



# Research and Development (R&D) Expenses: Definition and Example

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## What Are Research and Development (R&D) Expenses?

Research and development ([R&D](#)) expenses are associated directly with the research and development of a company's goods or services and any [intellectual property](#) generated in the process. A company generally incurs R&D expenses in the process of finding and creating new products or services.

## Return on Research Capital (RORC)

Return on research capital (RORC) is a measure to assess the revenue a company brings in as a result of expenditures made on R&D activities. [more](#)

## Research and Development (R&D) Definition, Types, and Importance

Research and development (R&D) is a term to describe the effort a company devotes to the innovation, and improvement of its products and processes. [more](#)

## Price-to-Research Ratio – PRR Definition

The price-to-research ratio measures the relationship between a company's market capitalization and its research and development expenses. The price-to-research ratio is calculated by dividing a company's market value by its last 12 months of expenditures on research and development. [more](#)

## Operating Expense Definition and How It Compares to Capital Expenses

An operating expense is an expenditure that a business incurs as a result of performing its normal business operations. [more](#)

## How to Do Market Research, Types, and Example

Market research is a strategy that companies employ to evaluate the viability of a new

As a common type of [operating expense](#), a company may deduct R&D expenses on its tax return.

#### KEY TAKEAWAYS

- Research and development (R&D) expenses are direct expenditures relating to a company's efforts to develop, design, and enhance its products, services, technologies, or processes.
- The industrial, technological, health care, and pharmaceutical sectors typically incur the highest degree of R&D expenses.
- The IRS offers tax breaks for R&D expenses, and these may also be deducted on corporate tax returns. [\[1\]](#) [\[2\]](#)

product or service. It involves the use of surveys, product tests, and focus groups. [more](#)

## Product Lifecycle Management (PLM): Definition, Benefits, History

Product lifecycle management refers to the handling of a good as it moves through five typical stages of its lifespan, from development to decline. [more](#)

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## Understanding Research and Development Expenses

Research and development is a systematic activity that combines basic and applied

research to discover solutions to new or existing problems or to create or update goods and services. When a company conducts its own R&D, it often results in the ownership of [intellectual property](#) in the form of patents or copyrights that result from discoveries or inventions.

An essential component of a company's research and development arm is its direct R&D expenses, which can range on a spectrum from relatively minor costs to several billions of dollars for large research-focused corporations. Companies in the industrial, technological, health care, and pharmaceutical sectors usually have the highest levels of R&D expenses. Some companies—for example, those in technology—reinvest a significant portion of their [profits](#) back into research and development as an investment in their continued growth.

Large companies have also been able to conduct R&D through acquisition by investing in or subsidizing some of those smaller companies' costs or acquiring them outright.

## Real World Example of R&D Expenses

Tech companies rely heavily on their research and development capabilities, so they have relatively outsized R&D expenses. In a constantly changing environment, it's important for such a company to remain on the [bleeding edge](#) of innovation. For example, Meta ([META](#)),

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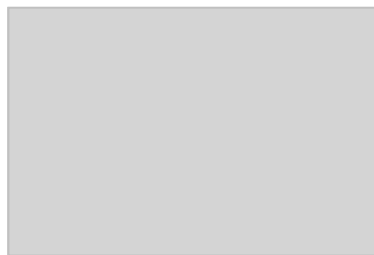
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formerly Facebook, invests heavily in the research and development of products such as virtual reality and predictive AI [chatbots](#).<sup>[3]</sup> These endeavors allow Meta to diversify its business and find new growth opportunities as technology continues to evolve.

Meta's 2014 acquisition of Oculus Rift is an example of R&D expenses through acquisition.<sup>[4]</sup> Meta already had the internal resources necessary to build out a virtual reality division, but by acquiring an existing virtual reality company, it was able to expedite the time it took them to develop this capability.

## Reasons to Conduct R&D

Businesses conduct R&D for many reasons, the first and foremost being new product research and development. Before any new product is released into the marketplace, it goes through significant research and development phases, which include a product's market opportunity, cost, and production timeline. After adequate research, a new product enters the development phase, where a company creates the product or service using the concept laid out during the research phase.

Some companies use R&D to update existing products or conduct quality checks in which a business evaluates a product to ensure that it is still adequate and discusses any improvements. If the improvements are cost-effective, they will

W scientist holding a vile of blue liquid.

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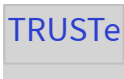
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be implemented during the development phase.

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