



The Effect of Loyalty Programs, Product Quality, and Satisfaction on Customer Loyalty in Small and Medium Enterprises

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Abstract

Purpose: The purpose of this study is to examine the impact of loyalty programs and product quality on customer satisfaction and loyalty in small and medium-sized enterprises (SMEs). This study investigate the effect of loyalty program, programs and product quality on customer satisfaction and loyalty in small and medium-sized enterprises. This research aims to contribute to small and medium-sized businesses by offering loyalty programs tailored to their business capabilities, thereby increasing customer satisfaction and loyalty.

Method: This study investigates the influence of loyalty programs and product quality on customer satisfaction and loyalty, employing a structural equation modeling approach. The population of this study is all customers who buy Baby diapers products for their children to wear. The sampling technique used is non-probability sampling with purposive sampling and the number of respondents collected is 104 respondents.

Result: The results showed a significant positive effect of loyalty programs on customer satisfaction and a significant positive effect of product quality on customer loyalty. This study did not find any mediating role of customer satisfaction. Companies can implement loyalty programs to enhance customer satisfaction, improve product quality, and foster customer loyalty. This study contributes to the literature by combining the concepts of product quality and loyalty programs that SMEs can develop to create customer satisfaction and loyalty.

INTRODUCTION

Competition in the business world is growing and tightening; there are more and more product choices for customers. This condition requires companies to have a strategy for making decisions and actions now and in the future. One strategy companies can use is to offer high-quality products to satisfy customers and build customer loyalty. Product quality is an important aspect of survival in fierce competition. Customer loyalty is important for companies because it makes customers feel addicted to their products and less interested in competitors. However, companies must also find unique strategies to compete with their competitors. In other words, companies are required to focus on selling products and retaining existing customers for the long term. One strategy to retain customers

is to conduct a loyalty program. A loyalty program is a strategy in which consumers receive rewards or reciprocity from the company for purchases made in various forms, such as products, gifts, or services. It is also a form of company statement that they are valuable customers. Loyalty programs are essential for businesses because they foster customer retention, enhance customer relationships, and influence purchasing behavior. Loyalty programs help retain existing customers and attract new ones by creating value and fostering trust. This program increases lifetime value (CLV), higher purchase frequency, and stronger brand advocacy.

More than 90% of businesses currently offer some rewards program, demonstrating the pervasiveness of loyalty programs (LPs) in contemporary marketing (Accenture, 2017). Even though loyalty programs have been the subject of extensive research over the last 30 years, many questions remain about their efficacy, implementation, and development in the digital era. Our comprehension of these intricate marketing techniques is limited by several theoretical flaws in the current loyalty program research: Over-reliance on single-theory perspectives. Instead of using multi-theoretical frameworks that could better represent the complexity of contemporary LPs, the majority of studies analyze LP effects through solitary theoretical lenses (such as status-based, inertia-based, or relationship-based theories). This disjointed approach fails to account for the interactions among behavioral and psychological variables that affect LP effectiveness. The absence of cultural theories comes in second. Understanding cross-national variations in how customers view and interact with loyalty programs is severely hampered by the conspicuous lack of cultural theories in LP research. This disparity becomes more significant due to globalization and the development of digital platforms that facilitate cross-border LP involvement. Last but not least, new theoretical perspectives are not given enough consideration. Although they have yet to be primarily explored in the literature, new theoretical stances from behavioral economics, neurology, and human-computer interaction may offer insights into the effectiveness and design of LPs.

Several significant limitations are shown by the circumstances in which loyalty schemes have been explored—first, an emphasis on the West. There are substantial gaps in our understanding of how LPs operate in emerging markets and non-Western cultural contexts, as most LP research has been conducted in Western countries, primarily the US and Europe. The second is the concentration of industry. Specific industries, such as airlines, hotels, and retail, have received disproportionate research attention. In contrast, other industries, such as healthcare, education, and business-to-business services, remain understudied despite their growing use of LP tactics. Lastly, there is a delay in the digital transition. On the other hand, digitalization has transformed LP implementation through AI personalization and mobile apps. Examining these technological changes and their effects on program design and efficacy has been a sluggish area of academic inquiry.

Several studies on loyalty programs have yielded mixed results. The digital loyalty program at Lazada demonstrates its impact on customer satisfaction (Panjaitan, 2021). In addition, digital loyalty programs affect customer loyalty. This study also shows that digital loyalty programs and customer satisfaction affect customer loyalty. Customer satisfaction has a mediating role in digital loyalty programs and customer loyalty. Loyalty programs, such as Toko Points and E-coupons, provide Lazada users with benefits by redeeming points for cashback and other discounts, making customers more satisfied and more loyal to Lazada. Satisfaction as a mediating function explains that loyalty programs indirectly affect customer loyalty through customer satisfaction. Other studies have found that loyalty programs have a significant effect on satisfaction, and satisfaction has a significant effect on loyalty (Hendrawan & Anggraeni, 2020). This significant effect means that when loyalty program members are satisfied with the benefits they receive, they will become loyal consumers of the store. Customer satisfaction mediates the relationship between loyalty programs and customer loyalty. Loyalty can be formed when loyalty program members are satisfied. However, the loyalty program does not directly have a significant effect on loyalty. Respondents explained that there was a particular pleasure in collecting points, but this did not make them say good things to others or become a reason to be loyal.

Furthermore, Sudarman et al. (2021) research shows that product quality variables directly affect customer satisfaction. Customer satisfaction also mediates the relationship between product quality and customer loyalty. This condition positively impacts customer loyalty. Research by Taufik et al. (2022) found that product quality has a direct, significant positive effect on customer satisfaction, and that customer satisfaction directly affects customer loyalty. This research shows that the product can affect customer expectations. This study also found an indirect positive influence of product quality on customer loyalty, mediated by customer satisfaction.

Despite extensive research, three significant limitations persist in the literature. First, while meta-analyses confirm a positive link between loyalty programs and satisfaction (Dorotic et al., 2012), the mechanism by which program engagement translates into enduring loyalty remains unclear, especially when programs are perceived as short-term "games" rather than valuable relationships. Second, the assumption that satisfaction directly and invariably leads to loyalty has been widely challenged (Oliver, 1999), suggesting the presence of mediating or moderating factors that need further exploration in specific industry settings. Third, there is an ongoing debate about whether customer loyalty is driven more by emotional bonds (satisfaction, relationship quality) or by calculated, rational assessments of core product value (product quality, functional performance) (Jones et al., 2007).

This study aims to address these gaps by investigating the distinct and interconnected roles of loyalty programs and product quality in driving customer loyalty, with customer satisfaction examined as a potential mediating variable. The context of this research—a child-specific product market where purchase decisions are highly risk-averse and value-driven—provides a unique setting to test these relationships. Specifically, the research seeks to answer: In a market where functional performance is critical, does a transactional loyalty program or superior product quality play a more decisive role in building sustainable customer loyalty, and to what extent does customer satisfaction explain this relationship? By clarifying these pathways, this study contributes to both theoretical refinement and practical strategy in relationship marketing.

To strengthen the theoretical foundation, the relationships among loyalty programs, product quality, satisfaction, and customer loyalty can be effectively framed through Social Exchange Theory (SET). This theory posits that a reciprocal exchange of value sustains customer-company relationships. In this framework, a loyalty program represents the firm's investment to structure beneficial exchanges, while product quality is the core benefit provided. Customer satisfaction emerges as the perception that this exchange is fair and rewarding. When this positive evaluation is consistent, it fosters trust and commitment, ultimately resulting in sustained customer loyalty as the customer chooses to maintain the valuable relationship. Thus, SET explains the dynamic process by which tactical benefits evolve into a loyal relational bond.

Hypothesis Development

Loyalty programs influence customer satisfaction. This is because implementing a loyalty program can increase the satisfaction of customers who have joined and used it. Through the loyalty program, customers can earn points on every transaction across various product types. These points can be exchanged for discounts on purchased products, thereby helping customers feel satisfied (Hendrawan & Anggraeni, 2020). Loyalty programs positively affect customer satisfaction by providing added value, rewards, and a better experience. Some loyalty programs offer attractive and profitable benefits, making customers feel rewarded for their purchases and loyalty. Incentives such as points, discounts, cashback, or gifts create a feeling of satisfaction because customers get more than just the product or service purchased (Tsabita & Djamaludin, 2023; Haridyanti et al., 2024). Providing attractive benefits, such as facilities and attractive customer offers, will affect customer satisfaction (Khairawati, 2019).

H1: Loyalty programs have a positive effect on customer satisfaction.

Product quality has a positive and significant effect on customer satisfaction. This result shows that the customer will feel satisfied when the product quality is good because it meets expectations. Therefore, companies need to pay attention to the quality of their products so that they seem quality in customers' eyes. Presenting high product quality will lead to customer satisfaction because customers feel the product aligns with what they want and need (Taufik et al., 2022). The quality of a product positively influences customer satisfaction by directly affecting how well it aligns with or exceeds customer expectations, which is essential for a good customer experience. Customers anticipate that products will function consistently, be long-lasting, and achieve their intended objectives. When a product fulfills or exceeds these expectations, customers experience satisfaction with their purchase and the brand (Hoe & Manshori, 2018). High-quality products reliably fulfill their claims, fostering trust between customers and brands. High-quality products are less prone to defects or performance problems, leading to fewer returns and grievances. This seamless post-purchase process boosts overall satisfaction and reduces consumer annoyance. High-quality products are less prone to defects or performance problems, reducing returns and complaints. This seamless post-purchase experience boosts overall satisfaction and reduces customer frustration. This smooth post-purchase experience enhances overall satisfaction and reduces customer frustration. Companies must build a product innovation concept to improve product quality and increase customer satisfaction (Sudarman et al., 2021; Erdiansyah & Imaningsih, 2021). Product quality positively influences customer satisfaction by directly addressing customer expectations and needs, creating a favorable experience, and fostering trust in the brand. High-quality products consistently meet or exceed customer expectations regarding performance, reliability, and durability. When customers receive products that function as intended and last longer, they feel satisfied with their purchase (Hoe & Mansori, 2018; Millenia & Sukma, 2022).

H2: Product quality has a positive effect on customer satisfaction.

A loyalty program is one approach to retaining customers. A loyalty initiative can help businesses retain clients, boost satisfaction, and prevent customers from being lured by competitor promotions. Loyalty programs enhance customer loyalty by promoting repeat purchases, nurturing emotional bonds, and fostering a sense of worth. Loyalty programs frequently forge emotional connections by making customers feel respected and valued. For instance, individualized rewards or recognition enhance attitudinal loyalty, fostering a more profound psychological attachment to the brand. Loyalty programs incentivize customers to repeat their business, encouraging them to keep buying from the same brand to earn points, gain discounts, or access exclusive rewards. This reinforcement increases both the frequency and the amount of purchases, a concept known as behavioral loyalty. Although behavioral loyalty is simpler to sway, well-crafted programs also encourage attitudinal loyalty by ensuring customers feel valued and recognized. This emotional connection may lead to stronger brand loyalty and support, though its impact is usually less significant than behavioral loyalty. With a loyalty program, companies can maintain good customer relationships, retain some customers with high repurchase rates, and reduce customer intention to switch (Hendrawan & Anggraeni, 2020). This condition leads to the formation of customer relationships, resulting in customers consistently purchasing products from companies that offer loyalty programs (Adha et al., 2018).

H3: Loyalty programs have a positive effect on customer loyalty.

Good product quality is evident in the benefits these products offer, especially for daily needs. Product quality affects customer loyalty (Rosmadi & Romdonny, 2019). Good product quality can attract customers to return to using the products offered. This argument holds that higher quality will foster a loyal attitude among customers, making them reluctant to switch to other brands (Sayoga & Suasana, 2022). Product quality influences customer loyalty by building trust, satisfaction, and

emotional attachment to a brand. The high product quality meets or exceeds customer expectations, leading to satisfaction. Satisfied customers are more likely to remain loyal to a brand and make repeat purchases. Studies show that satisfaction mediates between product quality and loyalty, underscoring the importance of quality in fostering long-term relationships (Hoe & Mansori, 2018; Suhendi, 2021). H4: Product quality has a positive effect on customer loyalty.

Higher customer satisfaction can increase customer loyalty, thereby boosting company profits. When customers are satisfied with the product, they become accustomed to using it and become loyal customers (Hendrawan & Anggraeni, 2020; Tedjokusumo & Murhadi, 2023). Satisfied customers will repurchase the same product even when competitors offer alternatives. Customer satisfaction will affect the action (Sayoga & Suasana, 2022; Murhadi & Reski, 2022). Customer satisfaction enhances loyalty by fostering trust, emotional bonds, and repeated actions. Content customers view the brand as dependable and trustworthy, enhancing their loyalty. This confidence enables them to continue buying from the same firm rather than seeking alternatives (Sharma et al., 2020; Singh et al., 2023). When customers' expectations are fulfilled or surpassed, they build trust and a favorable emotional connection with the brand. Customers who feel emotionally fulfilled are three times more likely to make repeat purchases and endorse the brand to others, thereby strengthening their loyalty. High satisfaction reduces the likelihood that customers will switch to competitors, regardless of available alternatives. Content customers are also less affected by price hikes, making them more inclined to remain loyal despite increases. There is a direct relationship between customer satisfaction and loyalty: as satisfaction rises, the probability of repeat business and long-term commitment increases (Khan, 2012).

H5: Customer satisfaction has a positive effect on customer loyalty.

Customer satisfaction functions as a mediator, serving as an intermediary that bridges the loyalty program to customer loyalty. When customer satisfaction increases, customer loyalty will also increase (Khairawati, 2019). A loyalty program can be a marketing initiative that increases customer satisfaction, which in turn can lead to customer loyalty or continued use of the same product. Increasing customer satisfaction and loyalty is important for developing and maintaining a business (Panjaitan, 2021). Customer satisfaction acts as a mediator between loyalty programs and customer loyalty. Loyalty programs directly influence satisfaction by providing tangible (e.g., discounts) and intangible (e.g., recognition) benefits. Satisfaction then translates into loyalty by creating positive experiences that encourage repeat engagement with the brand (Fook & Dastane, 2021).

H6: Loyalty programs positively affect customer loyalty through customer satisfaction.

Customer satisfaction can mediate the relationship between product quality and customer loyalty. Quality has a strong influence on customer satisfaction and, in turn, on customer loyalty. Thus, companies can increase customer satisfaction by providing high-quality products, thereby fostering greater loyalty between consumers and companies (Sudarman et al., 2021). Customers who are satisfied with the quality of the products they receive will automatically become loyal. Research indicates that the influence of product quality on customer loyalty is often more substantial when mediated by customer satisfaction (Fadwa et al., 2022). Product quality influences customer loyalty indirectly by enhancing customer satisfaction. Satisfied customers are more likely to remain loyal because they trust the brand, perceive value in its offerings, and form positive emotional connections with their experiences. This mediating role of satisfaction amplifies the impact of product quality on loyalty, making it a critical factor for businesses aiming to build lasting customer relationships.

H7: Product quality positively affects customer loyalty through customer satisfaction.

The research model is presented in Figure 1.

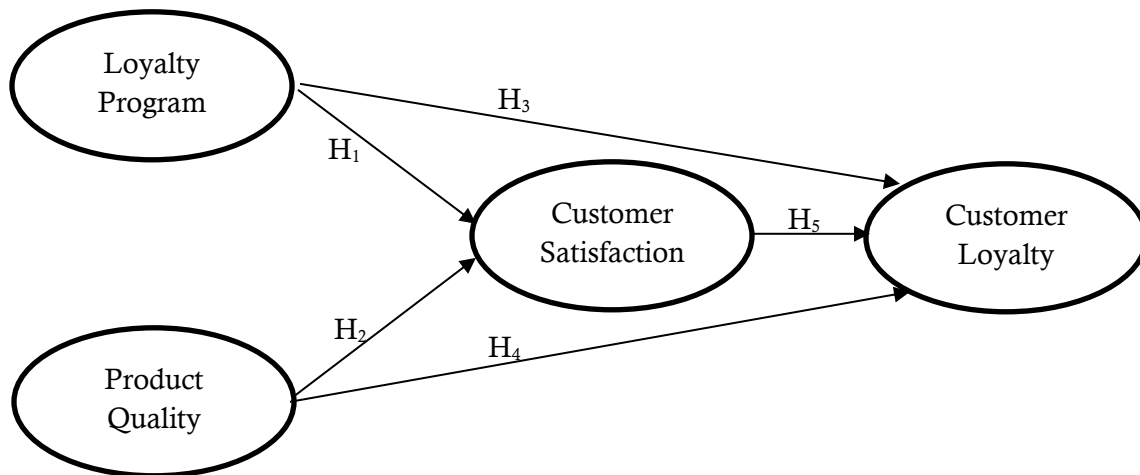


Figure 1.
Research Model

RESEARCH METHODS

This study employs two independent variables—loyalty programs and product quality—with customer loyalty as the dependent variable and customer satisfaction as the mediating variable. The object used is a loyalty program from a business that produces household products, especially baby diapers. The loyalty program offered is a Point Reward program.

The operational definitions for each construct are as follows: A loyalty program is a marketing strategy that provides customers with benefits such as new product information, special offers, and gifts. Loyalty programs can be measured using the following indicators (Başgöze et al., 2021): I like the "Point Reward" Program more than other programs; I have a strong interest in the "Point Reward" Program, and I would recommend the "Point Reward" program to others. Product quality is an advantage a product has for meeting customer needs (Sudarman et al., 2021). Product quality in baby diapers can be measured using the following indicators: Baby diapers' absorbency is good; Baby diapers' capacity is large; Baby diapers can protect against leakage; Baby diapers are comfortable when used; and Baby diapers are soft for the baby's skin. Customer loyalty refers to consumers' positive attitudes and behaviors toward a product, as demonstrated by repeated purchases and voluntary recommendations to others. Customer loyalty can be measured by the following question indicators (Taufik et al., 2022): I buy Baby Diapers products quite often; I am willing to repurchase Baby Diapers products; I am willing to recommend Baby Diapers products to others; and I do not easily switch to other baby diaper products. The mediating variable used in this study is customer satisfaction. Customer satisfaction is a state that consumers experience when their expectations are well met after consuming a product. Satisfaction as fulfillment and ambivalence can be measured by the following indicators (Taufik et al., 2022): Overall, I feel satisfied with Baby Diapers products; I feel satisfied with the "Point Reward" program held by Baby Diapers, and I am willing to wait even though the delivery of gifts is long.

The population of this study comprises all customers who purchase baby diaper products for their children. The sampling technique used is non-probability sampling with purposive sampling (Murhadi, 2025), which meets the sampling characteristics of the study as follows: Adults (aged 17 years and over), having children who use "Baby diapers" branded diapers, being a member of the "Point Reward" Program, and having "Point Reward" on the application. This study uses four constructs, so the minimum number of respondents is 100. This research uses structural equation modeling analysis techniques.

RESULTS & DISCUSSION

Descriptive statistics are shown in Table 1, which shows that the majority of respondents are aged 26 to 31 years (56.7%), with homemakers accounting for 47.1%. The number of children at home is predominantly 1, reaching 52.9%. The product has been in use for more than 2 years, with 39.4% adoption.

Table 1.
Demographic Profile of Respondent

	Characteristics	Frequency	%
Age	22 -< 26 Years old	34	32.7
	26 -< 31 Years old	59	56.7
	31 above	11	10.6
Occupation	housewife	49	47.1
	civil servant	30	28.8
	Entrepreneur/ self-employed	18	17.3
	others	7	6.8
Number of child	One	55	52.9
	Two	43	41.3
	More than two	6	5.8
Length of using product	Less than 1 year	23	22.1
	1-2 year	40	38.5
	More than 2 year	41	39.4

The validity and reliability of each construct are presented in Table 2. After removing the loading factors below 0.5, the final results are as follows.

Table 2.
Result of the Measurement Model

Measure	Factor Loading
Loyalty Program (Composite reliability=0.736; Cronbach α =0.829; AVE=0.483)	
I like the "Point Reward" program more than other programs	0.734
I have a strong interest in the "Point Reward" program	0.712
I would recommend the "Point Reward" Program to others	0.664
Quality Product (Composite reliability = 0.731; Cronbach α =0.788; AVE=0.475)	
Baby diapers' capacity is large	0.688
Baby diapers' can protect against leakage	0.665
Baby diapers is soft for baby's skin	0.683
Customer satisfaction (Composite reliability = 0.693; Cronbach α =0.933; AVE=0.535)	
I feel satisfied with the "Point Reward" program held by Baby diapers	0.622
I am willing to wait even though the delivery of gifts is long	0.818
Customer Loyalty (Composite reliability = 0.737; Cronbach α =0.864; AVE=0.419)	
I buy Baby diapers products quite often	0.530
I am willing to repurchase Baby diapers products	0.771
I am willing to recommend Baby diapers products to others	0.712
I do not easily switch to other baby diaper products	0.528

From Table 2, it can be seen that all loading factor values are above 0.5. In the loyalty program variable, customer satisfaction and loyalty have AVEs below 0.5, yet the results are still quite good.

This result occurs because the average standardized loading value is close to the acceptance criteria, resulting in a value below the expected level. Murhadi (2025) stated that an AVE value of 0.4-0.5 is still quite good and quite reasonable. So, the Goodness-of-Fit test results for the measurement model are presented as follows.

Table 3.
Results of the Goodness of Fit Measurement Model Test

No.	Index	Criteria	Result	Note
1	CMIN	$p \geq 0.05$	0.294	Good Fit
2	CMIN/DF	≤ 3	1.108	Good Fit
3	RMSEA	≤ 0.08	0.032	Good Fit
4	GFI	≥ 0.9	0.936	Good Fit
5	CFI	≥ 0.9	0.990	Good Fit
6	TLI	≥ 0.9	0.983	Good Fit
7	AGFI	≥ 0.9	0.874	Marginal Fit
8	NFI	≥ 0.9	0.911	Good Fit
9	IFI	≥ 0.9	0.991	Good Fit
10	RFI	≥ 0.9	0.853	Marginal Fit

Based on Table 3, the results of 10 Goodness-of-Fit tests on the measurement model are acceptable: eight indices meet the good fit criteria, and two indices show marginal fit, allowing it to proceed to the structural model test shown in Table 4.

Table 4.
Hypothesis Test Results

Path	Estimate	C.R.	p	Note
Loyalty program → Customer satisfaction	0.774	4.510	***	Accepted
Product Quality → Customer satisfaction	0.169	1.178	0.239	Rejected
Loyalty program → Customer Loyalty	0.490	1.698	0.635	Rejected
Product Quality → Customer Loyalty	0.168	1.673	0.094*	Accepted
Customer satisfaction → Customer Loyalty	-0.141	-0.475	0.090*	Rejected

Note: ***sig at $\alpha = 1\%$, **sig at $\alpha = 5\%$, *sig at $\alpha = 10\%$

Table 4 presents the results of the first hypothesis test, indicating that the loyalty program variable has a significant positive relationship with customer satisfaction. These results align with the research conducted by Panjaitan (2021) and Hendrawan & Anggraeni (2020), which also show a significant positive relationship between the loyalty program variable and customer satisfaction. The result is likely because the loyalty program benefits customers by allowing them to exchange points for attractive rewards, thus making them satisfied with the benefits they receive (Panjaitan, 2021). By joining the loyalty program, customers feel satisfied and experience joy as they collect points. The loyalty program organized by Baby Diapers is conducted by downloading the "Point Reward" application, making it a hedonistic program rather than a money-oriented one. The hedonistic benefits of the loyalty program, which are related to customer experiences, influence customer satisfaction (Sheng & Bernarto, 2022). Loyalty programs positively influence customer satisfaction for several reasons, grounded in psychological and practical consumer benefits. Loyalty programs provide customers with immediate monetary benefits, such as discounts, points redeemable for rewards, and special offers. These benefits give shoppers the impression of receiving better value for their money, enhancing their overall satisfaction with the brand. Numerous loyalty programs offer members priority access to new products, exclusive events, or enhanced customer service. This feeling of special

privilege and exclusivity improves the customer experience and makes members feel valued. Aspects such as gamification (earning points, unlocking levels, completing challenges) add a fun element to the shopping experience. This enhances engagement with the brand and nurtures a feeling of accomplishment and community. Loyalty programs can cultivate a community of similarly minded customers and enhance a feeling of belonging when customers perceive themselves as members of a brand's "inner circle." Their satisfaction and loyalty increase. To summarize, loyalty programs enhance customer satisfaction by providing value, recognition, exclusivity, and involvement—transforming routine transactions into fulfilling experiences that foster enduring brand loyalty.

The results of the second hypothesis test, which examines the relationship between product quality and customer satisfaction, are insignificant. Higher product quality does not affect customer satisfaction with Baby Diapers products. This result aligns with the research by Kristiawan et al. (2021), which also found that product quality does not significantly affect customer satisfaction. Product quality, which is a product's positive performance, has a weak relationship with customer satisfaction. However, this study also notes that although product quality does not significantly affect customer satisfaction, this does not mean it is unimportant for creating customer satisfaction. This study used baby diaper products with the following quality determinants: absorbency, capacity, leak protection, comfort during use, and softness on the baby's skin. The specific market context and consumer expectations for baby diaper products can explain the rejection of Hypothesis 2. In this category, attributes such as high absorbency, reliable leak protection, and skin safety are not merely value-adding features but are considered hygiene necessities and minimum acceptable standards. Consequently, when these core quality determinants are consistently met, they fulfill a baseline expectation rather than delighting the customer or elevating satisfaction. Satisfaction in this market may instead be driven by other factors—such as the experiential rewards of a loyalty program, brand trust, or price-value perception—once the fundamental quality threshold is satisfied. Therefore, while superior product quality remains essential to avoid dissatisfaction, it operates as a qualifier rather than a differentiator in influencing overall satisfaction ratings, leading to the observed insignificant relationship.

The results of the third hypothesis test, which showed that the loyalty program positively affects customer loyalty, are unsupported. This means that a loyalty program does not affect customer loyalty. This research aligns with the study by Hendrawan and Anggriani (2020), which found that loyalty programs do not directly affect customer loyalty. This is because customers feel happy when collecting points, but are not motivated to share the good things about this product with others. This condition shows that the loyalty program's benefits only create personal enjoyment for customers who do not need to be shared with others. In addition, this hypothesis is supported by Zakaria et al. (2014), who found that loyalty programs in the form of reward redemption do not affect customer loyalty. According to O'Brien & Jones (1995), companies must provide their best value to their best customers to achieve customer loyalty. However, many loyalty programs do not yet meet all five elements: cash value, redemption options, aspirational value, relevance, and convenience. In this case, the "Reward Points" program still does not meet the program elements because it does not include cash value, such as cash discounts on purchases, and it does not meet the comfort factor, as shown in the app's rating and customer reviews.

The results of the fourth hypothesis show a significant positive influence of product quality and customer loyalty. These results align with the research conducted by Sudarman et al. (2021), which found that improved product quality increases customer loyalty. This study is also supported by the findings of Grace et al. (2021), which show that product quality influences customer loyalty. In addition, these results are supported by Susriyanti et al. (2022), who found that as product quality increases, customer loyalty also increases. Elevated product quality indicates dependability and uniformity. When customers consistently encounter products that fulfill or surpass their expectations, they build trust in the brand, increasing the likelihood of returning for subsequent purchases. High product quality will encourage consumers to buy rather than switch to alternatives. When clients are

pleased with the quality of a product, they are less inclined to switch to rival brands, even when options are available. This diminishes turnover and enhances brand allegiance. Customers who enjoy the product will keep buying it, demonstrating customer loyalty. The product's quality, which has undergone extensive testing and reliability over time, will foster customer loyalty for a prolonged duration (Rohmah et al., 2023). High product quality enhances the perceived worth of a brand's products. Consumers are more inclined to remain loyal and even pay extra for brands they link to outstanding value and reliable performance. Regularly providing top-notch products creates an emotional connection between consumers and the brand. This relationship transcends practical advantages, fostering advocacy and a stronger, more lasting loyalty.

The result of the fifth hypothesis indicates a Type I error: the hypothesis predicts a positive influence on customer loyalty, whereas the result shows a negative impact. This research is supported by Palilati (2007), who shows a significant adverse effect on customer satisfaction and customer loyalty. This result can be explained by the fact that customer satisfaction levels have not yet exceeded expectations. This study also aligns with the research by Susriyanti et al. (2022), which found an adverse, insignificant effect. Customer satisfaction does not always lead to customer loyalty (Ilham et al., 2020). This can also occur when customer satisfaction is low during product purchase, and the product's results no longer benefit the consumer, leading to customers switching to another company (Grace et al., 2021). This unsupported result can also be due to the product's temporary characteristics, which decline as the child's age increases. Therefore, even though customers are satisfied with this product, they will not become loyal customers because the consumer no longer needs it as the child ages. Therefore, even though customers are satisfied with this product, they will not become loyal customers because, as their children grow older, they will no longer need it.

The indirect effect test, or mediation test, was conducted using the Sobel test to assess its acceptability. This model includes a mediating variable, namely customer satisfaction. The following (Table 5) are the results of the Sobel test for the mediating variable of customer satisfaction on customer loyalty.

Table 5.
Results of The Indirect Effect Hypothesis Test

Path		Mediating Effect		Z Value	p-value	
		b	Sb			
Loyalty Program → Customer Satisfaction → Customer Loyalty	a	0,774	-0,141	0,297	-0.46	0.3228
Product Quality → Customer Satisfaction → Customer Loyalty	a	0,169	-0,141	0,297	-0.35	0.3632

From Table 5, there is no evidence that customer satisfaction moderates the relationships between loyalty programs and customer loyalty, or between product quality and customer loyalty.

The discovery that loyalty programs significantly enhance customer satisfaction is of vital strategic and operational relevance to companies. Businesses should focus on creating and consistently enhancing loyalty programs, as these directly improve customer satisfaction. Carefully crafted, straightforward, and tailored programs that provide significant rewards make customers feel esteemed and acknowledged, enhancing their overall experience. The success of loyalty programs is enhanced when rewards and messages are customized to fit each customer's preferences and actions. Tailored, meaningful rewards enhance customers' perceived value and emotional fulfillment, leading to greater satisfaction and involvement. Members who are satisfied with the loyalty program are more likely to interact regularly with the brand, redeem rewards, and make repeat purchases. This continuous engagement enhances satisfaction and elevates customer lifetime value and retention levels. Loyalty programs that make customers feel valued and acknowledged enhance emotional bonds. This boosts

satisfaction and fosters positive word of mouth and advocacy, enhancing the program's impact beyond the immediate participants.

The discovery that product quality positively influences customer loyalty has significant implications for business strategy and customer relationship management. Companies ought to make enhancing product quality a fundamental strategy. Enhanced product quality directly boosts customer loyalty, driving repeat purchases, stronger retention, and sustained profitability. Elevated product quality acts as a crucial differentiator in competitive markets. Brands that reliably offer high-quality products distinguish themselves, attract new customers, and are more likely to retain their current ones, providing them with a lasting competitive edge. Consistently superior product quality fosters trust and enhances the brand's reputation. Reliable brands experience higher loyalty, as customers are more inclined to buy again and recommend them to others, thereby enhancing positive word of mouth and support. Customers associate high product quality with greater value, making them more willing to pay premium prices.

CONCLUSION

The research results prove that the loyalty program can increase customer satisfaction. Collecting and redeeming points can make customers happy and satisfied. By holding the Point Reward program, we not only sell products but also provide a new experience through the application we have created, thereby increasing customer satisfaction. Meanwhile, the quality of the product has no significant impact on improving customer satisfaction. This can happen because customers have high expectations for product quality. Therefore, the current product quality has not yet increased customer satisfaction. However, this does not mean that product quality is unimportant to customer satisfaction. This study also shows that the loyalty program does not impact customer loyalty. This can happen because the point-collection activities offered through the reward program are primarily for customers' enjoyment and are not the main reason customers purchase products to earn points. Customers become loyal because of the product's quality. By offering high-quality products, customers become loyal, make repeat purchases, recommend them to others, and are less likely to switch to competitors. Product availability is a challenging phase for parents when determining the right product. Therefore, when parents feel that the product suits their child and does not cause rashes, they can become loyal and reluctant to switch or try other products. Customer satisfaction does not directly impact customer loyalty. Customer satisfaction does not always lead to customer loyalty, and vice versa. Customers can remain loyal despite dissatisfaction because satisfaction indicators are often fleeting. This can also be linked to the previous hypothesis, which suggests that loyalty programs influence customer satisfaction but do not affect customer loyalty. Therefore, it is not because customers are satisfied with the reward program that they repurchase the products; many customers remain loyal without knowing about the loyalty program. This study also demonstrates that customer satisfaction does not mediate the relationship between the influence of the loyalty program on customer loyalty and the quality of the product on customer loyalty.

This study carries significant theoretical and practical implications. Theoretically, it refines the application of Social Exchange Theory to customer loyalty, demonstrating that the reciprocity triggered by a loyalty program (satisfaction) differs from the commitment driven by a foundational benefit such as product quality. It challenges the assumption of a direct satisfaction-loyalty link, suggesting that the relationship is more complex in experience-driven contexts. Practically, the findings provide clear strategic guidance for managers: while loyalty programs are effective tactical tools for enhancing engagement and short-term satisfaction, they are insufficient for building true loyalty. The primary commercial investment must be in uncompromising product quality, which this study identifies as the sole direct driver of repurchase, advocacy, and retention. For society, this reinforces that in markets concerning consumer well-being (like children's products), ethical business practices and superior, safe products are not just expected—they are the non-negotiable foundation of enduring trust and loyalty.

This study has a significant limitation in the respondents' broad characteristics. Therefore, in subsequent research, respondent characteristics can be refined, for example, by focusing on respondents with a usage frequency of 6 months or children of newborn age. These respondent characteristics are also important because the product is only used temporarily, and its frequency of use decreases each year. This study also has weaknesses, including the fact that loyalty programs and customer satisfaction do not directly influence customer loyalty. Therefore, it is necessary to add variables or more samples to improve the model.

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