) and repeat business (62%). A significant portion of RSPs also use their RSP registration (55%) and tender/grant applications (53%) to promote their R&D-related services.

- ◆ Other methods used by RSPs to promote their R&D-related services include: website material; targeted direct marketing to industry partners; and seminar and open day presentations.

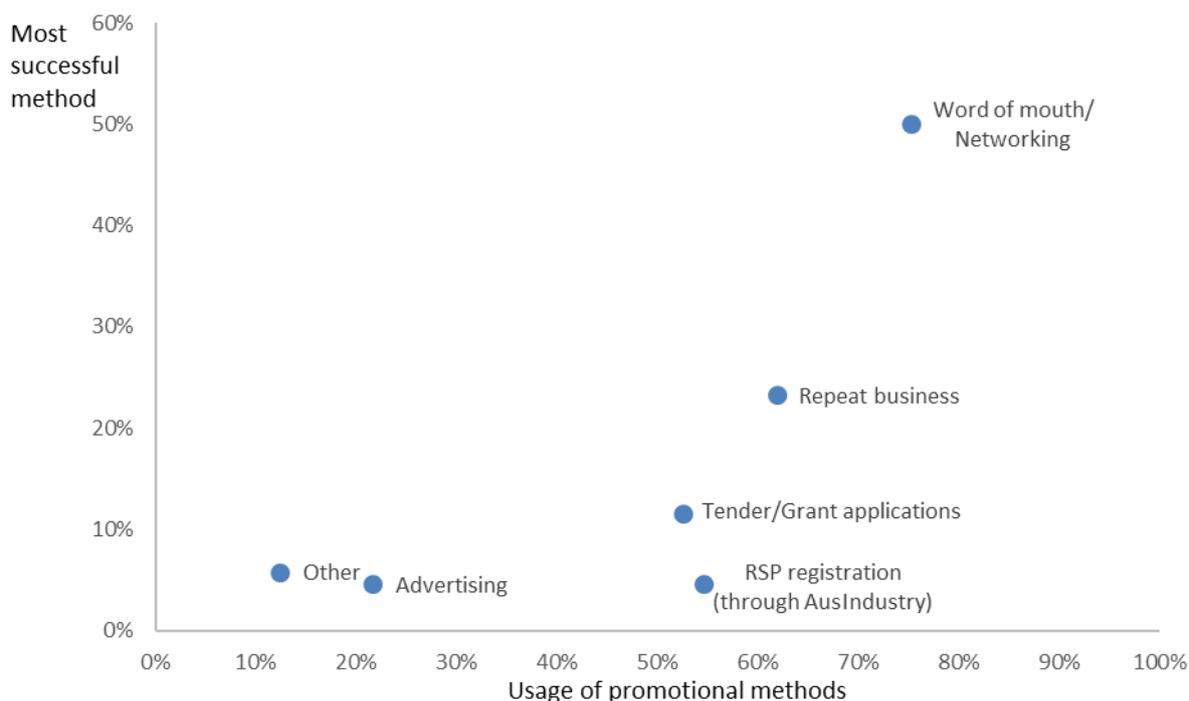
The usage of each method for promoting R&D-related services largely reflected how successful each method was. The most commonly used method (word of mouth/networking, cited by 75% of respondent RSPs) was also the most successful (by 50% of RSPs that used this method). Other commonly used methods, such as repeat business (being successful 23% of the time) and tender/grant applications (12%), tended to have a lower success rate.

- ◆ While a significant proportion of RSPs reported that they use their RSP registration to promote their R&D-related services, the success rate for this method was much lower at 5%. This could largely be due to the most commonly cited benefit of registration being related to adding credibility and reputation to RSP credentials (81% of RSPs agreed with this statement, covered in more detail in section VIII). As such, this type of benefit is of more use in supporting the promotion of R&D services rather than a method for promotion in itself.

Figure 6 illustrates the usage and level of success in relation to the different methods of promoting R&D services that RSPs use.

Figure 6: RSP methods of promoting R&D-related services

Bases: n=96 RSPs for usage; n=86 RSPs (those that don't promote their services excluded) for effectiveness



Further analysis of RSP cohorts

RSPs with fewer clients were more likely to rely on repeat business, and more likely to regard this as their most successful method of promotion if adopted. By contrast, RSPs with larger client lists were more likely to rely on word-of-mouth and networking, and more likely to regard this as their most successful method of promotion if adopted.

While word-of-mouth and networking was the most used (and most successful) method of promotion across all client types, RSPs were least likely to rely on (or find success in) this method of promotion when they dealt with government clients.

- ◆ RSPs dealing with government were more likely than other RSPs to make use of advertising, and also more likely to consider this method of promotion a successful one.

VII. Future business opportunities for RSPs

A significant majority (60%) of respondent RSPs indicated that there was at least one particular industry sector they would like to conduct R&D services for, but have not been yet able to engage with.

- ◆ The most common industry sectors that RSPs identified as having potential business opportunities were in the Agriculture, Forestry and Fishing and the Professional, Scientific and Technical Services sectors (with 48% of RSPs identifying each of these, see Figure 7). A significant proportion of RSPs also nominated Manufacturing (45%), Mining (40%) and Health Care and Social Assistance (38%) as sectors offering potential business opportunities.
- ◆ A majority of RSPs identified potential from large businesses (76%), medium-sized businesses (71%) and small businesses (64%) (see Figure 8 on the following page).

Figure 7: Industry sectors with potential business opportunities for RSPs

Base: RSPs who have not yet engaged with sectors they wish to engage with (n=42)

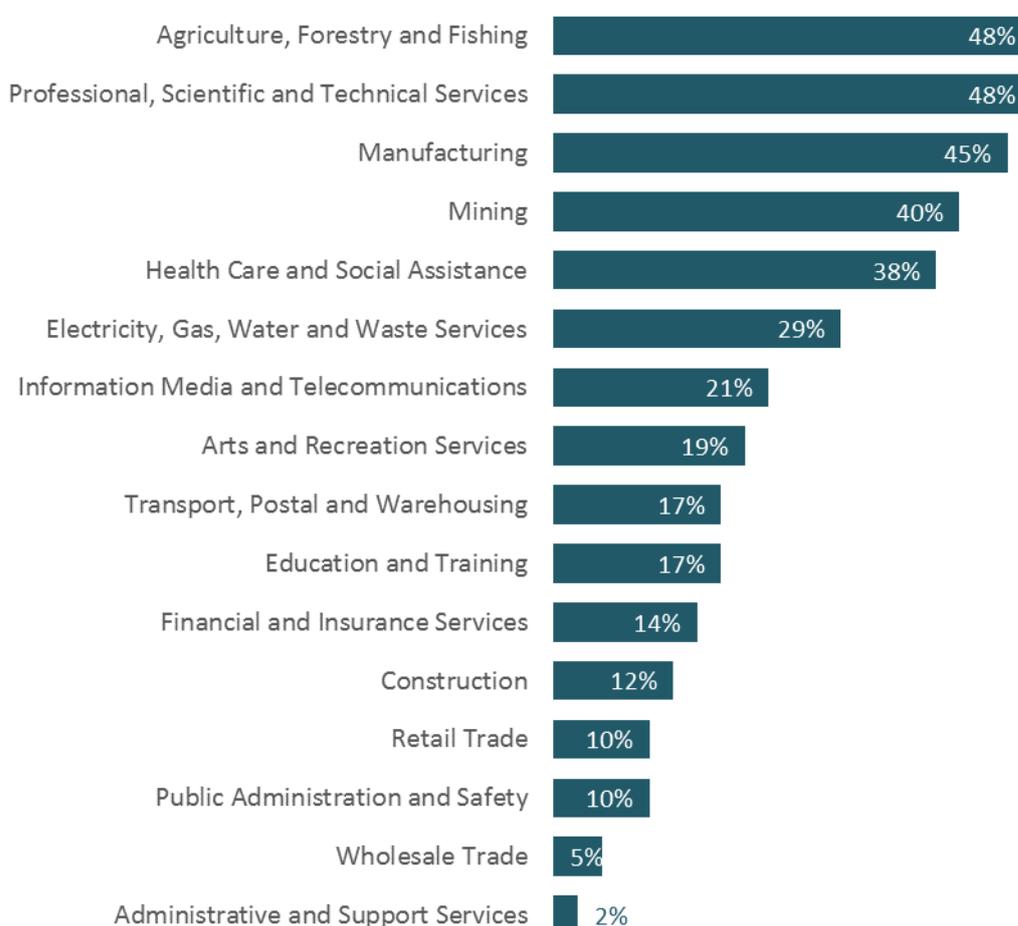
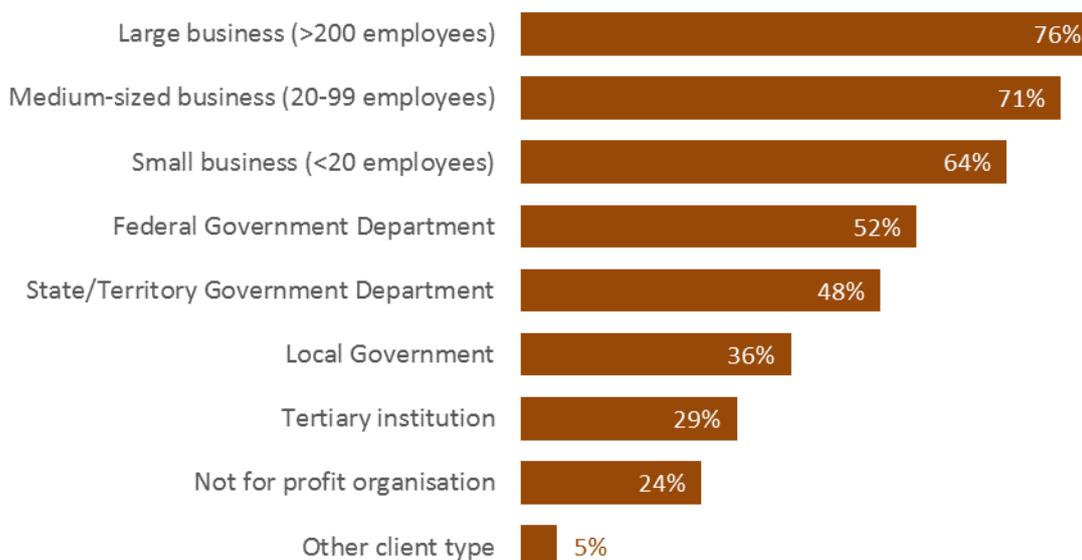


Figure 8: Clients with potential business opportunities for RSPs

Base: RSPs who have not yet engaged with sectors they wish to engage with (n=42)



Further analysis of RSP cohorts

RSPs indicating that there were *not* any sectors they would like to provide R&D services for, but have not yet been able to engage with, tended to be those with larger client lists already (43% had 20 or more clients, compared to 30% of RSPs indicating they had scope to expand into other sectors).

In addition, the 40% of RSPs indicating there was no desire to expand their activities into further sectors tended to:

- ◆ provide services to large and medium, rather than small, private sector businesses (50% provided services to small businesses of fewer than 20 employees—while 89% of RSPs with some desire to expand are servicing these smaller businesses); and
- ◆ use fewer means of promoting their services, and were marginally more likely not to promote their services at all (7%, compared to 2%).

There was no difference in the sector profile between RSPs with a desire to expand into new sectors and RSPs with no desire to expand—both groups currently provide R&D services to the same set of sectors, and to broadly the same extent.

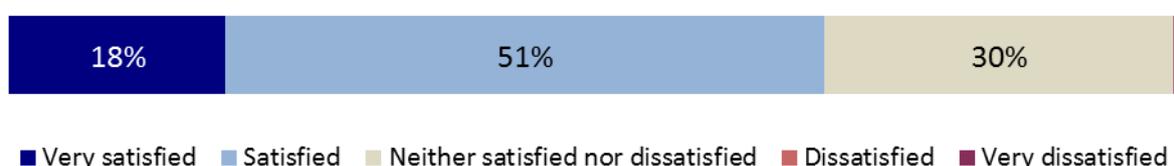
VIII. Overall satisfaction with the RSP component of the R&D Tax Incentive Programme

A significant majority of respondent RSPs (69%) were satisfied overall with their registration as an RSP, with only 1% reporting dissatisfaction (see Figure 9).

- ◆ Overall satisfaction with RSP registration was higher amongst small and medium sized RSPs (with less than 20 clients), with 86% of these RSPs reporting satisfaction with their RSP registration (compared with 67% of large RSPs with 20 or more clients).

Figure 9: Overall satisfaction with registration as a RSP

Base: n=71 RSPs



Two-thirds (67%) of respondent RSPs reported they had been registered under the previous Registered Research Agencies (RRA) system under the former R&D Tax Concession. Of the RSPs that provided an answer, 24% considered the current RSP registration was better than the previous RRA system, with the remainder reporting that it was about the same. A number of RSPs noted that the RSP administrative processes had been streamlined compared with the previous RRA system.

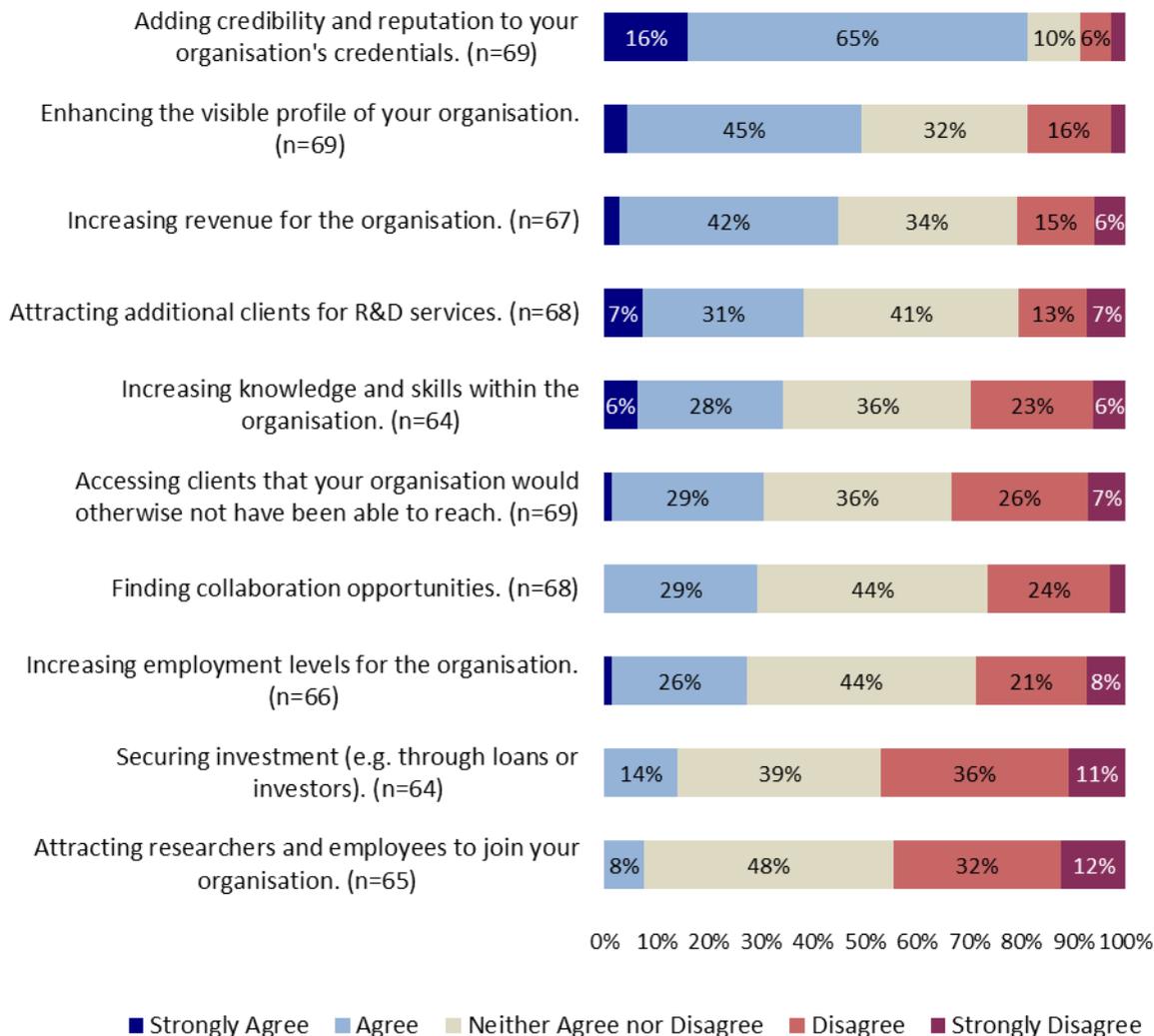
A number of RSPs suggested the RSP component of the R&D Tax Incentive programme should be more actively promoted and marketed by industry and government. One suggested an RSP logo be created that could be used by RSPs to use in their marketing material, similar to companies with QA or ISO accreditation. Other suggested improvements included:

- ◆ improving the RSP website by providing links to particular research groups and providing excel templates to assist RSPs to collect and report information about the research categories of projects; and
- ◆ increasing the duration of RSP registration so it is not necessary to register every year.

By far, the most significant benefit of RSP registration (agreed by 81% of respondent RSPs) was adding credibility and reputation to RSP credentials (Figure 10, on the following page). Other key benefits were enhancing the visible profile of RSPs (49%), increasing revenue (45%) and attracting additional clients for R&D services (38%).

- ◆ Other benefits of RSP registration cited by respondent RSPs included raising RSP awareness of other Government programs designed to increase industrial engagement with R&D and providing registered RSPs with access to companies previously inaccessible to them.

Figure 10: The benefits of RSP registration



Further analysis of RSP cohorts

Benefits of RSP registration were most strongly felt by RSPs providing services to a small number of clients (5 or fewer)—particularly:

- ◆ increasing employment levels (86% of RSPs with small client lists saw this as a benefit, compared to 28% of RSPs with 5-19 clients, and 11% of RSPs with 20 clients or more);
- ◆ increasing knowledge and skills within the organisation (83% of RSPs with small client lists saw this as a benefit, compared to 36% of RSPs with 5-19 clients, and 13% of RSPs with 20 clients or more); and
- ◆ finding collaboration opportunities (seen as a benefit by 86% of RSPs with small client lists, compared to 14%-18% of RSPs with larger lists).

RSPs with large client lists already (20 or more) were less likely to see benefit in attracting more clients (25%) than RSPs with moderate (79%) or small (83%) numbers of existing clients.

Benefits of registration were also more strongly felt amongst RSPs that had not been registered under the previous RRA system. In particular, there was a stronger perception of benefits amongst these “newer” RSPs, such as:

- ◆ enhancing the visible profile of the organisation (67%, compared to 42% of carried-over RRA registrants);
- ◆ increased revenue (57%, compared to 39%); and
- ◆ finding collaboration opportunities (43%, compared to 21%).

RSPs were asked to rate the level of administrative and compliance burden associated with the RSP component of the R&D Tax Incentive Programme. Of the 70 RSPs that responded to this question:

- ◆ 21% consider the administrative/ compliance burden is **minimal**;
- ◆ 34% consider the administrative/ compliance burden is **low**;
- ◆ 36% consider the administrative/ compliance burden is **moderate**; and
- ◆ 9% consider the administrative/ compliance burden is **high**.

Further analysis of RSP cohorts

RSPs with larger client lists tended to be more favourably disposed towards their compliance burden, with 67% of RSPs with 20 or more clients rating this burden as ‘minimal’ or ‘low’ (compared to 57% of RSPs with fewer than 5 clients).

- ◆ However, despite the higher perceived compliance burden, RSPs with *smaller* client lists were more satisfied *overall* with their RSP registration. This suggests the higher perceived benefits among these smaller RSPs tends to outweigh the relatively higher perceived cost of compliance.

RSPs with previous RRA registration were also more favourably disposed towards the compliance burden of RSP registration (63% rating the burden as low or minimal, compared to 50% for RSPs with no prior experience of registering under the RRA system).

- ◆ However, *overall satisfaction* with RSP registration was lower among those with prior RRA experience (61%, compared to 77%).

RSPs were asked whether they intended to maintain their registration as an RSP in future years. The vast majority (96%) of respondent RSPs indicated they would. A significant number of RSPs (38) indicated that they would be willing to engage in further discussions about their RSP experience in relation to research and industry collaboration.