



Assessing the Effectiveness of Loyalty Programs on Consumers' Buying Behavior: Evidence from Kathmandu Valley

Nikesh Kumar Gupta¹  & Kabita Adhikari^{2*} 

¹Quest International College, Pokhara University, Gwarko, Lalitpur, Nepal

²Faculty of Management, Tribhuvan University, Kathmandu, Nepal

*Corresponding Author:
kabitaadhikari@gmail.com

Received: 29 January 2026

Revised: 19 February 2026

Accepted: 25 March 2026

Published: 30 March 2026

How to cite this paper:

Gupta, N. K., & Adhikari, K. (2026). Assessing the Effectiveness of Loyalty Programs on Consumers' Buying Behavior: Evidence from Kathmandu Valley. *Quest Journal of Management and Social Sciences*, 8(1), 203-217. <https://doi.org/10.3126/qjmss.v8i1.91926>

Copyright © by authors and Quest Journal of Management and Social Sciences.

This work is licensed under a Creative Commons Attribution-Non Commercial-No Derivatives 4.0 International License.

<https://creativecommons.org/licenses/by-nc-nd/4.0/>



Open Access

Abstract

Background: Loyalty programs are widely used by businesses to influence consumer purchasing behavior and build long-term relationships with customers. In a competitive market like Kathmandu Valley, understanding how loyalty programs affect customer satisfaction and loyalty is essential for businesses to retain consumers and enhance buying behavior.

Purpose: The purpose of this study is to assess the effectiveness of loyalty programs on consumers' buying behavior in Kathmandu Valley.

Design/Methodology/Approach: This study adopts an explanatory research design and uses a convenience sampling method. Data was collected through structured questionnaires from 403 respondents residing in Kathmandu Valley using the KOBO Toolbox. The study applied Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze the effectiveness of loyalty programs on consumers' buying behavior.

Findings: The results reveal that loyalty programs significantly influence customer satisfaction and customer loyalty. Satisfaction also has a significant positive impact on customer loyalty. Furthermore, mediation analysis confirms that satisfaction significantly mediates the relationship between loyalty programs and customer loyalty.

Conclusion: The study concludes that loyalty programs play a significant role in shaping consumers' buying behavior by enhancing customer satisfaction and loyalty. Well-designed and innovative loyalty programs are essential for building long-term customer relationships and improving business performance.

Keywords: Loyalty Programs, Customer Satisfaction, Customer Loyalty, Partial Least Square Structural Equation Modeling, Buying Behavior

1. Introduction

In contemporary competitive markets, firms increasingly recognize that sustaining long-term profitability depends not only on acquiring new customers but also on retaining existing ones. Customer satisfaction and loyalty have therefore become central to strategic marketing and business sustainability, particularly in consumer-driven sectors such as retail and services (Senooane et al., 2025). Customer satisfaction refers to the degree to which a firm's offerings meet or exceed customer expectations, while customer loyalty reflects a favorable attitude and repeated purchasing behavior toward a specific brand or organization. Prior studies indicate that satisfied customers are more likely to engage in repeat purchases, demonstrate higher tolerance toward price changes, and generate positive word-of-mouth, thereby contributing to stable revenue streams and competitive advantage (Khairawati, 2019). As markets mature and competition intensifies, the strategic importance of customer loyalty has continued to grow.

Globally, businesses have increasingly shifted their focus from transactional marketing to relationship-based approaches aimed at building long-term customer engagement (Rehman et al., 2025). Empirical evidence suggests that a substantial share of revenue growth in mature markets is generated by loyal customers, encouraging organizations to invest in structured mechanisms to foster repeat patronage (Kwiatk et al., 2020). Loyalty programs have emerged as one of the most widely used instruments in this regard. Loyalty programs are defined as structured marketing initiatives that reward customers for their continued patronage through incentives such as points, discounts, cashback, exclusive benefits, or personalized offers (Bade et al., 2024). These programs are designed to enhance perceived value, strengthen the customer–brand relationship, and positively influence consumers' buying behaviour, which encompasses the processes through which individuals select, purchase, and evaluate products or services.

The effectiveness of loyalty programs is largely grounded in their ability to influence consumer decision-making and reinforce habitual purchasing patterns. By offering both economic and psychological benefits, loyalty programs can increase purchase frequency, spending levels, and brand preference (Meyer et al., 2023). From a relationship marketing perspective, such programs serve as a critical component of customer relationship management (CRM), enabling firms to identify profitable customers, tailor offerings, and build long-term relational bonds (Rosário et al., 2023). However, the effectiveness of loyalty programs is not uniform across contexts and depends on factors such as program design, reward attractiveness, ease of use, and customer perceptions of fairness and value (Evanschitzky et al., 2012).

Despite their widespread adoption, loyalty programs face several challenges that may undermine their intended outcomes. The financial costs associated with program development, maintenance, and reward provision can place pressure on organizational resources, particularly when returns on investment are uncertain (Dadd et al., 2023). Moreover, the increasing proliferation of loyalty programs across industries has led to market saturation, reducing differentiation and weakening consumers' perceived value of participation (Afzal et al., 2020). Complex program structures, unclear rules, and limited communication further contribute to customer confusion and disengagement (Utz et al., 2023). Additionally, many loyalty programs emphasize transactional incentives rather than emotional engagement, which may result in short-term behavioral loyalty without fostering deeper attitudinal commitment (Kwiatk et al., 2020).

In emerging economies, the dynamics of loyalty programs can differ substantially from those observed in developed markets due to variations in consumer awareness, purchasing power, and market maturity (Liu et al., 2020). In Nepal, particularly within the Kathmandu Valley, rapid urbanization, economic growth, and increased exposure to global business practices have transformed consumer markets in recent years. Businesses in sectors such as retail, banking, hospitality, and aviation have increasingly adopted loyalty programs to retain customers and gain a competitive edge (Pascual et al., 2022). However, consumer responses to these programs may vary depending on levels of understanding, accessibility, and perceived relevance. Many organizations implement loyalty initiatives without systematically evaluating their impact on consumers' buying behaviour, leading to uncertainty regarding their actual effectiveness.

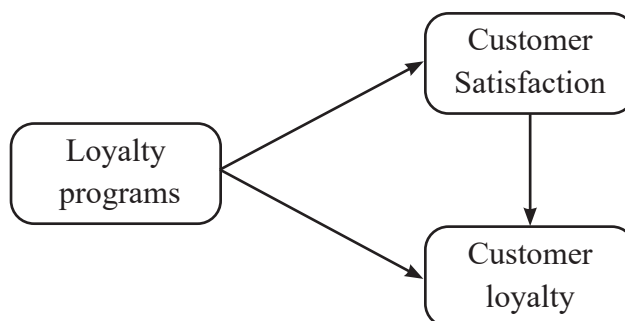
Although existing literature provides valuable insights into loyalty programs and consumer behavior, most empirical studies are concentrated in developed economies, with limited attention given to the Nepalese context. There is a notable research gap concerning how consumers in Kathmandu Valley perceive loyalty programs, the extent to which these programs influence buying behaviour and customer loyalty, and the challenges associated with their implementation. The absence of context-specific empirical evidence limits the ability of managers and policymakers to design loyalty programs that are both effective and sustainable within the local market.

In response to this gap, the present study seeks to assess the effectiveness of loyalty programs on consumers' buying behaviour in Kathmandu Valley. Specifically, the study aims to examine consumers' understanding of loyalty programs, analyze the relationship between loyalty programs and customer loyalty, identify key challenges associated with loyalty program implementation, and propose managerial strategies to enhance their effectiveness. By providing empirical insights from the Nepalese market, this study contributes to the existing literature on loyalty programs and offers practical implications for businesses seeking to strengthen customer relationships and achieve long-term competitive advantage.

2. Theoretical Framework and Hypothesis

A theoretical framework is a systematically developed set of concepts explaining relationships among variables in a study (Varpio et al., 2020; Bhandari et al., 2021). This study reviewed several theories relevant to consumer behavior and marketing, including Attribution Theory, Stimulus–Organism–Response (S–O–R) Theory, Theory of Reasoned Action (TRA), and Satisfaction–Loyalty Theory, to identify an appropriate foundation for analyzing the effectiveness of loyalty programs. After careful consideration, the Stimulus–Organism–Response (S–O–R) Theory was selected as the sole theoretical framework for this study because it provides the most comprehensive explanation of how loyalty programs influence consumers' buying behavior. The S–O–R framework is particularly suitable as it clearly captures the sequential process through which external marketing stimuli affect consumer behavior. In this study, loyalty program elements such as rewards, discounts, points accumulation, and promotional incentives serve as stimuli that influence consumers' internal cognitive and emotional states, including perceptions of value, satisfaction, and attitudes toward the brand. These internal evaluations, conceptualized as the organism component, subsequently lead to behavioral responses such as repeat purchase, increased purchase frequency, and brand preference. The strength of the S–O–R theory lies in its ability to integrate environmental cues with psychological processes, making it highly relevant for examining marketing interventions like loyalty programs. Furthermore, the theory allows for a structured analysis of how consumers in the Kathmandu Valley respond to loyalty program stimuli within a dynamic retail environment. By focusing exclusively on the S–O–R theory, this study ensures a coherent and parsimonious framework that effectively explains the mechanism through which loyalty programs shape consumers' buying behavior.

Figure 1: Conceptual Framework



Source: Revised framework Vesel and Zabkar (2009)

Loyalty Programs

Loyalty programs are structured marketing initiatives designed to encourage repeat purchases by offering rewards, incentives, and exclusive benefits to customers (Bade et al., 2024). These programs aim to strengthen long-term relationships by increasing customer engagement and perceived value (Tourchian et al., 2022). Prior studies suggest that effective loyalty programs enhance customers' satisfaction by making them feel valued and appreciated, while simultaneously fostering repeat patronage and emotional attachment to the brand (Beneke et al., 2015). Based on this reasoning, loyalty programs are expected to positively influence both customer satisfaction and customer loyalty.

H1: There is a significant relationship between loyalty programs and customer satisfaction.

H2: There is a significant relationship between loyalty programs and customer loyalty.

Customer Satisfaction

Customer satisfaction refers to customers' overall evaluation of their experiences with a firm's products or services and the extent to which expectations are met or exceeded (Mamakou et al., 2024). High levels of satisfaction are essential for sustaining competitive advantage, as satisfied customers are more likely to continue their relationship with a brand and resist competitors' offerings (Hawkins & Hoon, 2019). Previous research highlights that satisfied customers tend to develop stronger emotional bonds and exhibit higher loyalty through repeat purchases and favorable word-of-mouth (Al-Adwan et al., 2020). Therefore, customer satisfaction is expected to play a crucial role in enhancing customer loyalty.

H3: There is a significant relationship between customer satisfaction and customer loyalty.

Customer Loyalty and Mediating Role of Satisfaction

Customer satisfaction is widely recognized as a key mechanism through which loyalty programs translate into long-term customer loyalty (Bridson et al., 2008). Participation in loyalty programs enhances satisfaction by delivering tangible and psychological benefits, which in turn encourages repeat buying behavior and brand commitment (Skogland & Siguaw, 2004). Accordingly, customer satisfaction is expected to mediate the relationship between loyalty programs and customer loyalty.

H4: Customer satisfaction mediates the relationship between loyalty programs and customer loyalty.

Variables with its Definitions

Table 1: Variables with its Definitions

Construct	Observed Variables	Variable Notation	Explanation
Loyalty Programs (Bruneau et al., 2018; Vesel & Zabkar, 2009)	Recommendation	LP1	Recommendation of Loyalty program to others.
	Preference	LP2	Preference for Loyalty program.
	Like	LP3	Liking Loyalty program more than other programs.
	Speech	LP4	Saying positive things about the company with Loyalty program.
	Choice	LP5	Loyalty program definitely will be first choice in the future.

Customer satisfaction (Bruneau et al., 2018; Vesel & Zabkar, 2009)	Participation	CS1	Participation in Loyalty program is a good choice.
	Evaluation	CS2	Overall evaluation of Loyalty program is good.
	Expectation	CS3	Loyalty program meet the expectations of consumers.
	Satisfaction	CS4	All in all consumers are satisfied with Loyalty program.
	Care	CS5	Being a Loyalty program member makes the company take better care of consumers, which makes consumers happy.
Customer Loyalty (Bruneau et al., 2018; Vesel & Zabkar, 2009)	Trust	CL1	Trust is more on a company which has Loyalty programs.
	Attention	CL2	Attention to anything related about to company with Loyalty programs.
	Keep up	CL3	Consumers keep up with things related to the companies with Loyalty programs.
	Time	CL4	A lot of my discretionary time is spend with companies which has Loyalty programs.
	Passionate	CL5	Consumers are passionate about the companies with Loyalty programs.

3. Research Methods

Study Area and Population

The study was conducted in Kathmandu Valley, located in Province No. 3 (Bagmati Province) of Nepal. The Valley lies between latitudes 27°32'13" and 27°49'10" North and longitudes 85°11'31" and 85°31'38" East, at an average elevation of approximately 1,300 meters (4,265 feet) above sea level. Kathmandu Valley comprises three districts: Kathmandu, Lalitpur, and Bhaktapur (Lawaju et al., 2024). Geographically, these districts together cover about 899 square kilometers, while the core valley area extends over approximately 665 square kilometers. The Valley includes the entire Bhaktapur district, around 85 percent of Kathmandu district, and nearly 50 percent of Lalitpur district (Aalam et al., 2025). The study population consists of consumers residing in Kathmandu Valley who purchase goods and services from businesses offering loyalty programs. The Valley's dense population, diverse consumer base, and high concentration of retail and service organizations make it an appropriate setting for examining the effectiveness of loyalty programs on consumer buying behavior.

Sampling Technique and Sample Size

Sampling refers to the process of selecting a subset of individuals from a population to make valid statistical inferences (Devkota et al., 2023; Raymond et al., 2025). This study employs a non-probability sampling technique, specifically convenience sampling, as the population of consumers is large and not precisely defined, and respondents could be any available consumers during data collection. Convenience sampling was chosen due to constraints related to time, accessibility, and cost efficiency (Golzar et al., 2022). The sample size was determined using Cochran's (1977) formula for large populations ($n_0 = Z^2pq / e^2$), with a 95% confidence level ($Z = 1.96$), $p = 0.50$, $q = 0.50$, and a margin of error (e) of 0.05 (Naing, 2003). The calculated sample size was 384 respondents, which was increased to 403 to account for a 5% non-response rate.

Research Instruments, Data Collection and Analysis

The study utilized a structured questionnaire to collect primary data on the effectiveness of loyalty programs on consumers' buying behavior. The questionnaire was carefully designed to capture relevant consumer perceptions and was pre-tested with 15 respondents to evaluate clarity, feasibility, and ease of

understanding. Feedback from the pre-test led to minor revisions, improving clarity and ensuring that all items were clear and unambiguous. Data were collected from 403 respondents through both online and offline methods using KOBO Toolbox, which facilitated efficient mobile-based data entry and streamlined the data collection process. For data analysis, both descriptive and inferential techniques were applied. Descriptive analysis was conducted using Microsoft Excel to summarize respondent profiles and survey responses through frequency distributions, measures of central tendency and dispersion, and visual presentations such as tables and charts. Inferential analysis was carried out using PLS-SEM 4.0 to examine relationships among variables and test the proposed hypotheses.

4. Results

Socio-demographic Information

Table 2: Socio Demographic Analysis

Title	Category	Number	Percentage (%)
Gender	Male	241	59.8
	Female	162	40.2
Age	Below 18	7	1.74
	18-24	98	24.32
	25-34	227	56.33
	35-44	52	12.9
	45-54	16	3.97
	55-64	3	0.74
	Illiterate	1	0.25
Education Level	Below SLC or Equivalent	10	2.48
	Up to Intermediate / +2	102	25.31
	Up to Bachelors	224	55.58
	Masters and above	66	16.38
Income Level	Below 20,000	80	19.85
	20,000-50,000	254	63.03
	50,000- 100,000	59	14.64
	100,000 above	5	1.24
Employment Status	Part Time employed	48	11.91
	Fulltime employed	260	64.52
	Contract	14	3.47
	Freelancer	16	3.97
	Currently unemployed	12	2.98
	Housewife/house husband	11	2.73
	Student	41	10.17
	Others (Business)	1	0.25
Location	Kathmandu	239	59.31
	Lalitpur	84	20.84
	Bhaktapur	80	19.85

A total of 403 respondents participated in the survey. As shown in Table 2, males constituted the majority of respondents (59.8%), while females accounted for 40.2%, indicating a noticeable gender imbalance. This finding contrasts with the study by Zubair et al. (2022), where female respondents were more dominant. In terms of age distribution, the largest proportion of respondents belonged to the 25–34 age group (56.33%), followed by those aged 18–24 years (24.32%). Respondents aged 35–44 years accounted for 12.9%, while smaller proportions were observed in the 45–54 years (3.97%), below 18 years (1.74%), and 55–64 years (0.74%) categories. This pattern is broadly consistent with prior studies that identify young adults as the most active consumer group (Syed Majid Khalil et al., 2021). Regarding educational attainment, more than half of the respondents held a bachelor's degree (55.58%), followed by intermediate/+2 level education (25.31%) and master's degree holders (16.38%). A small proportion had education below SLC (2.48%), while only 0.25% were illiterate. Most respondents were from Kathmandu district (59.31%), followed by Bhaktapur (20.84%) and Lalitpur (19.85%). In terms of monthly income, the majority (63.03%) earned between Rs. 20,000–50,000, while 19.85% earned below Rs. 20,000. Professionally, full-time employed individuals formed the largest group (64.52%), suggesting that working consumers dominate participation in loyalty programs.

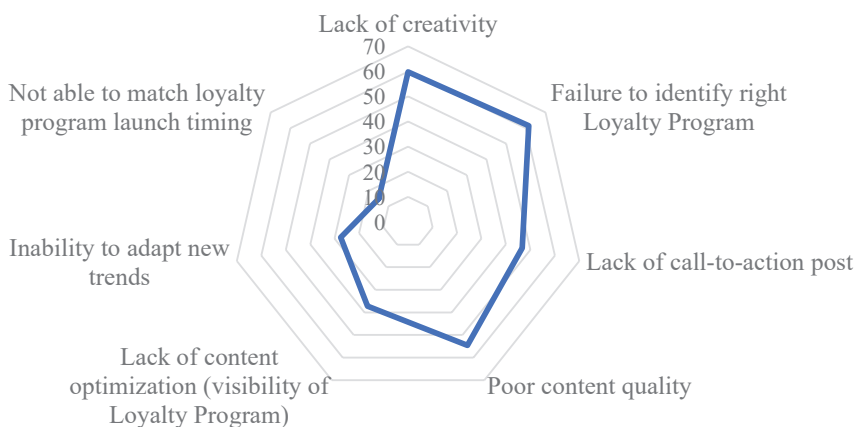
Customers' Understanding level on Loyalty Programs

This section discusses the understanding on Loyalty Programs so the respondents responded as Membership Card (72.7%) perceived this type of loyalty programs positively or were aware of it as a concept. Discounts (66.5%) perceived this type of loyalty programs or were aware of it as a concept. Redeeming Points (60.79%) perceived this type of loyalty programs or were aware of it as a concept. Information and Coupons (43.67%) perceived this type of loyalty programs positively or were aware of it as a concept. Gift Vouchers (31.76%) perceived this type of loyalty programs positively or were aware of it as a concept.

Challenges and Solutions in Loyalty Programs

The findings indicate that a significant majority of respondents (84.86%) experienced difficulties while using loyalty programs, suggesting notable gaps in their design and implementation (Figure 2). The most frequently reported challenges were failure to identify the right loyalty program (61.54%), lack of creativity (59.8%), and poor content quality (54.59%). These results imply that many businesses are unable to clearly communicate the value and benefits of their loyalty programs, leading to reduced consumer engagement. Additional challenges reported include lack of clear call-to-action posts (46.65%), poor content optimization and visibility (37.22%), inability to adapt to new trends (27.54%), and inappropriate timing of loyalty program launches (14.89%). Collectively, these issues suggest that loyalty programs in Kathmandu Valley often fail to align with consumer expectations and evolving market dynamics.

Figure 2: Challenges in Loyalty Programs



Regarding the solutions, an overwhelming majority (98.51%) believed that the challenges could be addressed through managerial solutions. The most common recommendation (63.03%) was to identify the right type of loyalty program to better match consumer preferences and increase satisfaction and loyalty. Adapting to new market trends was the second most frequent suggestion (62.28%), emphasizing the need for innovation and responsiveness. Improving content quality (59.55%) and enhancing content creativity (54.34%) were also identified as important strategies. Additionally, a smaller proportion of respondents (25.06%) suggested that firms should better identify the optimal timing for launching loyalty programs. Overall, these recommendations highlight the importance of strategic planning, creativity, and customer-centric design in strengthening loyalty program effectiveness.

Inferential Analysis

Common Method Bias: To assess the presence of common method bias (CMB), the study employed the full collinearity approach. According to Castillo et al., (2025), variance inflation factor (VIF) values below 3.3 indicate that common method bias is not a critical concern. The results presented in Table 3 show that all VIF values were below the recommended threshold of 3.3, suggesting that common method or single-source bias does not pose a serious threat to the validity of the data.

Measurement Model:

The measurement model was evaluated to establish the reliability and validity of the latent constructs and their corresponding indicators (Henseler et al., 2015). Internal consistency reliability was assessed using Cronbach's alpha (CA) and composite reliability (CR). According to Hair et al. (2015), CR values above 0.70 indicate satisfactory reliability, while CA values exceeding 0.50 represent the minimum acceptable threshold. The results demonstrate that all constructs achieved CA values above 0.50 and CR values greater than 0.70 (Table 3), confirming adequate internal consistency and indicating that the measurement items reliably represent their respective constructs.

Convergent validity was examined through indicator loadings and average variance extracted (AVE). Prior research suggests that AVE values should be at least 0.50, implying that a construct explains more than half of the variance in its indicators, while factor loadings should preferably exceed 0.70 to ensure indicator reliability (Ab Hamid et al., 2017). Initially, three constructs—loyalty programs, satisfaction, and customer loyalty—exhibited AVE values below the recommended threshold. Consequently, items with the lowest factor loadings (LP2, S1, S2, and CL1) were removed to improve construct validity. After item deletion, all remaining constructs achieved AVE values above 0.50 and factor loadings exceeding the acceptable threshold (Table 3), thereby establishing satisfactory convergent validity.

Discriminant validity was assessed using three approaches: the heterotrait–monotrait ratio (HTMT), the Fornell–Larcker criterion, and cross-loadings. HTMT values below 0.90 (or the stricter criterion of 0.85) indicate adequate discriminant validity (Cheung et al., 2024). As reported in Table 4, all HTMT values were below the threshold of 0.90, suggesting that the constructs are empirically distinct and well understood by respondents. The Fornell–Larcker criterion was subsequently evaluated, which requires that the square root of each construct's AVE exceed its highest correlation with other constructs (Kang et al., 2015). This condition was satisfied for all constructs (Table 5). In addition, cross-loading analysis revealed that each indicator loaded more strongly on its intended construct than on others (Table 6), further supporting discriminant validity.

Finally, overall model fit was assessed using the Standardized Root Mean Square Residual (SRMR). According to Hair et al. (2020), SRMR values below 0.10 indicate an acceptable model fit. The SRMR value of 0.089 confirms that the estimated measurement model demonstrates a good fit to the observed data.

Table 3: Factor Loading, AVE, CA, CR and VIF

Constructs	Items	Loadings	CA	CR	AVE	VIF
Customer Loyalty	CL2	0.669	0.727	0.831	0.552	1.235
	CL3	0.707				
	CL4	0.787				
	CL5	0.801				
Loyalty Programs	LP1	0.724	0.749	0.841	0.570	1.2
	LP3	0.817				
	LP4	0.737				
	LP5	0.739				
Satisfaction	S3	0.762	0.592	0.785	0.550	1.034
	S4	0.669				
	S5	0.789				

Table 4: HTMT

	cl	lp
cl		
lp	0.877	
ss	0.726	0.731

Table 5: Fornell and Larcker

	cl	lp	S
cl	0.743		
lp	0.654	0.755	
s	0.477	0.498	0.742

Table 6: Cross loadings

	cl	lp	S
cl2	0.669	0.475	0.376
cl3	0.707	0.46	0.326
cl4	0.787	0.47	0.374
cl5	0.801	0.533	0.34
lp1	0.554	0.724	0.426
lp3	0.508	0.817	0.405
lp4	0.426	0.737	0.348
lp5	0.469	0.739	0.308
s3	0.345	0.409	0.762
s4	0.321	0.291	0.669
s5	0.393	0.398	0.789

Structure Model Assessment

In PLS-SEM, the structural model is employed to estimate path coefficients, test hypothesized relationships, and evaluate the model's explanatory power (Purwanto et al., 2021). The assessment focuses primarily on path coefficients (β) and the coefficient of determination (R^2). As suggested by Ab Hamid et al. (2017), R^2 values of 0.25, 0.50, and 0.75 represent weak, moderate, and substantial explanatory power, respectively. As shown in Figure 3, Loyalty Program (LP) acts as the independent variable, Satisfaction (S) serves as the mediating variable, and Customer Loyalty (CL) is the dependent variable. The results indicate a positive relationship between LP and S ($\beta = 0.498$), suggesting that a one-unit increase in LP leads to a 0.498-unit increase in S. Satisfaction also positively influences CL ($\beta = 0.201$), indicating that a one-unit change in S results in a 0.201-unit change in CL. Additionally, LP has a strong direct effect on CL ($\beta = 0.554$). The R^2 value for Satisfaction is 0.248, indicating that LP explains 24.8% of the variance in S, reflecting weak explanatory power. The R^2 value for Customer Loyalty is 0.459, showing that LP and S jointly explain 45.9% of the variance in CL, indicating moderate explanatory power.

Figure 3: Path Analysis

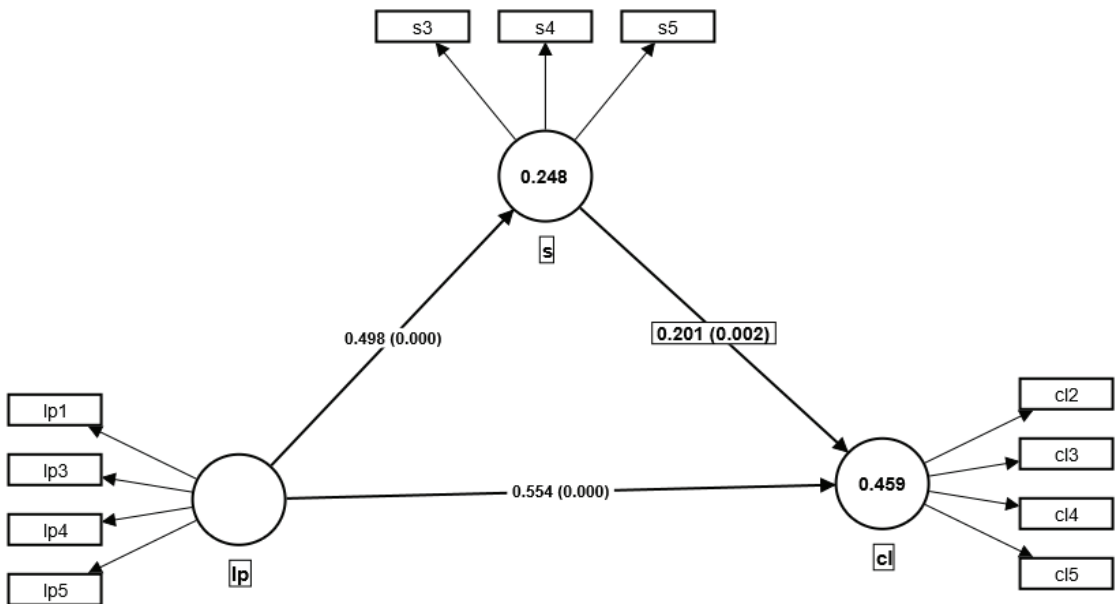


Table 6: Hypothesis Testing

	Beta	SD	t values	P values	LL2.5%	UL97.5%	Result
H1:lp -> s	0.498	0.061	8.166	0.000	0.368	0.608	Supported
H2:lp -> cl	0.554	0.057	9.711	0.000	0.43	0.657	Supported
H3:s -> cl	0.201	0.064	3.153	0.002	0.075	0.326	Supported

Table 6 presents the results of the hypothesis testing and indicates that all proposed hypotheses are supported, confirming significant relationships among the study variables. Specifically, Loyalty Program (LP) has a significant positive effect on Satisfaction (S) (H1), with a beta coefficient of $\beta = 0.498$ and $p < 0.001$, demonstrating that stronger loyalty programs lead to higher customer satisfaction. Further, Loyalty Program (LP) also shows a strong and significant positive relationship with Customer Loyalty (CL) (H2), with $\beta = 0.554$ and $p < 0.001$, indicating that effective loyalty programs directly enhance customer loyalty. Additionally, Satisfaction (S) significantly influences Customer Loyalty (CL) (H3), with a beta value of $\beta = 0.201$ and $p = 0.002$, confirming that higher satisfaction contributes to increased customer loyalty.

Mediation Analysis

Table 7: Mediation Analysis

	Beta	SD	t values	P values	LL2.5%	UL97.5%	Result
H4: lp -> s -> cl	0.1	0.036	2.754	0.006	0.036	0.179	Supported

In this study, Satisfaction acts as a mediating variable between Loyalty Program and Customer Loyalty. Table 7 indicates that Satisfaction plays a significant mediating role in the relationship between Loyalty Program and Customer Loyalty, as the hypothesis is supported ($\beta = 0.10$, $p = 0.006$).

5. Discussion

This study examines the effectiveness of loyalty programs in shaping consumer buying behavior in supermarkets within Kathmandu Valley, with particular emphasis on customer satisfaction and customer loyalty. Four hypotheses were proposed and tested, including three direct relationships (H1–H3) and one mediating relationship (H4). The findings reveal that all the proposed hypotheses are statistically significant and supported. To determine the relationships among the variables, reliability and validity assessments were conducted before testing the hypotheses using p-values as indicators of statistical significance. Following the criteria suggested by Malapane et al. (2024), hypotheses were accepted at the significance level of $p < 0.05$. As presented in Table 6, all four hypotheses (H1, H2, H3, and H4) satisfy this requirement.

Hypothesis 1 analyzed the relationship between Loyalty Programs and Satisfaction and was found to be significant ($\beta = 0.498$, $p < 0.001$). This result indicates that well-structured and attractive loyalty programs significantly enhance customer satisfaction among supermarket consumers. When customers receive rewards, discounts, or incentives through loyalty programs, they tend to feel more valued, which increases their satisfaction with the brand or store. This finding supports previous research conducted by Kwaitek et al. (2020), which also identified a positive and significant relationship between loyalty programs and customer satisfaction. Hypothesis 2 examined the direct impact of Loyalty Programs on Customer Loyalty and was strongly supported ($\beta = 0.554$, $p < 0.001$). This suggests that loyalty programs play a crucial role in directly strengthening customer loyalty. Customers who frequently benefit from loyalty rewards are more likely to continue purchasing from the same supermarket and develop a stronger attachment to the brand. This finding is consistent with earlier studies by Kang et al. (2015) and Alshurideh (2019), which also highlighted the positive role of loyalty programs in building long-term customer loyalty.

Hypothesis 3 investigated the relationship between Satisfaction and Customer Loyalty and found a significant positive effect ($\beta = 0.201$, $p = 0.002$). This indicates that satisfied customers are more likely to remain loyal and continue purchasing from the same store. When customers are satisfied with product quality, services, and benefits received from loyalty programs, they tend to develop a stronger commitment to the brand. This result supports the conclusions of Grosso et al. (2018) and Kwaitek et al. (2020), who also emphasized the important role of satisfaction in fostering customer loyalty. Finally, Hypothesis 4 tested the mediating role of Satisfaction in the relationship between Loyalty Programs and Customer Loyalty. The results confirm a significant mediating effect ($\beta = 0.10$, $p = 0.006$), indicating that loyalty programs influence customer loyalty not only directly but also indirectly through improved customer satisfaction. This means that effective loyalty programs first increase customer satisfaction, which in turn enhances customer loyalty. This finding is consistent with the mediation effect reported by Shah et al. (2021). The results provide strong empirical support for the proposed model and highlight the strategic importance of loyalty programs in enhancing customer satisfaction and strengthening customer loyalty within the supermarket sector of Kathmandu Valley.

6. Conclusion

This study examined the effectiveness of loyalty programs on consumer buying behavior in the Kathmandu Valley and found that customers generally respond positively to such programs. The findings confirm that loyalty programs significantly enhance customer loyalty, both directly and indirectly through customer satisfaction. Customers demonstrated a clear understanding of loyalty programs, commonly associating them with membership cards, discounts, point redemption, coupons, information sharing, and gift vouchers. The results indicate that satisfaction plays a crucial mediating role, strengthening the impact of loyalty programs on customer loyalty. However, the study also identified key challenges, including a lack of creativity, inappropriate program selection, and poor content quality, suggesting gaps in how loyalty programs are designed and communicated. Overall, the evidence highlights that well-structured and customer-oriented loyalty programs can effectively foster satisfaction and long-term loyalty among supermarket customers in Kathmandu Valley.

The findings offer practical implications for supermarkets and retailers by emphasizing the importance of designing appropriate, creative, and trend-responsive loyalty programs to encourage repeat purchases and strengthen customer relationships. Loyalty programs enable businesses to enhance customer retention, personalize marketing efforts, and gain valuable customer insights, while customers benefit through rewards, cost savings, and a sense of recognition. Despite these contributions, the study has limitations. Future research could explore customer preferences for different types of loyalty programs in the Nepalese context, extend the scope beyond supermarkets to other sectors, and include larger and more geographically diverse samples across Nepal to improve generalizability.

References

- Aalam, M. P., Siddique, M. R., & Kunwar, R. (2025). Impact of digital complaint management system on banking customer satisfaction: Evidence from Kathmandu valley, Nepal. *Economic Review of Nepal*, 8(2), 93-107.
- Ab Hamid, M. R., Sami, W., & Sidek, M. M. (2017, September). Discriminant validity assessment: Use of Fornell & Larcker criterion versus HTMT criterion. *In Journal of Physics: Conference Series* (Vol. 890, No. 1, p. 012163). IOP Publishing. 10.1088/1742-6596/890/1/012163
- Afzal, A., Le Goues, C., Hilton, M., & Timperley, C. S. (2020, October). A study on challenges of testing robotic systems. In 2020 IEEE 13th International Conference on Software Testing, Validation and Verification (ICST) (pp. 96-107). *IEEE*.: 10.1109/ICST46399.2020.00020
- Al-Adwan, A. S., Kokash, H., Adwan, A. A., Alhorani, A., & Yaseen, H. (2020). Building customer loyalty in online shopping: the role of online trust, online satisfaction and electronic word of mouth. *International Journal of Electronic Marketing and Retailing*, 11(3), 278-306. <https://doi.org/10.1504/IJEMR.2020.108132>
- Alshurideh, D. M. (2019). Do electronic loyalty programs still drive customer choice and repeat purchase behaviour?. *International Journal of Electronic Customer Relationship Management*, 12(1), 40-57. <https://doi.org/10.1504/IJECRM.2019.098980>
- Bade, K., Punde, T., Waghmare, H., Naidu, V., & Chandran, S. (2024). Customer Loyalty Program: Enhanced Rewards and Insights for Lasting Engagement. *International Journal for Research in Applied Science and Engineering Technology*, 12(4), 84-87. <https://www.ijraset.com/best-journal/customer-loyalty-program-enhanced-rewards-and-insights-for-lasting-engagement>
- Beneke, J., Blampied, S., Cumming, R., & Parkfelt, J. (2015). Scrutinising the effectiveness of customer loyalty programmes: A study of two large supermarket chains in South Africa. *African Journal of Business Management*, 9(5), 212-222. DOI:10.20525/ijrbs.v11i8.2028

- Bhandari, U., Yadav, S., Devkota, N., Paudel, U. R., Rajbhandari, S., & Karki, D. (2021). Private and public bank consumers' preference in Kathmandu Valley: Evidence from customers' satisfaction index. *International Research Journal of Science, Technology, Education and Management*, 1(1), 67-78.
- Bridson, K., Evans, J., & Hickman, M. (2008). Assessing the relationship between loyalty program attributes, store satisfaction and store loyalty. *Journal of Retailing and Consumer Services*, 15(5), 364-374. <https://doi.org/10.1016/j.jretconser.2007.08.004>
- Bruneau, V., Swaen, V., & Zidda, P. (2018). Are loyalty program members really engaged? Measuring customer engagement with loyalty programs. *Journal of Business Research*, 91(January), 144-158. <https://doi.org/10.1016/j.jbusres.2018.06.002>
- Castillo, A., Rescalvo-Martin, E., & Karatepe, O. M. (2025). How is common method bias addressed using partial least squares structural equation modeling in hospitality and tourism research?. *Tourism Review*, 1-25. <https://doi.org/10.1108/TR-07-2025-0762>
- Cheung, G. W., Cooper-Thomas, H. D., Lau, R. S., & Wang, L. C. (2024). Reporting reliability, convergent and discriminant validity with structural equation modeling: A review and best-practice recommendations. *Asia Pacific Journal of Management*, 41(2), 745-783. <https://link.springer.com/article/10.1007/s10490-023-09871-y>
- Dadd, D., & Hinton, M. (2023). Performance measurement and evaluation: Applying return on investment (ROI) to human capital investments. *International Journal of Productivity and Performance Management*, 72(9), 2736-2764. <https://doi.org/10.1108/IJPPM-10-2021-0573>
- Devkota, N., Khamcha, S., Upreti, S., Paudel, U. R., & Mahato, S. (2023). Visitors' perceptions of homestay management in Nepal: Evidence from structural equation modelling. In *Handbook of Research on Sustainable Tourism and Hotel Operations in Global Hypercompetition* (pp. 235-254). IGI Global Scientific Publishing.
- Evanschitzky, H., Ramaseshan, B., Woisetschlager, D. M., Richelsen, V., Blut, M., & Backhaus, C. (2012). Consequences of customer loyalty to the loyalty program and to the company. *Journal of the Academy of Marketing Science*, 40, 625-638. <https://link.springer.com/article/10.1007/s11747-011-0272-3>
- Golzar, J., Noor, S., & Tajik, O. (2022). Convenience sampling. *International Journal of Education & Language Studies*, 1(2), 72-77. <https://doi.org/10.22034/ijels.2022.162981>
- Grosso, M., Castaldo, S., & Grewal, A. (2018). How store attributes impact shoppers' loyalty in emerging countries: An investigation in the Indian retail sector. *Journal of Retailing and Consumer Services*, 40(October 2017), 117-124. <https://doi.org/10.1016/j.jretconser.2017.08.024>
- Hawkins, D., & Hoon, S. (2019). The impact of customer retention strategies and the survival of small service-based businesses. Stephanie, The Impact of Customer Retention Strategies and the Survival of Small Service-Based Businesses (August 29, 2019). <http://dx.doi.org/10.2139/ssrn.3445173>
- Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the Academy of Marketing Science*, 43, 115-135. <https://link.springer.com/article/10.1007/s11747-014-0403-8>
- Kang, J., Alejandro, T. B., & Groza, M. D. (2015). Customer-company identification and the effectiveness of loyalty programs. *Journal of Business Research*, 68(2), 464-471. <https://doi.org/10.1016/j.jbusres.2014.06.002>
- Khairawati, S. (2019). Effect of customer loyalty program on customer satisfaction and its impact on customer loyalty. *International Journal of Research in Business and Social Science* (2147- 4478), 9(1), 15-23. <https://doi.org/10.20525/ijrbs.v9i1.603>

- Kwiatk, P., Morgan, Z., & Thanasi-Boçe, M. (2020). The role of relationship quality and loyalty programs in building customer loyalty. *Journal of Business and Industrial Marketing*, 35(11), 1645–1657. <https://doi.org/10.1108/JBIM-02-2019-0093>
- Khalil, S. M., Ullah, O. B. A. I. D., & KHALIL, D. S. H. (2018). The effect of customer loyalty programs on customer retention in Pakistan. *Journal of Business & Tourism*, 4(2), 211-225.
- Kwiatk, P., Morgan, Z., & Thanasi-Boçe, M. (2020). The role of relationship quality and loyalty programs in building customer loyalty. *Journal of Business & Industrial Marketing*, 35(11), 1645-1657. <https://doi.org/10.1108/JBIM-02-2019-0093>
- Lawaju, P., Adhikari, S. U., & Devkota, J. (2024). Impact of AI in education: An evidence from use of ChatGPT in management education in Nepal. *Quest Journal of Management and Social Sciences*, 6(3), 621-642.
- Liu, J., & Ansari, A. (2020). Understanding consumer dynamic decision making under competing loyalty programs. *Journal of Marketing Research*, 57(3), 422-444. <https://doi.org/10.1177/0022243720911894>
- Malapane, T. A., & Ndlovu, N. K. (2024, May). Assessing the reliability of Likert scale statements in an e-commerce quantitative study: A Cronbach alpha analysis using SPSS Statistics. In *2024 Systems and Information Engineering Design Symposium (SIEDS)* (pp. 90-95). IEEE.10.1109/SIEDS61124.2024.10534753
- Mamakou, X. J., Zaharias, P., & Milesi, M. (2024). Measuring customer satisfaction in electronic commerce: The impact of e-service quality and user experience. *International Journal of Quality & Reliability Management*, 41(3), 915-943. <https://doi.org/10.1108/IJQR-07-2021-0215>
- Meyer-Waarden, L., Bruwer, J., & Galan, J. P. (2023). Loyalty programs, loyalty engagement and customer engagement with the company brand: Consumer-centric behavioral psychology insights from three industries. *Journal of Retailing and Consumer Services*, 71, 103212. <https://doi.org/10.1016/j.jretconser.2022.103212>
- Naing, N. N. (2003). Determination of sample size. *Malaysian Journal of Medical Sciences*, 10(2), 84–86. <https://pubmed.ncbi.nlm.nih.gov/articles/PMC3561892/>
- Pascual, M. E., & Cain, L. N. (2022). Loyalty programs: The vital safety feature for airlines to survive COVID-19. *International Hospitality Review*, 36(1), 124-130. <https://doi.org/10.1108/IHR-03-2021-0017>
- Purwanto, A., & Sudargini, Y. (2021). Partial least squares structural equation modeling (PLS-SEM) analysis for social and management research: a literature review. *Journal of Industrial Engineering & Management Research*, 2(4), 114-123. <https://doi.org/10.7777/jiemar.v2i4.168>
- Raymond, J., & Darsaut, T. E. (2025). Understanding statistical populations and inferences. *Neurochirurgie*, 71(1), 101608. <https://doi.org/10.1016/j.neuchi.2024.101608>
- Rehman, F. U., Zahid, H., Qayyum, A., & Jamil, R. A. (2025). Building relationship equity: Role of social media marketing activities, customer engagement, and relational benefits. *Journal of Theoretical and Applied Electronic Commerce Research*, 20(3), 223. <https://doi.org/10.3390/jtaer20030223>
- Rosário, A., & Casaca, J. A. (2023). Relationship marketing and customer retention—a systematic literature review. *Studies in Business and Economics*, 18(3), 44-66. DOI 10.2478/sbe-2023-0044
- Senooane, B., & Wiid, J. (2025). From From sustainability to loyalty: The roles of retailer legitimacy, corporate reputation, and consumer scepticism. *International Journal of Business Ecosystem & Strategy* (2687-2293), 7(6), 735-747. <https://doi.org/10.36096/ijbes.v7i6.987>

- Shah, M. U., & Jan, M. F. (2021). Connecting corporate social responsibility (CSR) to customer loyalty: A mediation analysis in hoteling industry of Pakistan. *Sage Open*, 11(4), 21582440211067233. <https://doi.org/10.1177/21582440211067233>
- Skogland, I., & Siguaw, J. A. (2004). Are your satisfied customers loyal?. *Cornell hotel and restaurant administration quarterly*, 45(3), 221-234. <https://doi.org/10.1177/0010880404265231>
- SYED MAJID KHALIL, OBAID ULLAH, & DR. SYED HAIDER KHALIL. (2021). The Effect of Customer Loyalty Programs on Customer Retention in Pakistan. *Journal of Business & Tourism*, 4(2), 211–225. <https://doi.org/10.34260/jbt.v4i2.173>
- Tourchian, A., Aali, S., Sanoubar, N., & Bafandeh Zende, A. (2022). Exploring customer engagement value from relationship benefits. *International Journal of Islamic and Middle Eastern Finance and Management*, 15(5), 986-1005. <https://doi.org/10.1108/IMEFM-12-2020-0603>
- Utz, M., Johanning, S., Roth, T., Bruckner, T., & Strüker, J. (2023). From ambivalence to trust: Using blockchain in customer loyalty programs. *International Journal of Information Management*, 68, 102496. <https://doi.org/10.1016/j.ijinfomgt.2022.102496>
- Varpio, L., Paradis, E., Uijtdehaage, S., & Young, M. (2020). The distinctions between theory, theoretical framework, and conceptual framework. *Academic medicine*, 95(7), 989-994. [10.1097/ACM.0000000000003075](https://doi.org/10.1097/ACM.0000000000003075)
- Vesel, P., & Zabkar, V. (2009). Managing customer loyalty through the mediating role of satisfaction in the DIY retail loyalty program. *Journal of Retailing and Consumer Services*, 16(5), 396–406. <https://doi.org/10.1016/j.jretconser.2009.05.002>
- Zubair, F., Husnain, M. I. U., Zhao, T., Ahmad, H., & Khanam, R. (2022). A gender-specific assessment of tobacco use risk factors: evidence from the latest Pakistan demographic and health survey. *BMC Public Health*, 22(1), 1133. <https://link.springer.com/article/10.1186/s12889-022-13574-2>