



PYMNTS.COM

SMB TECHNOLOGY ADOPTION

U.S. TRENDS AFFECTING SMALL TO MEDIUM BUSINESSES **INDEX™**

POWERED BY **sage**

FIRST QUARTER 2016

SMBs RANK THEIR USE OF TECHNOLOGY FOR PAYMENTS¹

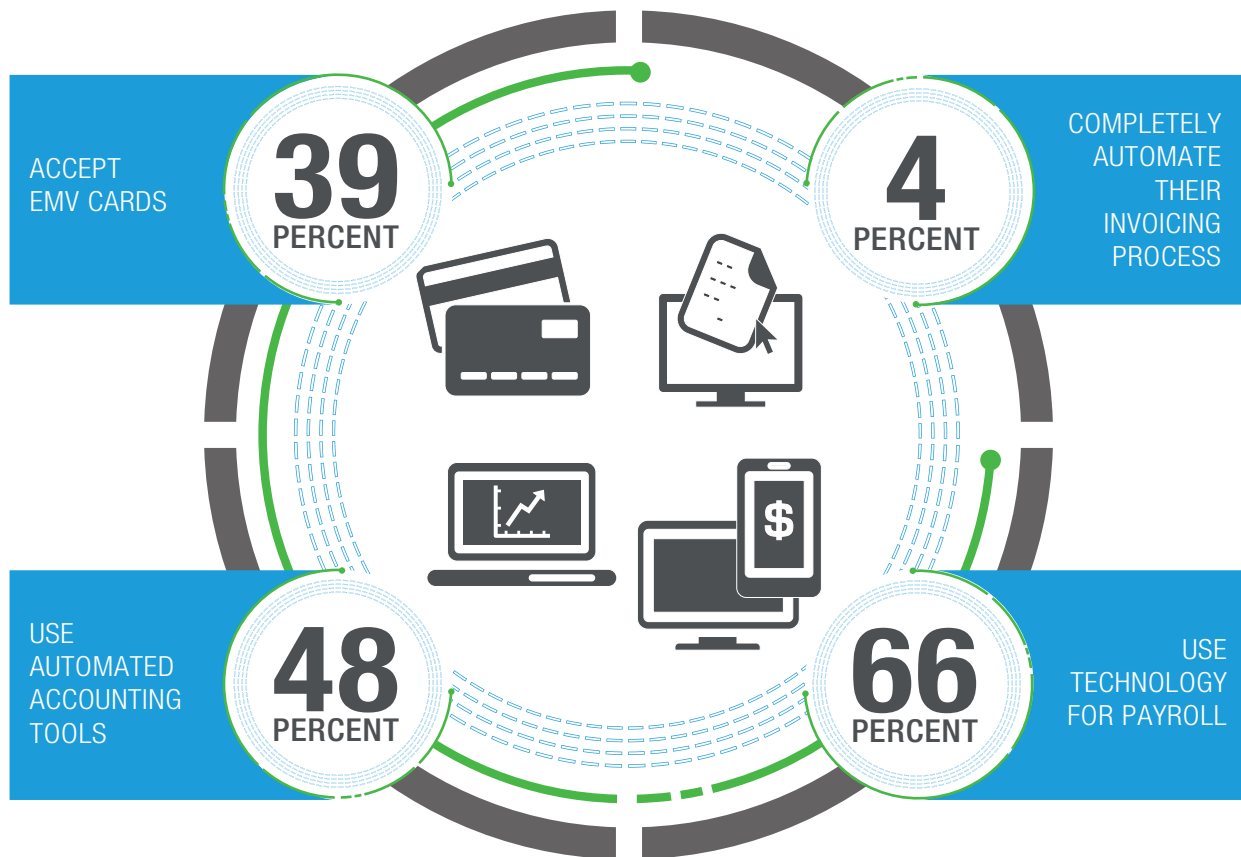


WHAT'S HAPPENING WITH EMV AND NFC



60% SMB SHARE OF NET NEW JOBS SINCE 2009

48% SMB SHARE OF PRIVATE SECTOR PAYROLL



\$13.1B SMB ANNUAL COST OF USING CHECKS

60 HRS AVERAGE BUSINESS PERSON'S ANNUAL TIME WRITING CHECKS

\$7.15 COST OF PROCESSING PAPER CHECK

1. Based on survey done in January 2016.

THE SMB TECHNOLOGY ADOPTION INDEX

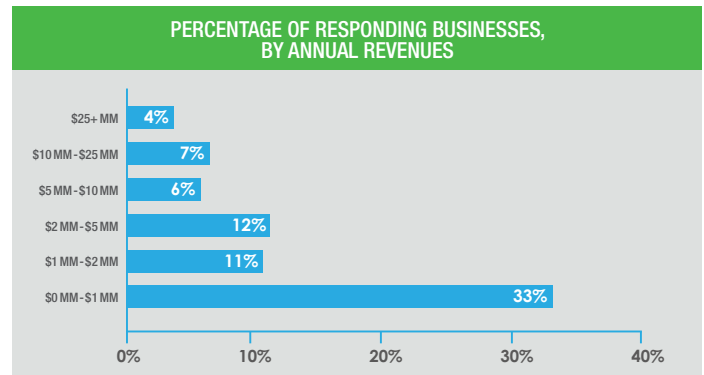
WHAT IT IS, WHY WE DID IT, AND HOW WE CALCULATED IT

Small and medium businesses (SMBs) are the backbone of the American economy. They account for almost half of payroll (48%) and have created about 60% of new jobs since 2009. Given the rapid growth of technology solutions that can help these businesses thrive, not to mention get an edge with their customers, PYMNTS.com and Sage set out to measure the rate of adoption of these technologies for SMBs across the U.S. How quickly are businesses adopting these technologies, and which ones? And how does that vary across B2Cs and B2Bs and other ways of slicing and dicing small and medium sized firms?

SMBs come in all forms. They include corporations, partnerships, and sole proprietorships. Some sell mainly to other businesses (B2Bs) while others sell mainly to consumers (B2C). The B2Cs sell online, or face-to-face, or both and they sell myriads of goods and services. Most are in it to make a profit but a few are non-profits. So they differ from each other in so many ways.

They have, however, one thing in common: They all need to get paid, and getting paid quickly and reliably is crucial for their success, not to mention whether they can keep the lights on. Payments is integral to the flow of money throughout the daily, weekly and monthly cycle of a business.

There are lots of technologies that help with payments. In the back room they include invoicing, accounting, and financial forecasting. When facing the customer, they include a plethora of payment methods, some still paper, others electronic, and they all come with their own costs and benefits.



The PYMNTS.com SMB Technology Adoption Index, powered by Sage, answers all of these questions and more. Each quarter we survey approximately 700 businesses across America.² We ask them more than 30 questions about their use of payment-related technology. This issue is based on 568 responses to a survey we conducted in January 2016. The median firm in our sample has about \$2 million in revenue.

Of the 568 total responses, 468 indicated what type of customers they serve. Of these 468 respondents:

59% (277) were B2Bs

34% (157) were B2Cs

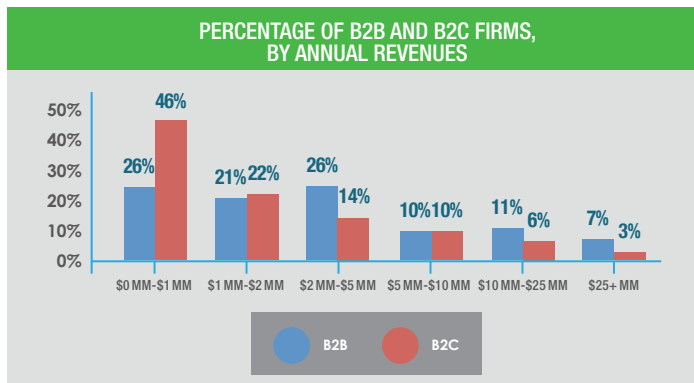
7% (34) serve government agencies or non-profit entities.

The median B2B had \$2.5 million in revenues and the median B2C had \$1 million in revenues.

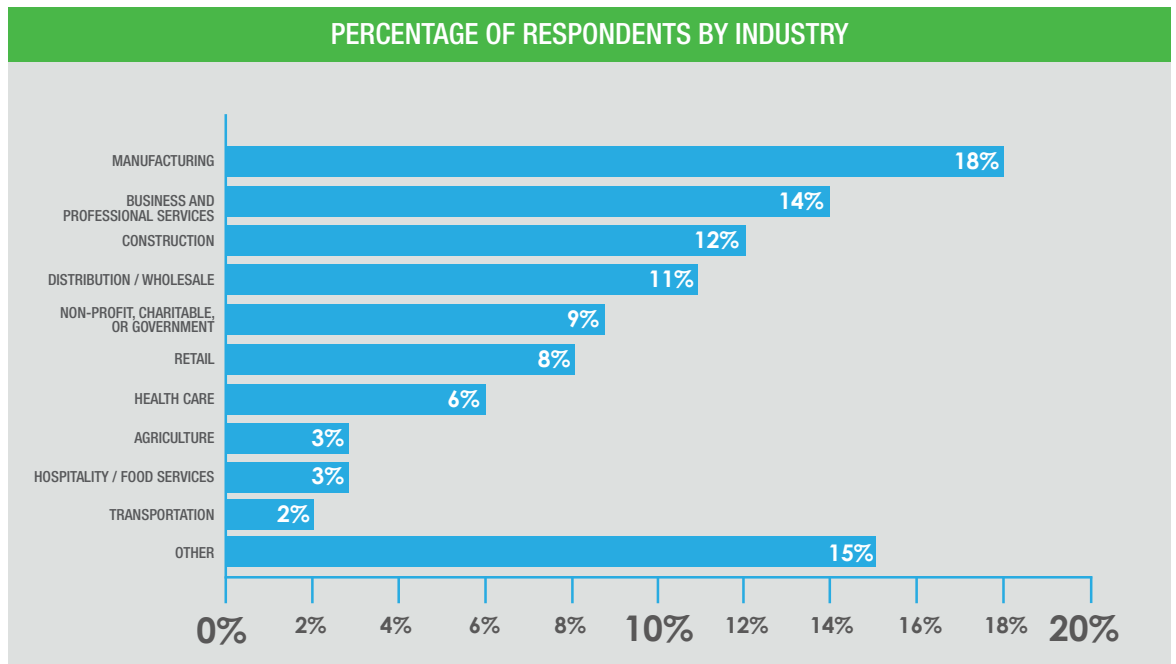
² Each quarterly survey is comprised of a random sampling of Sage customers. Sage customer base is almost entirely small businesses with over one-third of the businesses having 1-4 employees and only 0.3% having more than 500 employees.

THE SMB TECHNOLOGY ADOPTION INDEX (CONT'D)

WHAT IT IS, WHY WE DID IT, AND HOW WE CALCULATED IT



Of the 568 total responses, 475 indicated which industry they operated within. SMBs are widely dispersed across all industries in the US. As the chart shows, Manufacturing companies represent 17% of the total responses and is the largest group. The next largest group is “Other,” which is comprised of a myriad of firms that do all sorts of things. This group includes manufacturers’ reps and sales organizations, daycare, sign installation and repair, glass and glazing, software development, fuel, industrial sales, call centers, storage facilities, aviation, marina service and sales, auto repair, real estate, vending machine service, lock and security, janitorial and cleaning, funeral homes, equipment rental, property managers, etc. Retail accounts for about 8 percent of our sample and hospitality and food services another 3 percent.



HIGHLIGHTS

When it comes to getting paid by their customers, and paying their suppliers, SMBs are still moderate users of technology. Given a scale of limited technology use (1) and extensive technology use (10), the average SMB ranked themselves a 6 — with B2Cs scoring a bit higher, at 6.5, and B2Bs a bit lower at 5.9. The smallest merchants (less than \$1 million in revenue) are farthest behind and the biggest merchants (\$25 million or more in revenue) are the farthest ahead. There isn't much difference in technology adoption for the broad range of merchants with revenues between \$1 million and \$25 million.

SMBs that take payments from customers at a physical point of sale, though, are stepping up when it comes to adopting EMV. So far 39% of these SMBs have upgraded and another 23% claim they are going to in the next year. Of course this adoption of new technology isn't entirely voluntary; under new rules, they face more liability for fraud if they don't upgrade.

Almost 10 percent of SMBs that take payments from customers at a physical point of sale accept NFC payments. So their customers can pay with Apple Pay, Android Pay,

Samsung Pay and other NFC-enabled mobile payment methods, not to mention contactless cards. Still, anyone looking to pay with NFC-enabled mobile wallets can't do it at about 90 percent of these SMBs.

Paper still rules the world of getting paid by customers and paying suppliers. About 99% of B2Bs take checks. And that's how most businesses pay each other. In face-to-face environments, more than 90 percent of B2Cs take checks or cash. Of course many customers pay with cards and about three-quarters of B2Cs take cards in a face-to-face environment.

SMBs, not surprisingly, have things to worry about. After all, they don't have deep pockets and big staffs to cater to their needs. Their biggest concern is getting paid on time, with a third of survey respondents saying this is a very or fairly serious issue for them. Many have adopted technology — in the back room for invoicing and in the front room for taking payments face-to-face — to improve their cash flow. But about 1 in 7 SMBs (15%) are very or fairly frustrated with technology.



PAYMENT TECHNOLOGY ADOPTION INDEX

Small and medium businesses build products, offer services, manage inventory, pay employees, collect payments from customers, and, hopefully, make a nice profit — just like their big business brothers and sisters.

For much of what SMBs do, though, size matters. And perhaps the biggest problem they face is simply liquidity. SMBs almost by definition can't tap into the equity markets

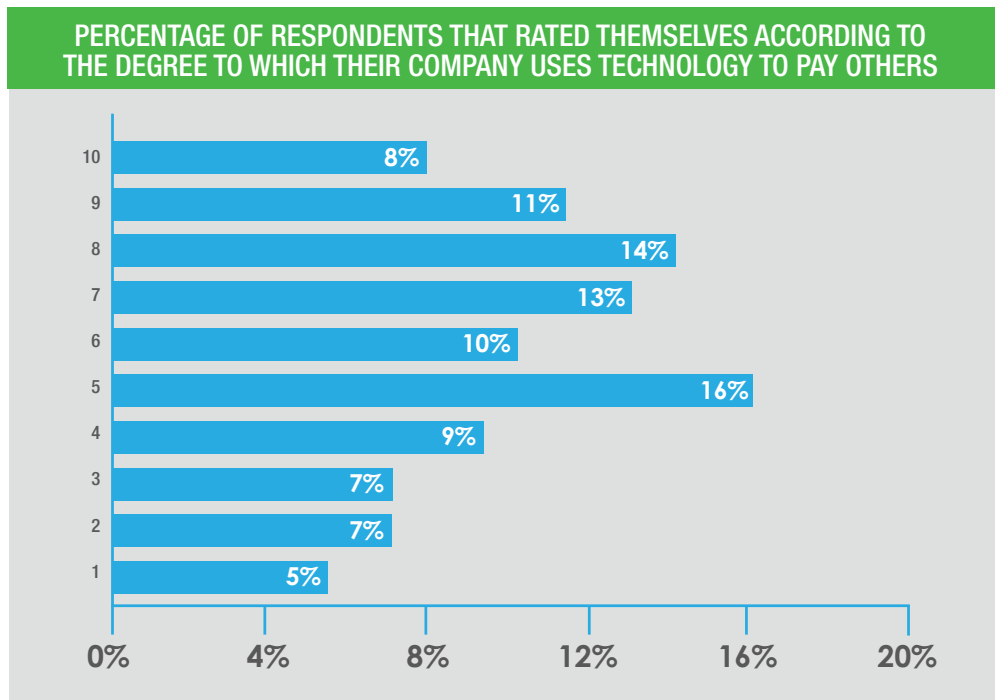
or sell corporate bonds. Many even struggle to get a decent line of credit from their bank. But that means SMBs really have to manage their cash flow carefully. Technology can help them do that with everything from payroll and invoicing, to their interactions with their customers.

(Our deep dive for this issue is on EMV adoption; we save all those results for that section which is below.)

OVERALL INDEX

We asked SMBs how much they use technology to pay others and for getting paid by their customers. They ranked themselves on a scale from 1 (limited) to 10 (extensive). The

median SMB ranked themselves not too high, not too low, at a middle score of 6. About a third of the SMBs — 35% to be precise — ranked themselves in the middle 4-6 range.



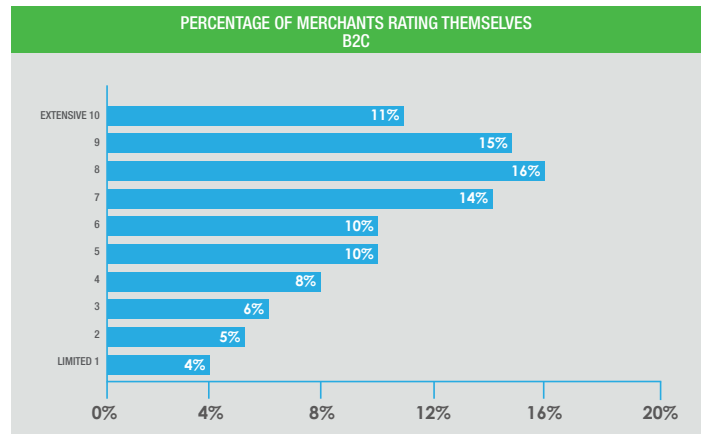
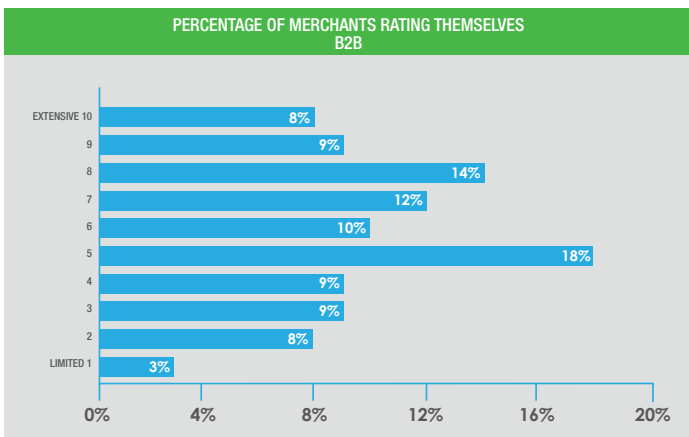
A surprising number of SMBs, however, have invested heavily in technology. About 19% ranked themselves as a 9 or 10 and 33% ranked themselves an 8 or above.

But there are definitely still many laggards when it comes to payments technology: 12% percent of the SMBs ranked themselves a 1 or a 2 — for all practical purposes that means not only that they haven't entered the 21st century of payments, but also that they probably haven't progressed much beyond what businesses were doing back in the 1950s.

PAYMENT TECHNOLOGY ADOPTION INDEX (CONT'D)

B2Cs VS. B2Bs

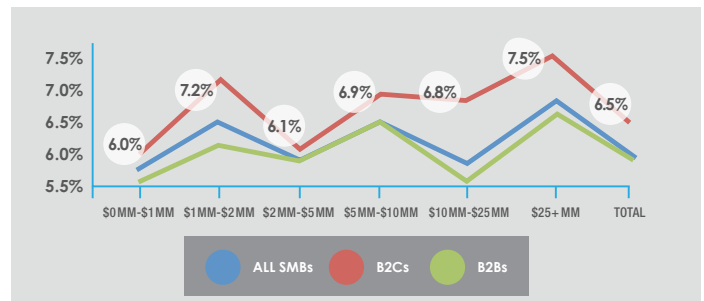
There's a big difference between technology adoptions by B2Bs and B2Cs. The median B2C ranked at 6.5, while the median B2B ranked at 5.9. That's not surprising really. B2Cs adopt technology to make it easier for their customers to pay and that helps them compete with other businesses; B2Bs as a group have settled into paying and being paid by check.



Only 17% of B2Bs rank themselves a 9 or above, compared with 26% of B2Cs. Looking at the other end of the payment technology spectrum, 11% of B2Bs mark themselves as 1-2s compared with 9% of B2Cs.

DOES SIZE MATTER?

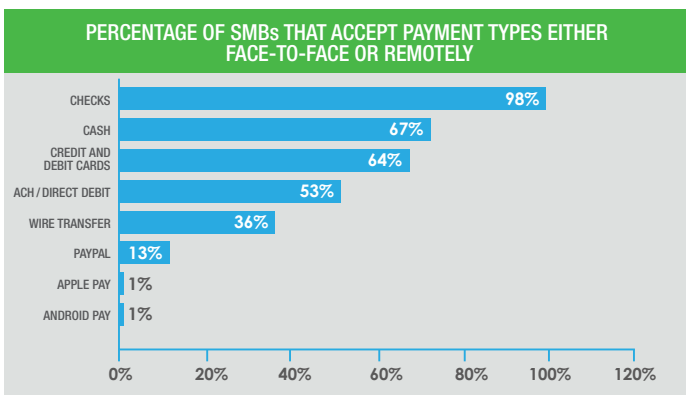
When it comes to adopting payment technology, size does not appear to be a big differentiator in terms of technology adoption across the broad middle of SMBs by size. The biggest SMBs — those in the \$25+ million range — score the highest for both B2Cs and B2Bs. And the smallest SMBs — those with less than \$1 million in revenue — score the lowest. The result is a gap between the smallest and the biggest — 1.5 points between the smallest and biggest B2Cs and 1.1 between the smallest and biggest B2Bs. But between those extremes — \$1 million to \$25 million — there's no systematic relationship at all.



PAYMENT TECHNOLOGY ADOPTION INDEX (CONT'D)

SMB AND THE SLO-MO RACE TO ELECTRONIC PAYMENTS

Just about everything in the world is moving to digital, from how we read the morning papers to how we get the latest hit song. But paper — cash and checks — are holding on pretty strong in payments. In fact, they remain the most widely accepted payment methods for SMBs, whether the business is selling to consumers or to other businesses.



Almost every SMB takes checks! And 81% of SMBs accept cash when they are paid face-to-face. To show how early we are in the race to electronic payments, an SMB that deals directly with consumers in a face-to-face environment is 98 times more likely to take a paper check than to take Android Pay.

But there are big differences between B2Cs that get paid face-to-face because they are selling cash-and-carry in physical stores, and B2Bs that are more heavily reliant on invoicing and getting paid later. While checks are still universally accepted, B2Bs are also highly reliant on ACH payments, where B2C companies use far more cash and card in a face-to-face environment.

	FACE TO FACE		REMOTE		EITHER	
	B2C	B2B	B2C	B2B	B2C	B2B
CHECKS	90%	99%	75%	92%	97%	99%
CASH	92%	76%	34%	28%	93%	56%
CREDIT OR DEBIT CARD	76%	65%	76%	55%	81%	57%
ACH / DIRECT DEBIT	18%	45%	29%	64%	32%	65%
PAYPAL	11%	7%	16%	10%	16%	11%
APPLE PAY	2%	1%	1%	0%	2%	0%
ANDROID PAY	1%	1%	1%	0%	1%	1%

FACE-TO-FACE PAYMENT TECHNOLOGIES

While cash and check are still princelings, so to speak, in face-to-face environments, mobile and tablets are clearly catching on.

Of course, cash registers and card-swipe terminals are the most common technologies at physical stores. They actually

come in two flavors: those customer-facing units that have the consumer do all of the work of swiping – and now dipping – or those that face the sales associate and require that they take the consumer’s card and do the swiping.

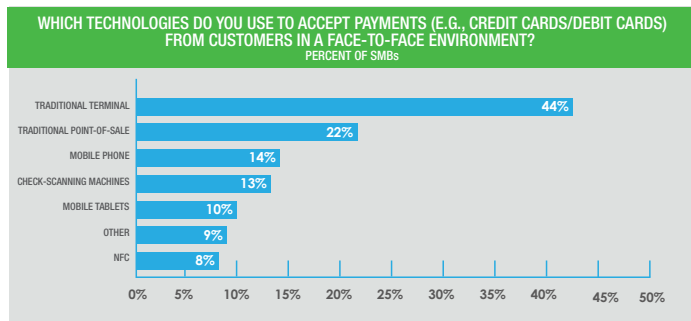
PAYMENT TECHNOLOGY ADOPTION INDEX (CONT'D)

FACE-TO-FACE PAYMENT TECHNOLOGIES (CONT'D)

Increasingly, mobile devices in many forms are making inroads, as 18% of SMBs have either a mobile phone or tablet that they use for taking payments face-to-face. Likely reasons for this are that tablets offer integrated POS systems, as well as software that helps manage customer databases, store catalogues, pricing and loyalty programs. The reasons for this are simple and obvious. Tablets offer a SMB a completely integrated POS system that does a whole lot more than just take credit cards. They have integrated software that helps manage customer databases, store catalogues, pricing and loyalty programs. “Dongle” type devices that plug into a mobile phone are well suited for the truly mobile SMB or a merchant who needs a way to be paid outside of a physical environment – either by another business or by consumers.

Of those tablet solutions in a physical store, we’ve learned that roughly 8% take NFC, which means they can probably accept Apple Pay and Android Pay mobile wallet payments. All in all, around 25 percent of face-to-face B2Cs are set up so that they can either take payment on a mobile device or they can allow a consumer to pay with a mobile device – a nod to the reality that doing business is no longer defined necessarily by a place in a physical establishment.

Once again, size, sort of matters, although not consistently. Bigger SMBs are much more likely to take NFC, or use mobile tablets, than smaller ones. Not surprisingly, mobile POS is much more common among the smaller SMBs.



	TRADITIONAL TERMINAL	TRADITIONAL POINT-OF-SALE	MOBILE PHONE	CHECK-SCANNING MACHINES	MOBILE TABLETS	OTHER	NFC
\$0MM-\$1MM	45%	19%	15%	8%	13%	5%	7%
\$1MM-\$2MM	45%	15%	26%	9%	11%	15%	11%
\$2MM-\$5MM	35%	28%	17%	15%	8%	2%	8%
\$5MM-\$10MM	48%	39%	9%	30%	13%	13%	0%
\$10MM-\$25MM	73%	14%	0%	14%	5%	18%	23%
\$25+MM	55%	27%	0%	9%	9%	18%	27%

TECHNOLOGY ADOPTION IN THE BACK ROOM

SMBs face a lot more payment issues than just taking money from someone walking in the door. They have to pay suppliers, not to mention their employees, and manage their cash and receivables. They also may have to invoice customers. For anyone who has ever run a small business, this is where the

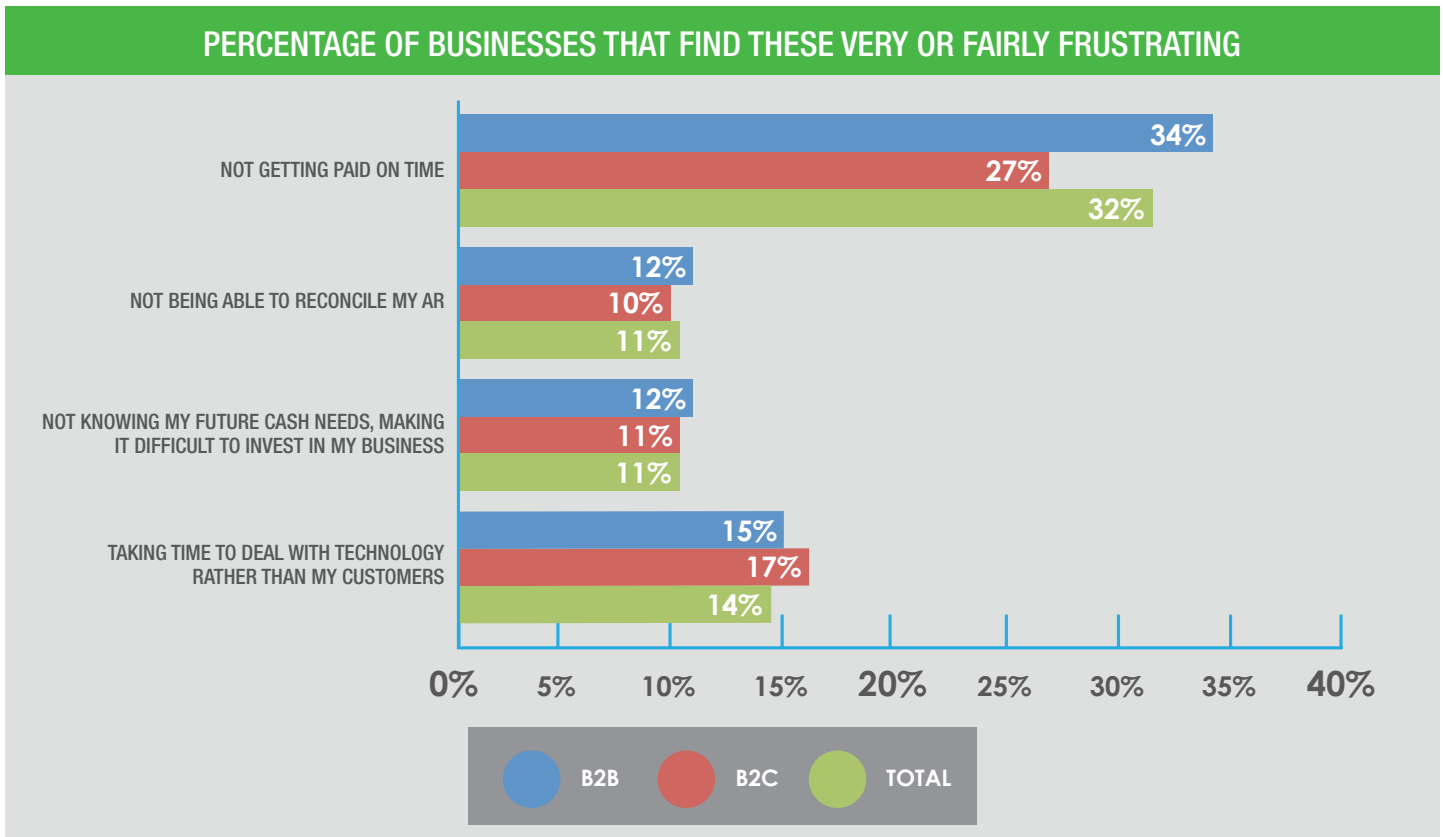
rubber meets the road, and keeping the back room working smoothly and efficiently is often the difference between meeting payroll and hanging it up. So let’s see how SMBs are doing with technology adoption in the back room.

PAYMENT TECHNOLOGY ADOPTION INDEX (CONT'D)

WHAT KEEPS SMB OWNERS UP AT NIGHT

The biggest concern of SMBs we surveyed is getting paid on time. Almost a third of them report that getting paid on time is a VERY or FAIRLY serious issue for them. Although it's a big problem for everyone, it is a bigger problem for B2Bs on average than B2Cs.

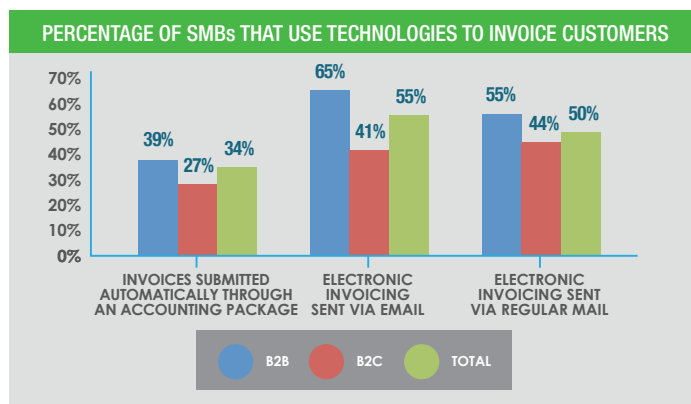
Interestingly, having to deal with technology is the second most common source of frustration for SMBs. Overall, 15% said they were VERY or FAIRLY frustrated over that, with B2Cs slightly more frustrated than B2Bs.



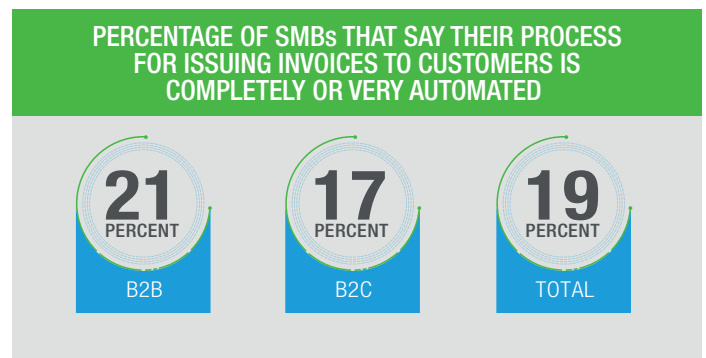
PAYMENT TECHNOLOGY ADOPTION INDEX (CONT'D)

INVOICING CUSTOMERS

Many SMBs invoice their customers and then get paid. That's of course not the case for retail shops, but it's common for most others. And even retail stores invoice customers and get paid later. Let's see how they do.

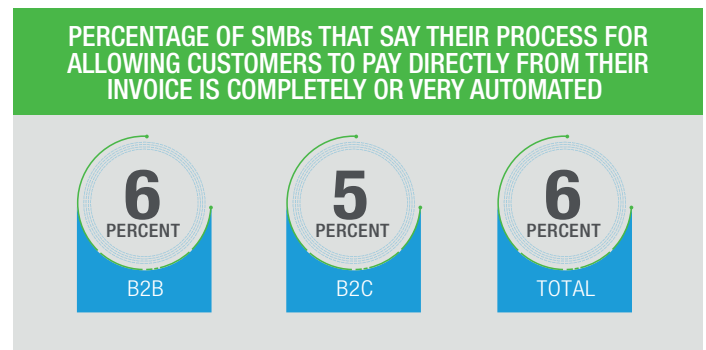


There is widespread usage of technologies that assist with invoicing, but only 20% say that they are either COMPLETELY or VERY automated, which would imply there is still some degree of manual involvement. B2B companies do have a higher overall usage of these technologies, which makes sense given that these companies are paid later far more often than B2C companies.



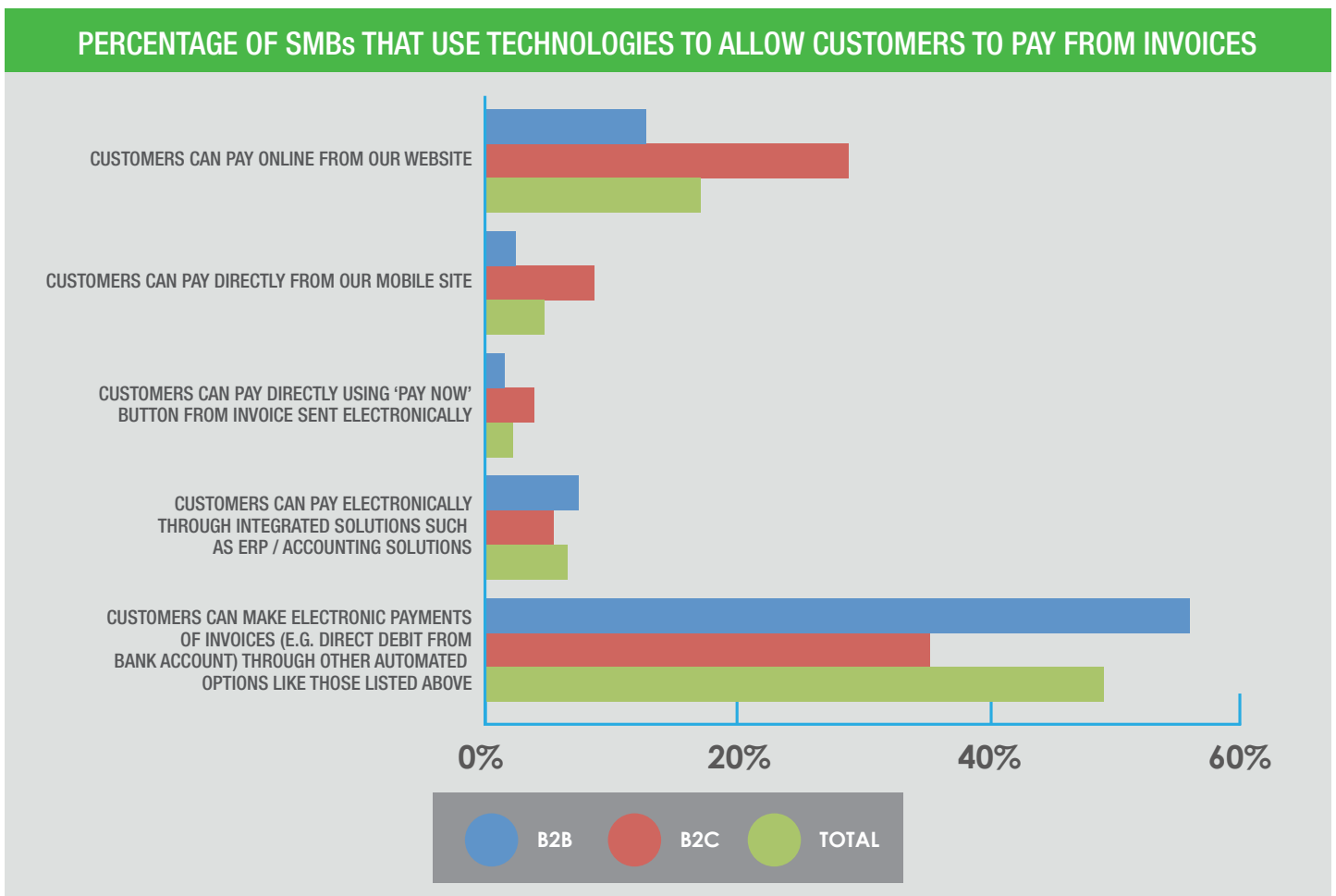
ALLOWING CUSTOMERS TO PAY FROM INVOICES

There is a much lower degree of automation when it comes to allowing customers to pay directly from their invoices. Overall, 17% of SMBs allow for payment at their website, but B2C companies are leading the way where 29% allow for website payment, compared to only 13% for B2Bs. B2C usage of mobile sites and automatic "pay now" buttons on electronic invoices is higher, but still relatively low overall. In general, very few SMBs say they have a COMPLETELY or VERY automated process for allowing customers to pay.



PAYMENT TECHNOLOGY ADOPTION INDEX (CONT'D)

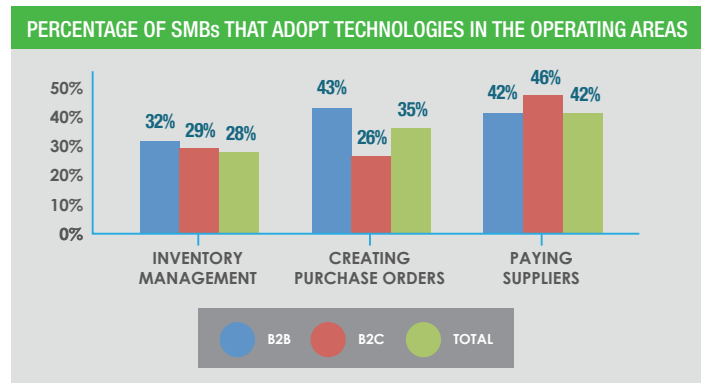
ALLOWING CUSTOMERS TO PAY FROM INVOICES (CONT'D)



PAYMENT TECHNOLOGY ADOPTION INDEX (CONT'D)

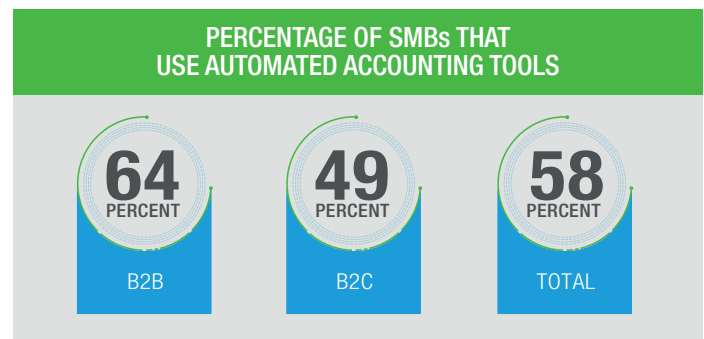
TECHNOLOGIES FOR OPERATING THE BUSINESS

There appears to be good adoption of technologies for running the business, with over one-third of all firms adopting solutions in these areas. We see B2B firms as having a far greater adoption of purchase order technologies, but little differences between B2B and B2C firms in the other areas.



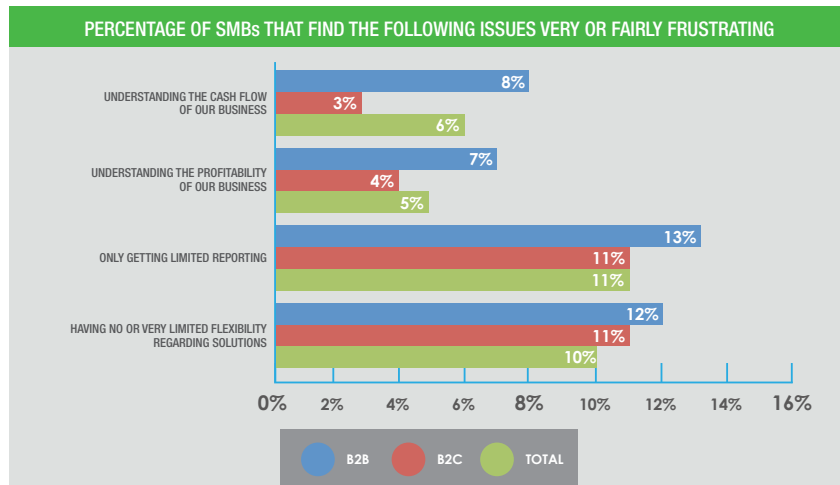
AUTOMATED ACCOUNTING TOOLS AND FINANCIAL REPORTING FRUSTRATIONS

SMBs have very strong adoption of automated accounting tools, and particularly with B2B firms. This strong adoption leads to relatively low rates of frustration with regard to financial reporting issues. As you can see on the frustration chart, the B2B firms are the ones with greater frustrations and therefore greater use of automated accounting tools. We would hypothesize that this stems from the greater trouble that B2B firms have in getting paid.



PAYMENT TECHNOLOGY ADOPTION INDEX (CONT'D)

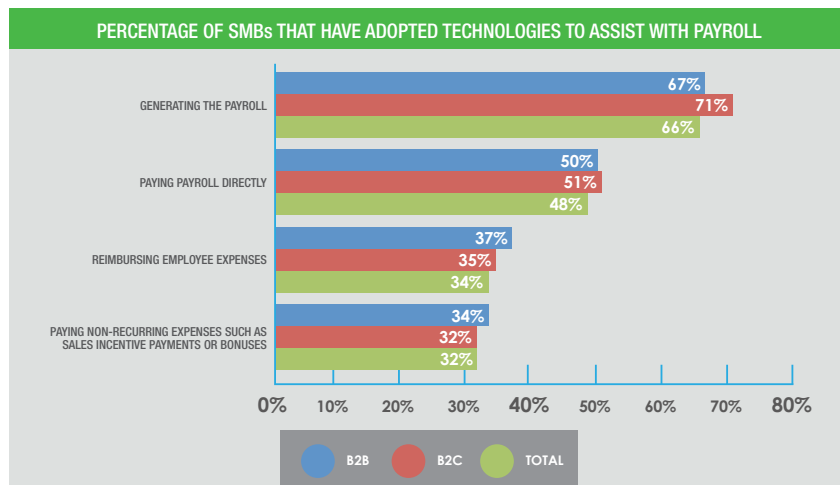
AUTOMATED ACCOUNTING TOOLS AND FINANCIAL REPORTING FRUSTRATIONS (CONT'D)



PAYING PEOPLE AND MANAGING PAYROLL

There is strong adoption of technologies to assist with the payroll functions of the business. This is strongest with generating payroll and then paying the payroll.

Reimbursements and non-recurring payments are less automated. There appears to be very little difference between B2B and B2C firms in this area.

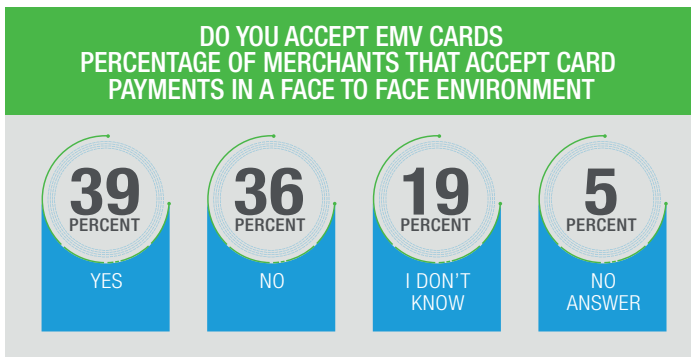


EMV DEEP DIVE

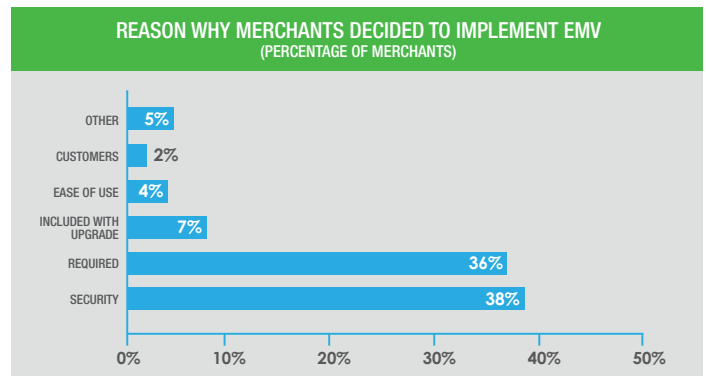
WHO IS ACCEPTING EMV AND WHY?

Starting last year, every SMB that accepts cards at the physical point of sale had to grapple with whether and when to upgrade their terminals to EMV. And of course, if they upgraded to EMV, they needed to decide whether to turn on NFC — which they must do to take Android Pay and Apple Pay. We asked SMBs what they did, and what they are going to do. Here are the results for 277 merchants that take cards in a face-to-face environment.

Almost two-fifths (39%) report they have taken the EMV plunge and now accept chip cards. The remaining 61% either explicitly say they do not accept EMV cards (36%), were unsure (19%), or didn't answer (5%). Given that EMV is a big decision to make, one they would have made recently, and one that really affects things at the register, we're assuming the 25% who weren't sure or didn't say have not moved to EMV yet.



For the 107 merchants that reported they implemented EMV, we wanted to know the most important reason for moving forward. The response? Overwhelmingly two answers — security reasons or because it was required (by processor, network, etc.).



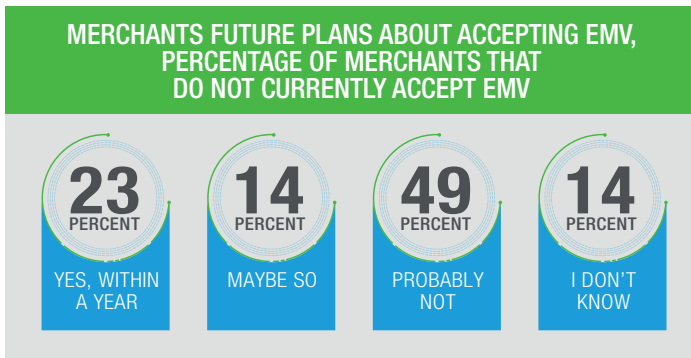
There were 100 merchants that said specifically they did not accept EMV.

The majority of SMBs which currently do NOT accept EMV cards have no plans to do so — 49% say they probably will not implement and another 14% said they did not know. Only 23% believe they will have EMV up and running within the next 12 months and 14% were considering it.

So where would that leave EMV in a year? We assume that 23% of the 61% that don't take EMV now will accept EMV cards — that's aggressive because it assumes that 23% of the SMBs that don't even know whether they have EMV will upgrade. Then by the end of 2016 about 53% of SMBs that take cards at a physical location will take chip cards. But that's a glass half full result since it is likely that about half of SMBs will not have made the move, having concluded that "security" and "being required to do so" doesn't carry the day.

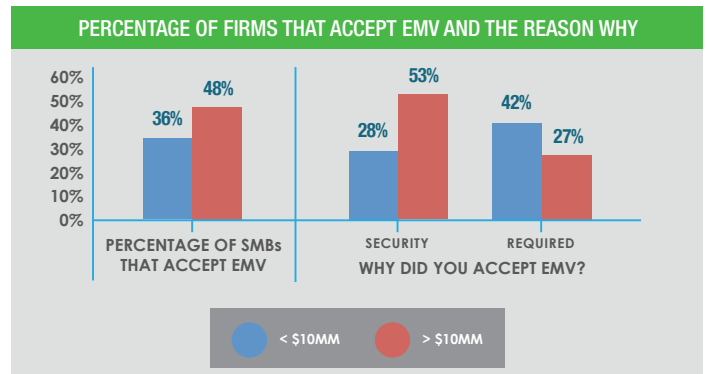
EMV DEEP DIVE (CONT'D)

WHO IS ACCEPTING EMV AND WHY? (CONT'D)

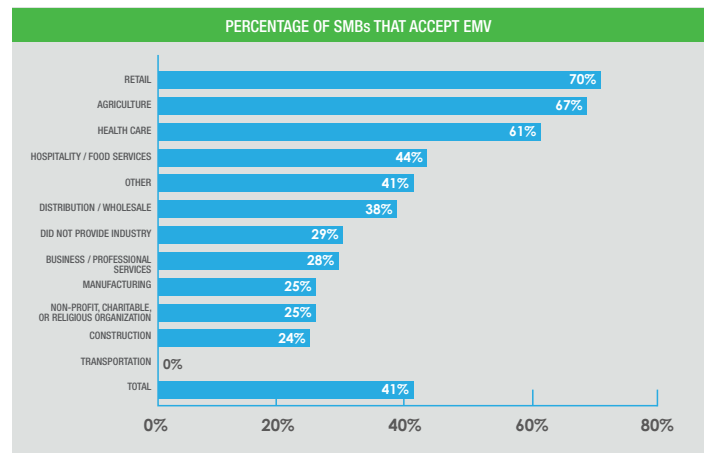


So, if merchants aren't planning to implement EMV, why not? We asked the 49 merchants why they were not going to implement EMV. The most common reasons were they didn't have enough volume (people walking in with chip cards) or that it was just too costly.

Business size matters for adopting EMV. Very clearly the largest companies are more likely to implement EMV than the smaller ones. In addition, smaller firms were more concerned with security, whereas bigger firms were driven by requirements.



On an industry basis, retail has the highest EMV acceptance of all industries, with 60% of all retail firms accepting EMV and 70% of all retail firms that have a face-to-face environment and accept credit cards having implemented EMV.

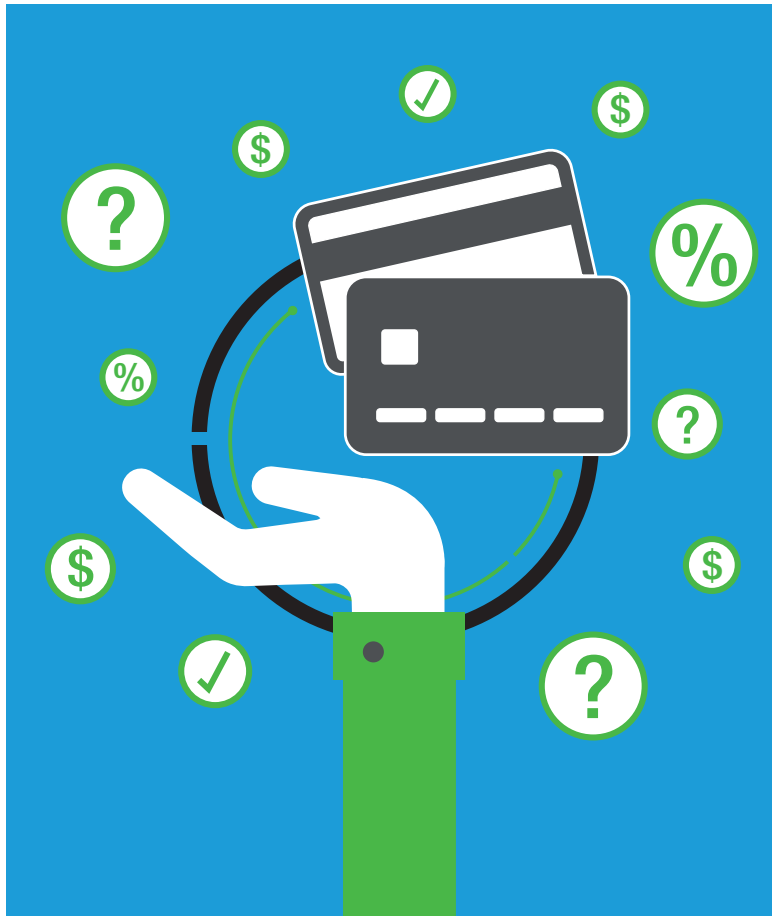


STATE OF EMV ADOPTION FOR SMBs

The EMV migration and liability shift in the U.S. officially reached the six-month mark this month. While the impacts of the major change to the payments landscape can be seen as people dip rather than swipe their chip-enabled cards at payment terminals in most major retailers today, it's not quite as easy to see how the shift has impacted small and medium-sized merchants across the country.

Despite the highly fragmented nature of the SMB environment and the challenges that come along with pinning SMB merchants down long enough to get some answers out of them, our data show that 39 percent of SMBs said they are capable of accommodating EMV chip card payments.

It's no secret that some segments of the SMB industry have been [less than thrilled](#) to take on EMV, but, all things



considered, the numbers seem quite promising.

However, what's even more surprising is that nearly 49 percent of SMBs surveyed told PYMNTS they have no plans to enable EMV – with many citing that they just don't see the need to make the investment. With the desire to focus on just driving incremental sales, when something like EMV comes along it's easy for SMB merchants to overlook the benefits or protections and only see the costs.

So how are processors and networks getting SMBs to shift their opinion of enabling EMV from a place of it being “no way” to a “no-brainer?”

Bringing awareness and education surrounding EMV to the SMBs that may need to hear it the most is what **Stephanie Ericksen, Vice President of Global Risk Products at Visa**, said is needed most.

STATE OF EMV ADOPTION FOR SMBs (CONT'D)

According to the latest data released from Visa, at the end of December roughly three quarters or more of the 766,000 total EMV-enabled merchant locations were SMBs.

“Certainly, there’s a proliferation of devices, services and solutions available to small business merchants from their processors, acquirers or even the places where they go to buy their equipment or goods for their location,” Ericksen said.

“I KIND OF LOOK AT IT MORE AS AN INSURANCE POLICY FOR THEM. IF IT’S A \$50 TO \$200 INVESTMENT, THAT’S A COUPLE CHARGEBACKS AND IT’S PAID FOR. I REALLY DON’T SEE WHAT THE RETICENCE IS.”

In many cases the issue may just come down to SMB merchants being unaware of what EMV is truly about and instead holding on to the misconceptions related to enabling for chip card payment acceptance.

“The availability of solutions is becoming more prominent in people’s everyday lives, especially when those SMB merchants are acting as consumers and are out shopping and making purchases themselves. I’m kind of hoping, since a lot of small business merchants are also consumers, that they start to see it from a consumer benefit,” she added.

For some SMB merchants the enablement of EMV can be as simple as deploying one of the many solutions available on the market today for a rather “plug-and-play” type experience, but for others, figuring out how to fit EMV into their business isn’t that easy.

MPD CEO Karen Webster pointed to some of the sectors where EMV can be conceived as a bit more challenging (such as hospitality and food services), because it requires not just a swap out of a device, but a change in the business process.

For restaurants in particular, some smaller merchants are under the assumption that enabling EMV will mean altering the way they accept payment, process tips and even deliver the bill, but Ericksen said this just isn’t the case.

“We are trying to make sure the industry is aware that they don’t have to do tableside card acceptance,” she explained. “I think some of that’s wrapped into many of the misconceptions about chip-and-choice versus chip-and-PIN. Merchants can accept a chip card just as they do today, in the same way they take a magstripe card.”

According to Ericksen, the process hasn’t changed when it comes to chip card payment acceptance at restaurants.

The server at a restaurant can still accept a chip card from a cardholder, bring it back to the terminal to process the payment and return the receipt to the customer so that they can enter the tip amount and sign for the transaction. From a counterfeit fraud liability protection standpoint, they’re still protected as long as it’s a chip transaction.



STATE OF EMV ADOPTION FOR SMBs (CONT'D)

“Just like with magstripe cards today, there’s an allowance in the difference between the initial authorization amount on a chip card and then what’s finally submitted, with a 20 percent allowance. If a cardholder tips over 20 percent and if the issuer is going to charge any of it back, they may just charge back that incremental amount between the 20 percent and the higher tip. But they aren’t allowed to charge back to the initial ticket amount plus a 20 percent difference for a tip,” Ericksen noted.

That authorization is still the same whether a chip card or a magstripe card is used — and Ericksen emphasized the fact that the industry needs to be well-educated on the fact that chip does not change their business process.

But there is one thing that changes with EMV: where the adoption of chip card acceptance goes, the migration of fraud to other, less secure options follows.

As Ericksen explained, Visa is trying to ensure merchants are aware of fraud migration, particularly as certain merchants upgrade and the counterfeit fraud is addressed, peers in their category could see their counterfeit fraud go up until they also enable.

“With those experiences coming to light for those merchants, some of them are already starting to feel that their counterfeit fraud is something that they are seeing the chargebacks on and they’ve now got their plans in place to move forward with EMV,” she added.

While both processors and networks play a vital role in increasing EMV adoption among SMBs, Ericksen also

believes that as merchants themselves become more familiar with chip card acceptance on a consumer level, they will be able to make the connection that it’s something they should consider for their own businesses.

“The SMB merchants I’m talking to in my own day-to-day life seem to be asking about when to enable to chip and how much it costs. Many have said, ‘It seems kind of like a no-brainer, why wouldn’t I do this to protect my clients?’”



ABOUT

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