

■ AUGUST 2020

# D2C

## AND THE NEW **BRAND LOYALTY OPPORTUNITY**



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D2C And The New Brand Loyalty Opportunity, a collaboration with sticky.io, examines how consumers are using direct and indirect channels to purchase CPG and how the pandemic has affected these trends. The study is based on a survey of 2,188 U.S. consumers.



# D2C AND THE NEW BRAND LOYALTY OPPORTUNITY

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# INTRODUCTION

**A**mazon has come to play an outsized role in online commerce in large part because it offers consumers the ability to purchase almost any product they might want with a few clicks. Large retailers like Walmart and Target have played similar roles in the brick-and-mortar commerce realm, allowing consumers to avoid the time and frustration of shopping at multiple stores. The value such companies offer comes from their roles as marketplaces at which consumers can find and easily purchase wide selections of products from a variety of brands.

A countervailing trend has emerged in recent years with the rise of direct-to-consumer (D2C) commerce, in which brands sell to customers through e-commerce channels, bypassing traditional wholesaler and retailer paths to market. Early entrants in this modern version

of D2C, such as Warby Parker and Dollar Shave Club, have demonstrated that a brand does not need prominent physical real estate — or any, for that matter — to sell D2C. The market for D2C products has grown at a double-digit clip in recent years, with an estimated 40 percent of U.S. consumers making D2C purchases in 2019.<sup>1</sup>

D2C shopping had been a relatively small component of consumers' overall spend, yet the COVID-19 pandemic could change this in profound ways. The pandemic has pushed consumers online en masse and has also disrupted supply chains and distribution channels. The wide selection of products that had long been a key selling point of marketplaces suddenly became shaky. Established retail brands that once competed for coveted real estate and shelf presence have seen sales plummet amid anemic foot traffic and canceled concerts and sporting events.

Large retail product brands were already ramping up their D2C offerings before the COVID-19 pandemic, but this is accelerating the trend, especially for food and beverage companies. PepsiCo made the biggest splash with its recent launch of two D2C sites, pantryshop.com and snacks.com, for example. Many big-name entrants into the market consider D2C to be as much about data — the customer and market insights that can be gleaned through direct digital channels — as it is about expanding revenue streams.<sup>2</sup>

Current conditions have important implications across the spectrum of consumer packaged goods (CPG), the easily distributable products that customers use on a regular basis. This includes everything from chips and vitamins to shoes and makeup.

How these trends affect consumers' evolving relationships to CPG brands is at the heart of PYMNTS' latest research study, D2C And The New Brand Loyalty Opportunity, a collaboration with sticky.io. The study, which is based on a survey of nearly 2,200 U.S. consumers, examines the use of D2C and indirect channels to procure a diverse array of packaged goods and how the pandemic has affected these trends.

Our research strongly suggests that CPG brands face a unique opportunity to capture customer loyalty and drive engagement. The current shift's durability will depend on brands' abilities to deliver product availability, offer seamless e-commerce experiences and leverage digital tools to forge long-term personalized relationships with customers.

The following are the key takeaways from our research.

<sup>1</sup> Rowan, Lisa. 40% of Americans shopped DTC in the past year. Retail Dive. 2019. <https://www.retaildive.com/news/40-of-americans-shopped-dtc-in-the-past-year/569634/>. Accessed August 2020.

<sup>2</sup> Gray, Alistair. Snack brands sidestep retailers in pandemic. Ozy. 2020. <https://www.ozy.com/the-new-and-the-next/big-food-brands-sidestep-retailers-in-pandemic/333564/>. Accessed August 2020.

**Key findings**

01

**More than half of consumers are using D2C channels to shop for CPG.**

Our research shows that 54.6 percent of consumers in the past year have used D2C channels to purchase CPG products or nonperishable items that are used on a regular basis. CPG use is considerably high among younger consumers as 67 percent of millennials use brand-run websites and stores to purchase CPG compared to 41.4 percent of baby boomers and seniors. Physical and digital marketplaces remain more prevalent, however, as 80.2 percent of consumers have bought CPG through these channels.

02

**Brand affinity appears to drive D2C channel use, especially for fashion-related goods.**

The products most commonly purchased through D2C channels are shoes and clothing and accessories. We found that 41.4 percent of shoe purchases were made through D2C and 35.6 percent of clothing and accessory purchases were made the same way. Consumers were far less likely to turn to D2C for household products: Just 8.5 percent of purchases in this area were made through D2C. This suggests that D2C is most popular for product types for which consumers tend to have strong preferences.

03

**Consumers have migrated in large numbers to online D2C channels since the pandemic began.**

The share of consumers who reported using online channels more to purchase CPG during the pandemic exceeded the share who reported using them less by at least 20 percentage points for food and retail products. Shopping at physical stores shifted in the opposite direction, falling by at least 16 percentage points. Those shopping online were as likely to use D2C services as they were to use online marketplaces like Amazon, and they were more likely to do so for clothing, beauty and cosmetic products. Our research shows that 50.1 percent of those who have used D2C channels for beauty and cosmetics have increased their usage of these channels and 48.5 percent did so for online marketplaces. This indicates that brands exert strength over consumers desiring certain CPG products and that shoppers will go to the channel most likely to offer those items.

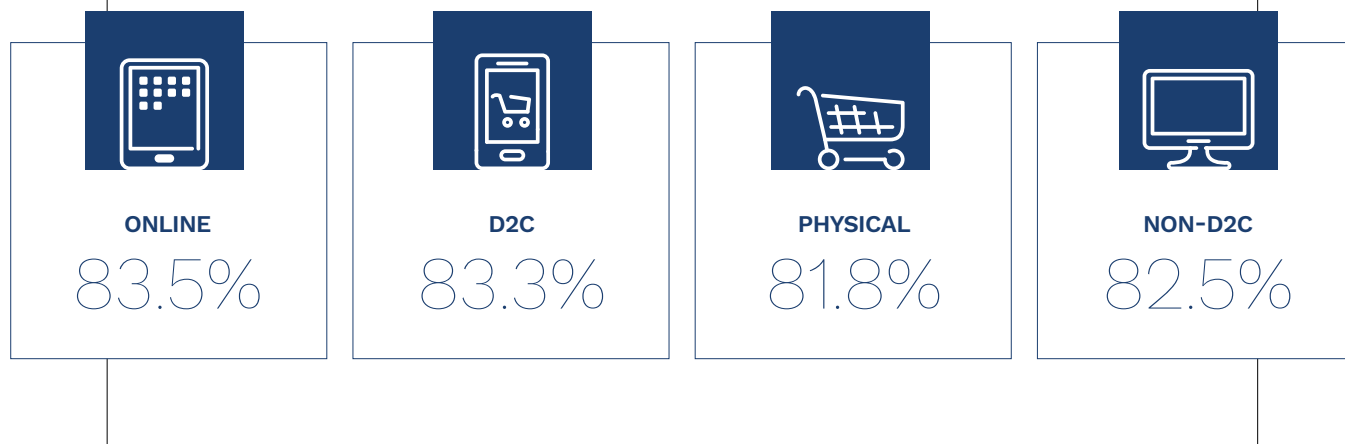


04

**Those that have migrated to D2C have no plans of reverting to their old shopping habits.**

Approximately 70 percent of consumers plan to maintain some or all of the new shopping habits they adopted during the pandemic over the next three years. Consumers who used D2C channels are most likely to maintain their new shopping habits: 73.2 percent of those who used such channels to purchase retail products plan to maintain some of their new habits and 10.1 percent plan to keep all of them. Those who did not use online or D2C channels are most likely to revert back to old shopping habits like going to brick-and-mortar stores.

**MAINTAIN SOME OR ALL NEW HABITS**



05

**Product availability is a key factor leading consumers to shop more through D2C.**

The most common reason D2C shoppers cited for using such channels is the ability to find a full range of products in stock: 44.5 percent cited this when purchasing retail products, outweighing other considerations, including affordability. D2C users' second-most cited reason for using brand-based channels is related to the first: the ability to find the specific products, cited by 23 percent of those who purchased retail products. The ability to find a full range of products was also the reason cited by the greatest proportion of marketplace channel users, however affordability was the second-most common factor: Just over 36 percent of marketplace users cited this.

06

**Interest in shopping with D2C brands is particularly high among Gen Z consumers.**

The research found that 51.7 percent of consumers reported making CPG purchases from new brands since the pandemic. The share who did so is even higher among younger consumers: 58.4 percent of Generation Z members indicated they purchased from new food and beverage brands and 47.7 percent reported that they bought from new retail product brands. The trend was more muted among baby boomers and seniors: Only 27 percent purchased from new retail product brands. Use of online and D2C channels is also associated with greater openness to brand switching as 57.9 percent of D2C users reported purchasing from new food and beverage product brands, for example. The share was just 41.6 percent for those who have not used D2C channels.



# A CPG MARKET IN FLUX

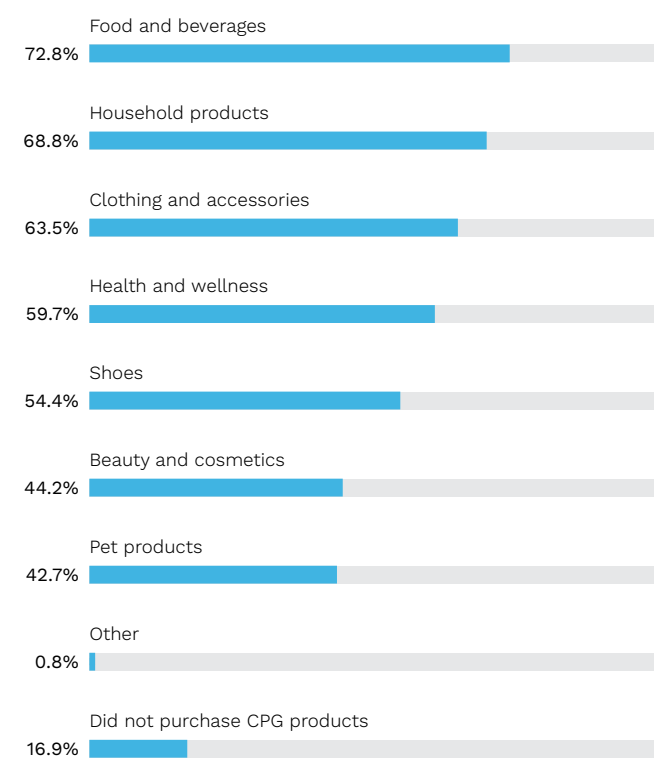
Packaged goods are commonly in U.S. consumers' shopping carts as 83.1 percent of them have purchased at least one form of CPG in the past year. Most consumers buy multiple types of CPG and the most common categories are food and beverages (purchased by 72.8 percent of consumers), household products (68.8 percent) and clothing and accessories (63.5 percent).

Consumers turn to a variety of direct and indirect channels to obtain these products. Our study divides these retail channels into four basic categories:

**FIGURE 1:**

**CPG product purchases**

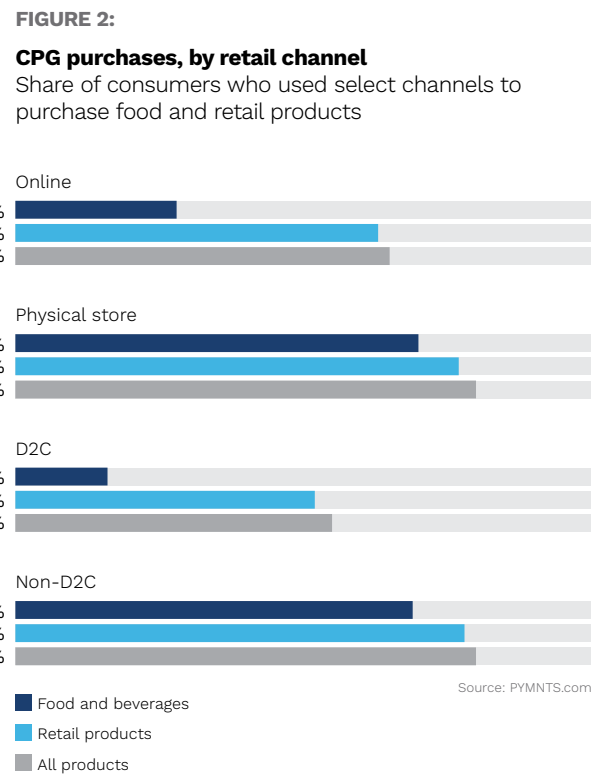
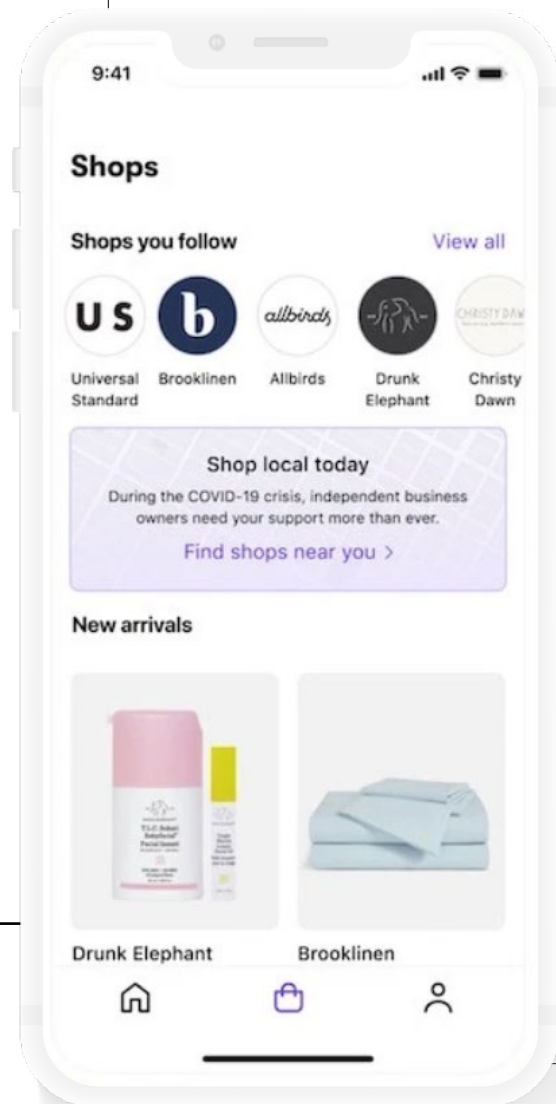
Share of consumers who purchased select categories of CPG in the past year



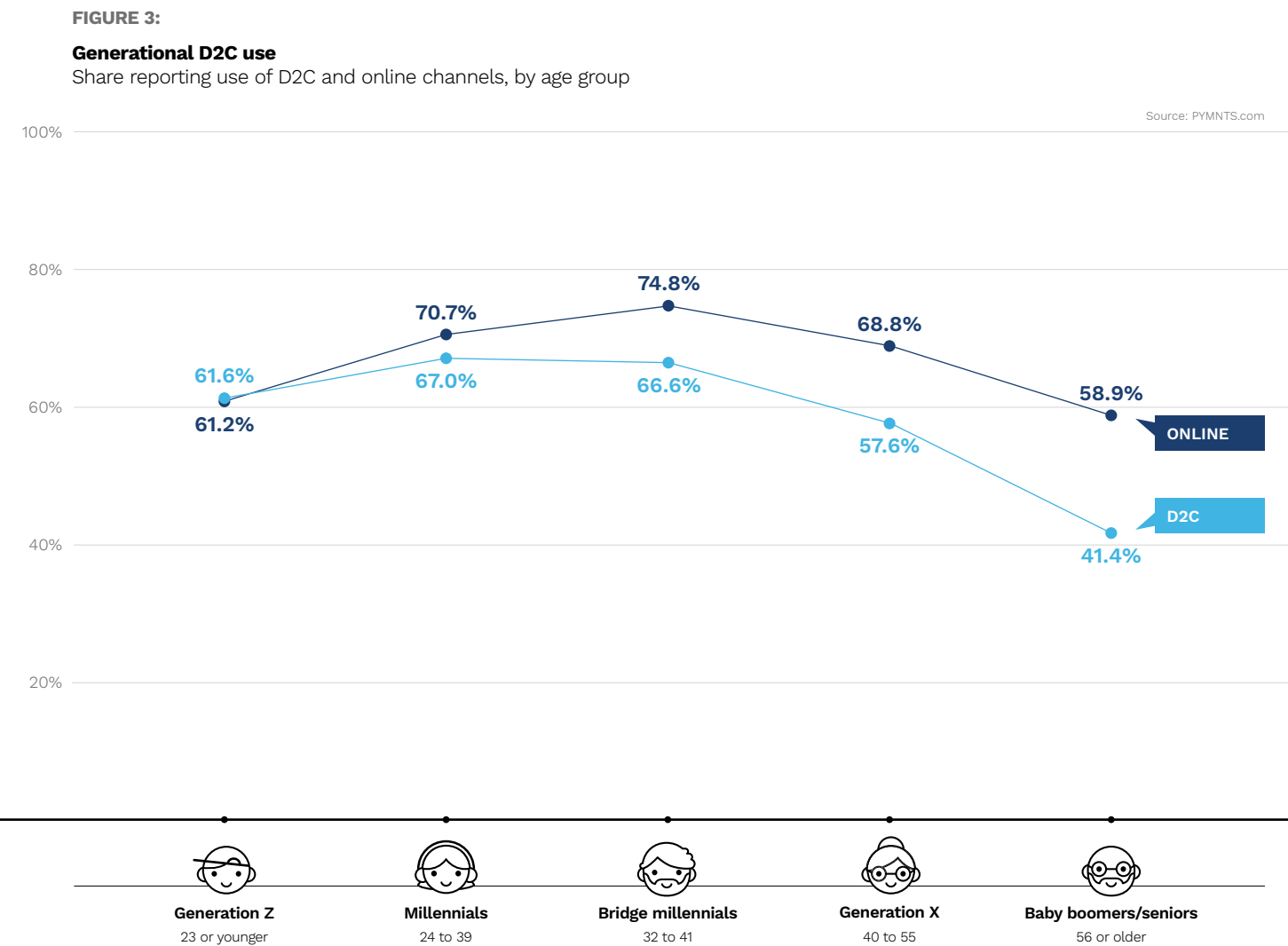
Source: PYMNTS.com

- ONLINE:**  
 Brand- and marketplace-based eCommerce sites
- PHYSICAL:**  
 Brand- and marketplace-based physical stores
- D2C:**  
 Physical and online stores operated by brands
- NON-D2C:**  
 Physical and online stores operated by marketplaces

D2C is quickly becoming a primary way consumers shop for CPG goods as 54.6 percent of consumers use the channel for this purpose. Physical and digital marketplaces remain more common overall, however: 80.2 percent of consumers use them for all product purchases. D2C is particularly uncommon when it comes to food purchases: Just 16.3 percent of consumers reported using D2C for this purpose.



There is a generational component to D2C use: Millennials are most likely to use the channel, with 67 percent employing it, far exceeding the 41.4 percent of baby boomers and seniors and the 57.6 percent of Generation X consumers who use D2C channels.

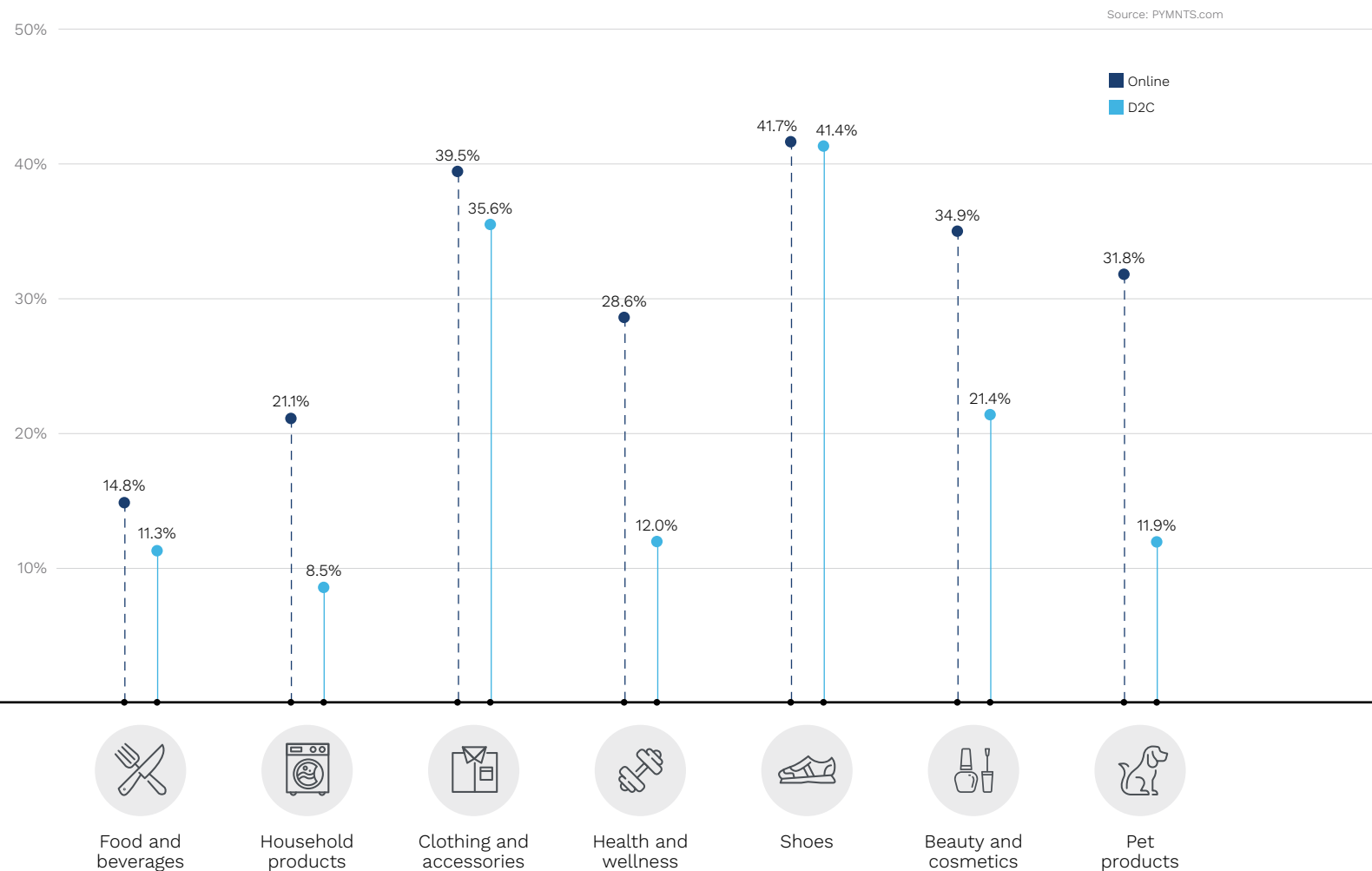




Consumers are inclined to turn to D2C for fashion and beauty purchases, which suggests that channel's use is driven by brand affinity. Consumers tend to have strong brand and style preferences regarding the products they buy directly: 41.4 percent of shoe purchases and 35.6 percent

of clothing and accessory purchases were made through direct channels. D2C use was far less prevalent in the realm of household products, clocking in at 8.5 percent. This may be because this is a sector in which consumers tend to be less partial to specific brands.

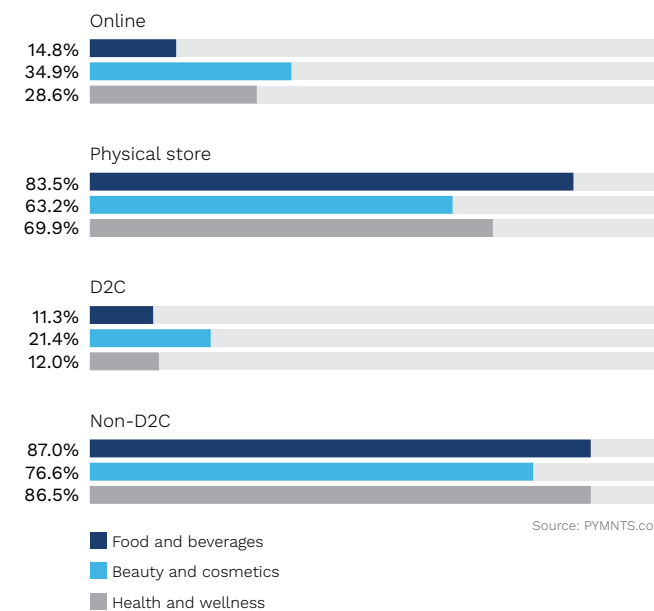
**FIGURE 4:**  
**Channel use, by CPG category**  
Share that used D2C and online channels to purchase select types of goods



**WHAT BEAUTY AND HEALTH BUSINESSES MUST UNDERSTAND ABOUT D2C**

Growth areas for CPG purchases include beauty and cosmetics items as well as health and wellness products. Our research indicates that consumers are more likely to turn to online and D2C channels to obtain these products than they are other types of goods. Consumers who purchased beauty and cosmetics products made 34.9 percent of their purchases through online channels and 21.4 percent through D2C. A similar but less pronounced pattern is found with health and wellness products: 28.6 percent of those who purchased CPG in this area used online marketplaces and 12 percent used D2C.

**FIGURE 5:**  
**Health and beauty CPG purchases, by channel**  
Share of consumers who purchased products through select channels

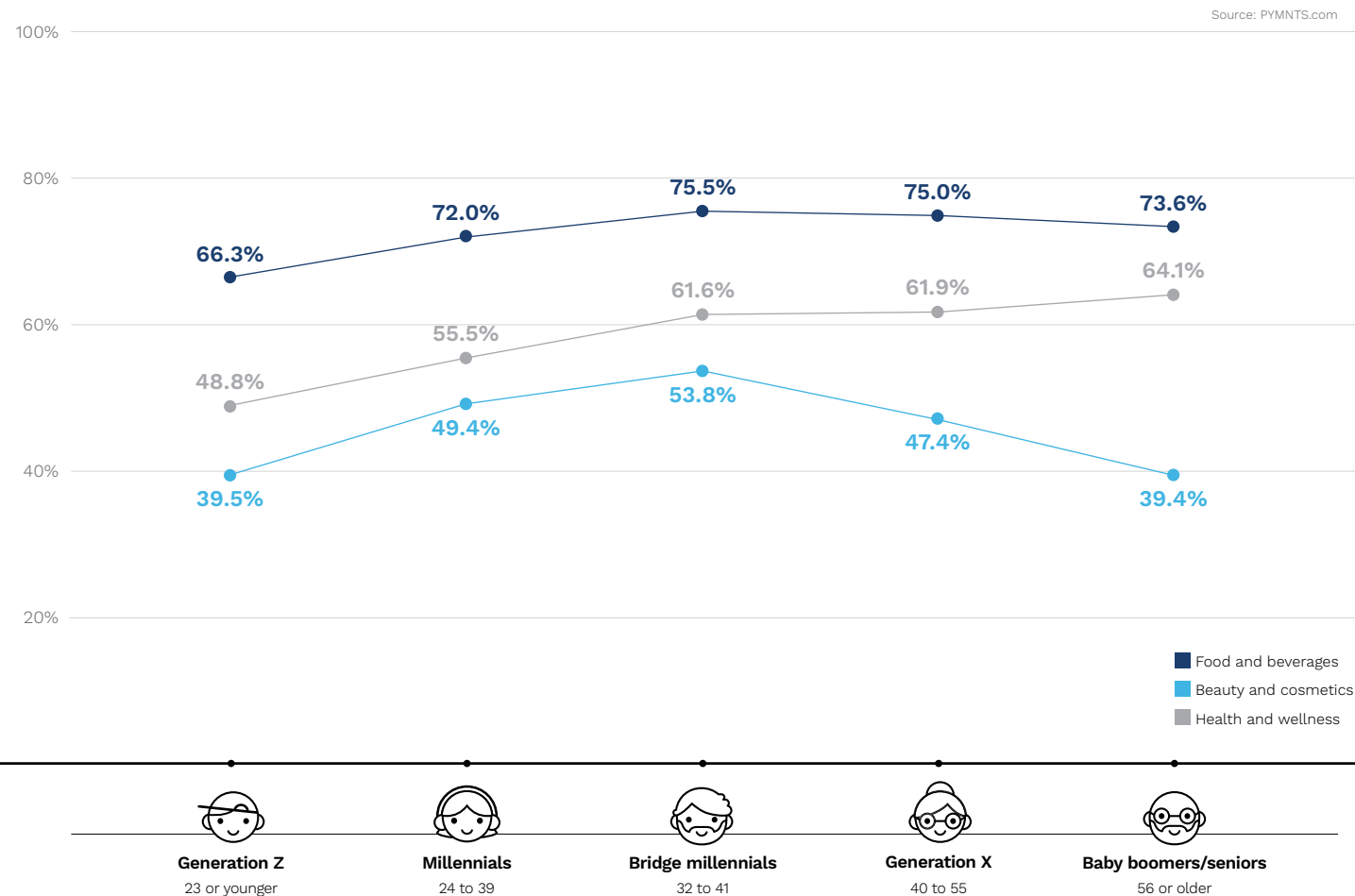




# 54%

## OF BRIDGE MILLENNIALS PURCHASED HEALTH AND BEAUTY CPG IN THE PAST YEAR.

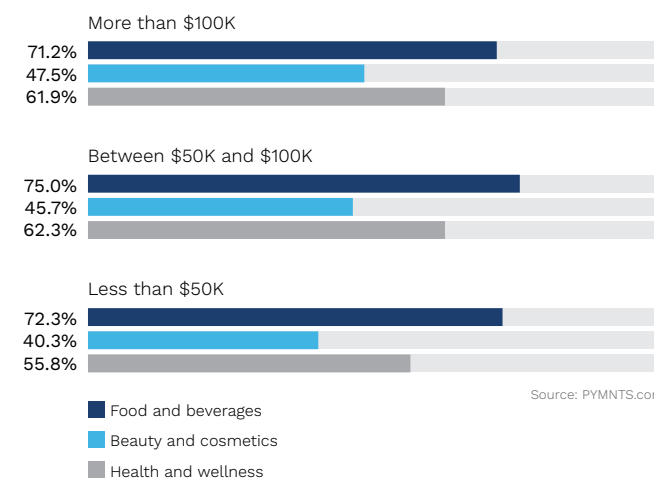
**FIGURE 6:**  
**Health and beauty CPG purchases, by demographics**  
 Share who made category purchases, by age group



Purchasing trends within the beauty and cosmetics space as well as the health and wellness sector also stand out for their demographic variations. We find greater concentrations of millennials and higher earners within the overall share of consumers who made beauty and cosmetics CPG purchases.

We found that 53.8 percent of bridge millennials, those between 32 and 41 years old, made these types of purchases, and 47.5 percent of those earning more than \$100,000 per year did the same. The health and wellness sector is more popular with older consumers, with 64.1 percent of baby boomers and seniors and 61.9 percent of Generation X consumers making purchases in this area.

**FIGURE 7:**  
**Health and beauty CPG purchases, by demographics**  
 Share who made category purchases, by income



# D2C AND THE PANDEMIC EFFECT

The COVID-19 pandemic has been the catalyst for a wide-ranging digital shift across the economy, affecting everything from how consumers shop for groceries to how they attend classes. This trend was no less pronounced in the realm of CPG purchases, according to our survey, which was conducted in early June.

Consumers reported doing more CPG shopping through online channels during the pandemic and reducing their purchases at physical stores. Consumers increased their online purchases by at

least 20 percentage points, while purchases at brick-and-mortar stores fell by at least 16 percent. The drop-off was much sharper in discretionary product categories, like clothing and shoes, which experienced 44.5 percentage point and 33.6 point declines, respectively.

A very different pattern emerges when we focus solely on online channels, the primary means by which many consumers are shopping during the pandemic. Our research shows that consumers were as likely to turn to D2C websites as they were to online marketplaces like Ama-

TABLE 1:

**Net shift in channel usage**

Share of consumers who increased use of select channels since the pandemic's onset minus those who decreased use, by CPG category

TYPE OF PRODUCTS	NUMBER	CHANNELS			
		Online	Physical	D2C	Non-D2C
• Food and beverages	1,920	24.2%	-25.6%	2.3%	-3.6%
• Household products	1,822	23.3%	-19.1%	2.4%	1.9%
• Clothing and accessories	1,672	30.1%	-44.5%	-4.3%	-10.1%
• Health and wellness	1,597	23.9%	-19.8%	2.2%	1.9%
• Shoes	1,432	21.1%	-33.6%	-8.1%	-4.4%
• Beauty and cosmetics	1,192	28.3%	-33.2%	0.8%	-5.8%
• Pet products	1,120	20.4%	-15.8%	1.2%	3.4%

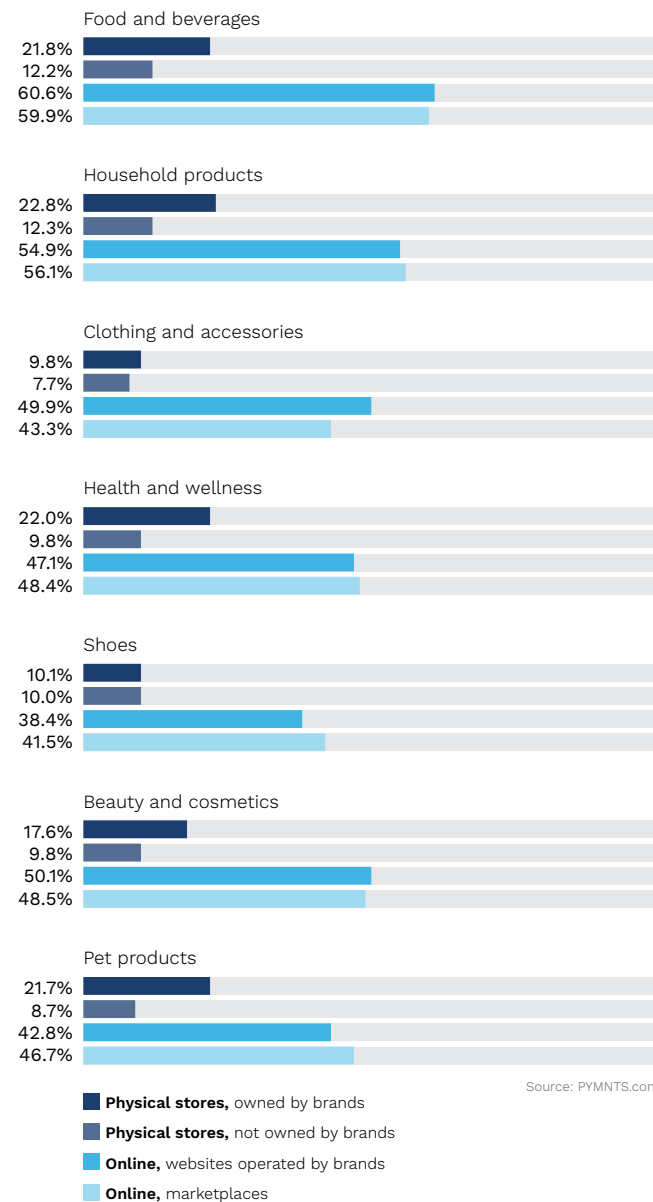
■ Decreased

Source: PYMNTS.com



**FIGURE 8:**  
**The digital shift toward D2C and online marketplaces**

Share who increased usage of select channels "somewhat" or "much more" since the start of the pandemic



zon, and they were more likely to do so in certain categories. We found that 60.6 percent of consumers indicated that they used brand-operated sites somewhat or much more since the pandemic's onset to purchase food and beverages, for example, whereas 59.9 percent said the same about online marketplaces. The difference between these two channels was especially noticeable for clothing and accessories and beauty and cosmetics. We found that 49.9 percent reported increasing their use of D2C sites for the former group and 43.3 percent said the same about marketplaces, while 50.1 percent said they increased their use of D2C channels for the latter and 48.5 percent said they increased their use of marketplaces.

Shopping at physical stores has declined during the pandemic, yet the minority who reported increasing their shopping at such locations were more likely to do so at branded stores. This suggests that consumers are more willing during the pandemic to go the extra mile, online and off, to purchase their preferred products directly from brands.

**TABLE 2:**

**Maintaining new shopping habits**

Share planning to maintain some or all new habits adopted during the pandemic for food and beverage and retail product CPG

ADOPTION OF HABITS	CHANNELS			
	Online	Physical	D2C	Non-D2C
<b>FOOD AND BEVERAGES</b>				
• Maintain all new shopping habits	9.0%	4.9%	10.0%	4.2%
• Maintain some new habits and revert others	71.0%	64.5%	69.8%	70.4%
• Revert to old shopping habits	20.0%	30.6%	20.2%	25.4%
<b>RETAIL PRODUCTS</b>				
• Maintain all new shopping habits	9.5%	5.5%	10.1%	5.9%
• Maintain some new habits and revert others	74.0%	66.2%	73.2%	71.8%
• Revert to old shopping habits	16.5%	28.2%	16.7%	22.3%

Source: PYMNTS.com

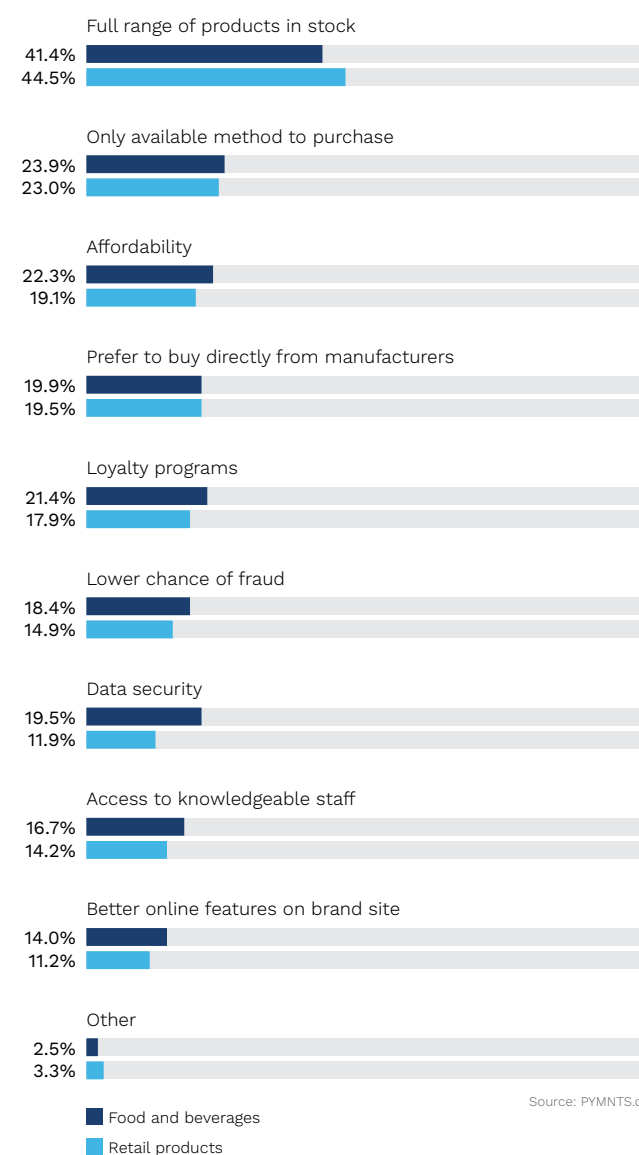
Our data further indicates that the shopping habits that consumers adopted during the past few months could endure. At least 69 percent plan to maintain some or all of these new habits over the next three years, and consumers who use D2C are the most likely to plan to maintain all new shopping habits. We found that 73.2 percent of D2C users will maintain some of their new shopping habits and 10.1 percent plan to maintain all of them, which is more than twice the shares of their coun-

terparts that did not use D2C. Consumers who did not use online or D2C channels are the most likely to plan to revert back to old shopping habits when things normalize. We found that 30.6 percent of such consumers expect to go back to old habits.

These findings indicate that D2C preferences developed during the pandemic could have staying power in the months and years ahead, provided that merchants maintain newfound customers' loyalty.

# THE REASONS FOR TURNING TO D2C

**FIGURE 9:**  
**Reasons for purchasing from select channels**  
 Share citing select reasons for using direct channels, food versus retail products



**W**hy do consumers turn to direct channels to obtain CPG? One reason is that they have affinities for particular brands. Our research confirms this to be an important factor, though another one looms larger in the current economic climate. Consumers are turning to D2C because they think the products they are looking for will actually be available.

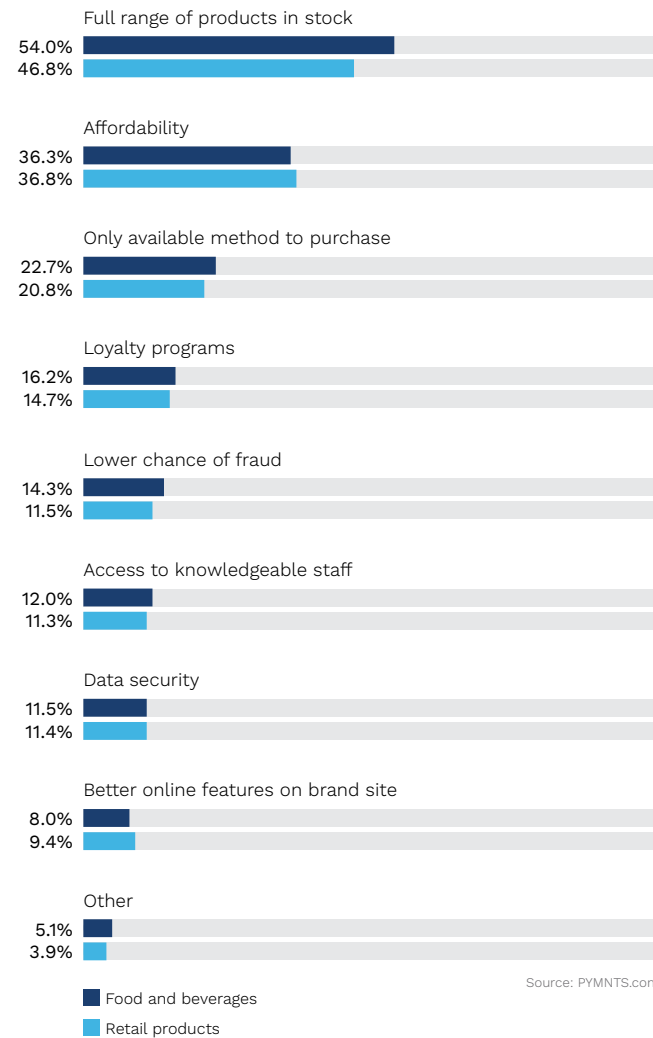
Product availability is a key motivation for using both brand-specific and marketplace channels. This almost certainly reflects the challenges of in-store inventory shortages and the possibility that certain stores are subject to closure orders related to the pandemic. The ability to find a full range of products in stock was the most cited reason for consumers using direct or indirect channels. Our research reveals that 44.5 percent of those who purchased retail products directly from brands cited it as motivation and that it outclassed other concerns like affordability.

The picture gets more complex when we move beyond this topmost concern, however. Affordability is the second-most cited motivation for using indirect



**FIGURE 10:**  
**Reasons for purchasing from select channels**

Share citing select reasons for using indirect channels, food versus retail products



channels and at least 36 percent cited it for both food and retail product purchases. The ability to find specific products is D2C shoppers' second-most common motivation, cited by 23.9 percent of those making food purchases and 23 percent of those purchasing retail products.

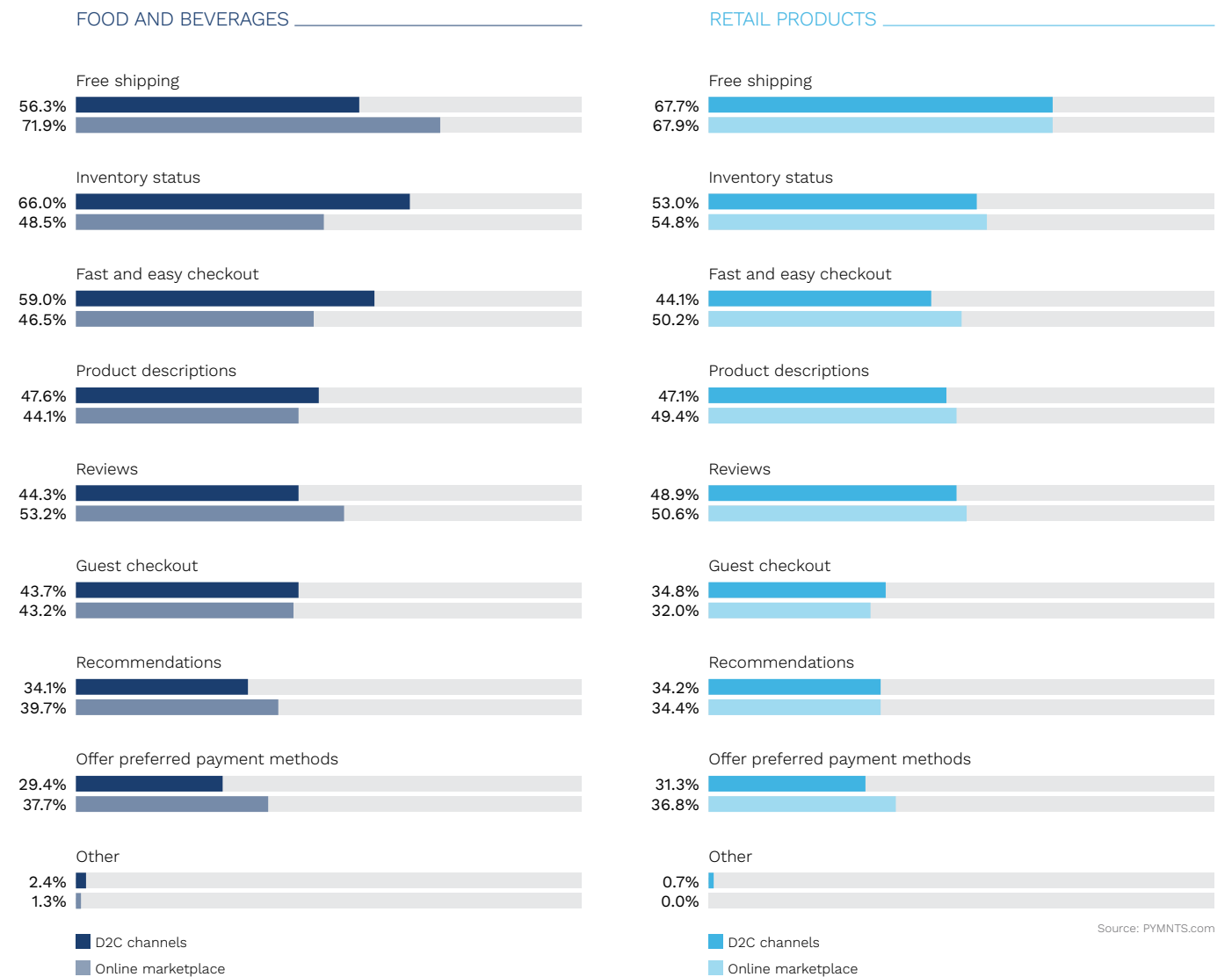
We find a similar pattern when we focus on online channels. One consideration looms largest for those who prefer shopping on brands' websites and those who prefer online marketplaces: free shipping. At least 56 percent cited free shipping as a reason they prefer the respective channels, suggesting that consumers have come to expect free shipping from brands, which could potentially undercut an advantage Amazon has long enjoyed. Shipping remains a singularly important feature for marketplace users, however, while other factors are nearly as compelling for D2C users. We found that 66 percent of D2C users cited inventory status as a reason they prefer purchasing food and beverage products directly.

Inventory status is an important consideration for shoppers who use online marketplaces as well, particularly when it comes to retail products. Another factor ranks nearly as high: reviews. We found

that 50.6 percent of marketplace users cited reviews as a reason to prefer the channel for retail product purchases and that 53.2 percent cited it in the case of food product purchases. This makes sense when one considers that marketplaces typically host wide ranges of products with which consumers may be unfamiliar. Reviews can thus offer important insights.

**FIGURE 11:**  
**Reasons for purchasing from online D2C and marketplace channels**

Share citing select reasons for shopping from online D2C channels and online marketplace channels, food versus retail products



# DEEP DIVE: THE SHIFTING STATE OF BRAND LOYALTY

Companies of an earlier era faced formidable challenges in getting consumers to jettison the brands they knew and loved. Brand loyalty is not what it once was, however, especially for younger generations, who have shown a willingness to switch to products and companies that offer better value, deliver quality service and that are more experience-based than transactional. Our research suggests that the pandemic is intensifying these trends.

Our research found that 51.7 percent of consumers reported making purchases from new brands since the pandemic began. The shift was less pronounced for retail products than it was for food and beverages as 35.7 percent of respondents purchased from new brands in the former category and 44.8 percent did so in the latter. This is likely connected to the abundance of food brands and products.

**FIGURE 12:**

**Purchases of new CPG brands**

Share who have purchased new brands since the start of the pandemic

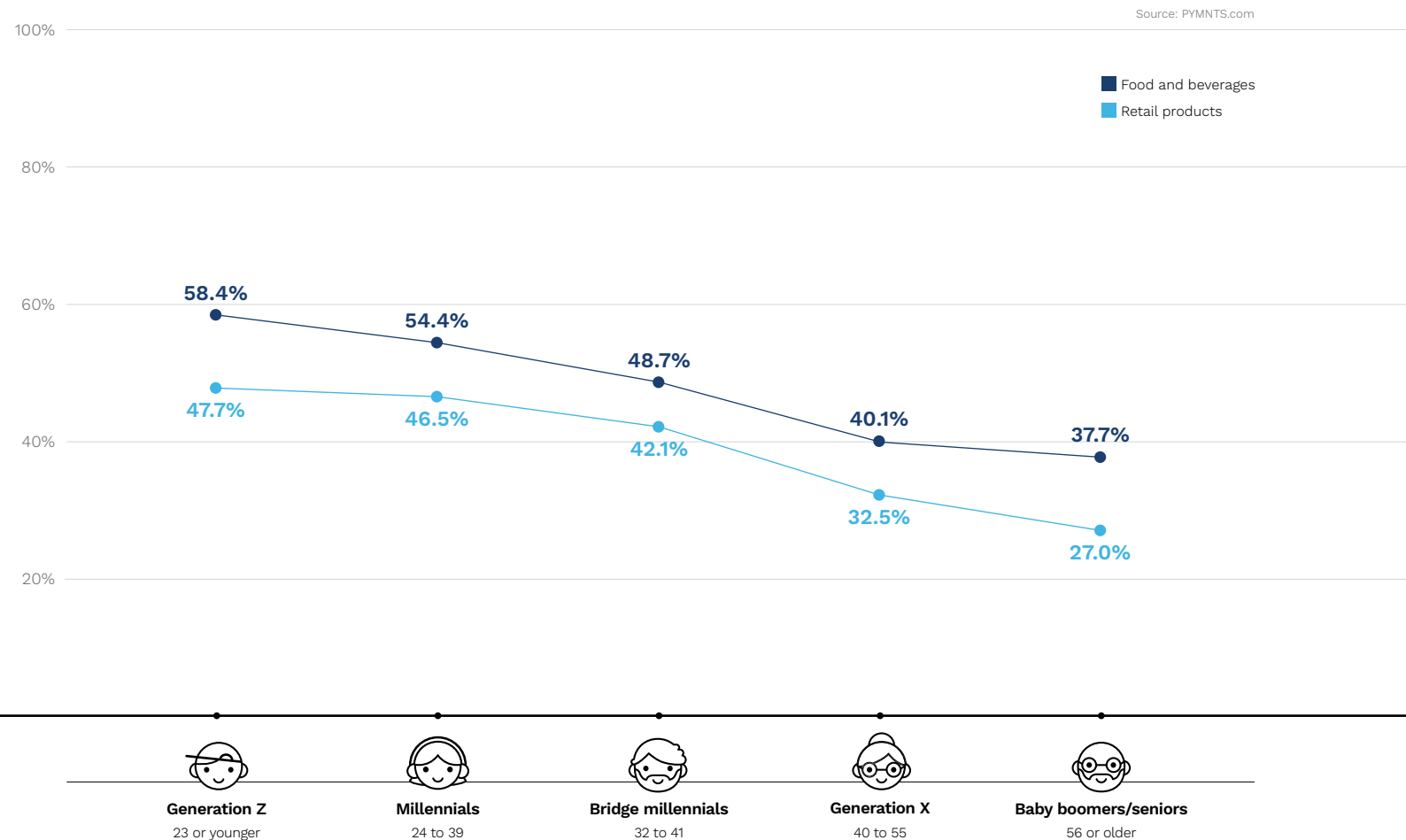


Source: PYMNTS.com



# 52% OF CONSUMERS HAVE PURCHASED FROM NEW BRANDS DURING THE PANDEMIC.

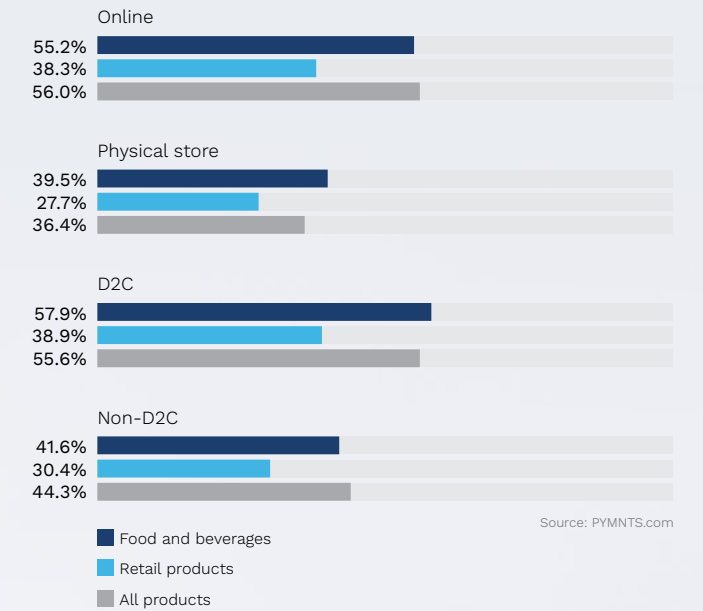
**FIGURE 13:**  
**Purchases of new CPG brands**  
Purchases of new brands, by generation, food versus retail products



Our research underscores the generational trends in brand loyalty. Younger consumers are more likely than older ones to report trying new brands. We found that 58.4 percent of Gen Z respondents purchased new food and beverage brands since the pandemic's onset and 47.7 percent bought new retail brands, whereas 37.7 percent and 27 percent of baby boomers and seniors made new brand purchases in these two respective categories.

Consumers who have used D2C channels at least once are more apt to have tried new brands than those who have not. Among D2C users, 57.9 percent reported purchasing from new food and beverage product brands and 38.9 percent bought new retail product brands. In contrast, 41.6 percent and 30.4 percent of those who did not use D2C channels purchased products from new grocery and retail product brands, respectively.

**FIGURE 14:**  
**Purchases of new CPG brands, by channel**  
Share who purchased new brands, by channel, food versus retail products

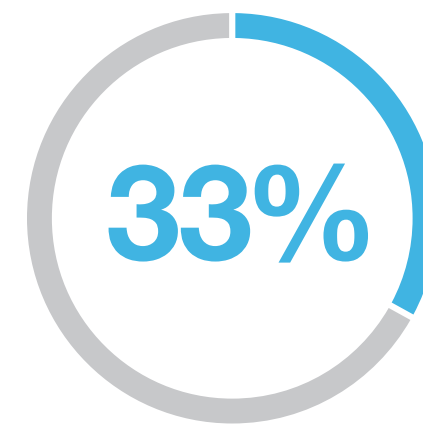
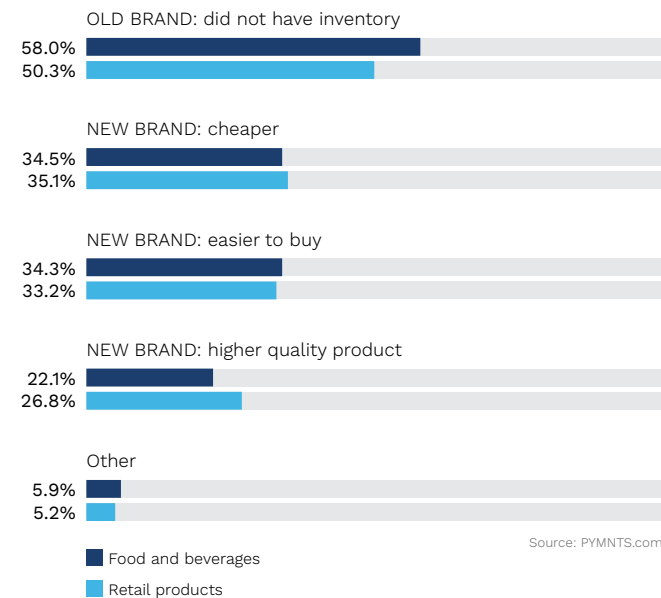


# 58% OF CONSUMERS SAID THEY PURCHASED NEW FOOD BRANDS **BECAUSE THEIR USUAL BRANDS LACKED INVENTORY.**



The reasons consumers purchased new brands during the pandemic are related to those that led significant shares of them to use of D2C and marketplace channels: lack of inventory. This was the reason consumers most often most cited for trying new brands during the pandemic, with 50.3 percent citing it in the case of retail purchases and 58 percent citing it for food transactions.

**FIGURE 15:**  
**Reasons for purchasing new CPG brands**  
Share citing select reasons, food versus retail products



PURCHASED NEW  
RETAIL BRANDS  
BECAUSE THE  
EXPERIENCE WAS  
**EASIER THAN  
WHAT THEY WERE  
ACCUSTOMED TO.**

The two most-cited reasons beyond inventory for trying new brands were price and ease of purchase, outweighing quality and other factors. Our research shows that 35.1 percent of retail product buyers who tried new brands indicated they did so because the new brand was cheaper, as was the case for 34.5 percent of food product purchasers. A remarkably similar share of consumers tried out new brands because it was easier to buy them: 33.2 percent in the case of retail products and 34.3 percent in the case of food.

All of this suggests that ease of purchasing has taken on particular importance in the current economic environment. This may especially be the case online, where finding another brand or merchant can be accomplished with a few simple clicks.



# CONCLUSION

**T**he CPG market is at a crossroads. The pandemic has made it more challenging for consumers to access their favorite products through conventional means while also creating economic anxieties. These realities have led more consumers to turn to D2C channels to procure their preferred packaged goods, particularly online.

CPG brands have a unique opportunity to capture new customers, despite this challenging economic circumstance, as individuals have a remarkable willingness to shop via direct channels. They have been as likely during the pandemic to turn to online D2C channels as they have been to turn to online marketplaces, and they have been more likely to use D2C channels for several key product segments, such as beauty and cosmetics.

This opportunity will be fleeting if D2C brands fail to use digital tools to drive engagement and loyalty, however. Such tools can provide companies with invaluable market data and insights and help them forge personalized relationships with customers. These considerations are especially important in attracting and retaining younger customers, who tend to value experiential relationships with brands more than transactional ones.

Established brands can no longer rely merely on store presence and traditional marketing campaigns to reach customers. Brands must have robust online commerce operations that are capable of driving conversion and loyalty or they run the risk of being left behind in a rapidly changing business world.



## METHODOLOGY

**T**he D2C And The New Brand Loyalty Opportunity report is based on a survey of 2,188 U.S. consumers who reported purchasing CPG products at least once in the past year. The sample was balanced to approximately match the demographics of the U.S. Census. The survey consisted of 27 questions and was conducted between June 16, 2020, and June 22, 2020.

# ABOUT

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DISCLAIMER ■

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