



Impact of Loyalty Programs on Building Long-Term Customer Relationships in Georgia: An Empirical Analysis

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Abstract: The research presented in the article examines the role of loyalty programs in establishing long-term relationships with customers. In particular, the nature, goals and role of loyalty programs in establishing long-term relationships with customers are studied. Loyalty programs are a powerful tool that serves not only to retain customers, but also to manage their behavior and steadily grow the business. Since satisfied customers have a positive effect on maintaining and growing company revenues, attention is increasing towards relationship marketing. The issue of selecting effective means to retain existing customers has become increasingly relevant. The theoretical part of the research is based on marketing concepts, theories and principles, the main of which is relationship marketing. The practical part of the article includes an analysis of loyalty programs of companies operating in various sectors of the Georgian market. The main emphasis is placed on customer attitudes towards various types of loyalty programs and their tools, the benefits they receive and changes in their behavior. The research uses quantitative research methods. The results of the study indicate that properly planned and technologically sound loyalty programs significantly increase customer engagement, satisfaction, customer lifetime value (CLV) and strengthen their emotional connection with the brand. The work is of practical importance for marketing specialists and companies that aim to achieve greater success in the market and develop customer-oriented strategies and tactics. The study showed that not only material incentives, but also emotional motivators, such as status, exclusivity and individual approach, have a significant impact on customer behavior. It was proven that properly designed loyalty programs reduce the likelihood of a customer switching to another company.

Keywords: Loyalty Programs, Customer Satisfaction, Consumer Behavior, Marketing Research.

INTRODUCTION

Loyalty programs have become an important tool for building long-term relationships with customers and gaining a competitive advantage in the market. They have evolved. Initially, companies mainly used simple incentives, such as a physical card created by small businesses. It allowed customers to receive discounts after a certain number of purchases and was anonymous. Accordingly, companies did not have the ability to collect and analyze data. This limited their effective and targeted use. In modern conditions, new opportunities have emerged. Successful companies analyze data reflecting their work, have the ability to adapt to the

environment and try to make the right decisions, to keep their customers satisfied. Ensuring customer satisfaction has become a pressing issue in almost all areas of business today [1-5].

In the era of globalization and digital transformation, the marketing environment is characterized by fierce competition, where customer expectations are increasing. Maintaining long-term relationships with customers is becoming crucial for companies, with the emphasis shifting to deepening the emotional connection with the brand. It is in this context that loyalty programs become a tool through which companies retain customers and ensure stable business development in the long term. In Georgia, loyalty programs are increasingly used in various sectors, especially in the banking, retail trade, telecommunications sectors. However, their use and effectiveness are still insufficiently studied. Accordingly, the study of this issue is of great importance both from an academic and practical point of view.

The main task of the research is to investigate the effect of loyalty programs on the formation of long-term relationships with customers. To achieve this goal, the following tasks have been set: to study the theoretical foundations of loyalty programs; to classify their types; to study existing programs in practice; to assess the impact of loyalty programs on customer behavior. The subject of the research is loyalty programs as a component of marketing strategy. The object is companies operating in Georgia and their customers who are involved in various loyalty programs.

RESEARCH METHODOLOGY

Our work uses a quantitative research method. Its variables and measurement elements are formed from the relevant literature based on a deductive approach. Our research design is as follows: determining the information needed for the study, selecting research methods, developing a questionnaire, determining measurement characteristics, determining the approach to customer selection, and analyzing data. The study began with the selection and analysis of secondary sources of information. The theoretical basis of our research includes literature on the essence, meaning, types, evolution of loyalty programs, and changes in consumer behavior in this regard. Both foreign and Georgian scientific works were reviewed, which ensures the evaluation and application of the research results in Georgian business reality. The survey method was used for the study. Respondents participating in the survey were selected through random sampling. A structured questionnaire was developed to collect primary data. Respondents were asked to rate some of the questions using a five-point Likert scale. The questionnaire was distributed electronically on social media. The survey included 304 respondents, whose demographic profile covers all age categories and socio-economic status, which facilitates the generalization of the results. It was conducted in May and June of last year.

VIEWS ON THE ESSENCE, IMPORTANCE AND ROLE OF LOYALTY PROGRAMS

Loyalty programs are integrated into customer relationship management (CRM) systems and have evolved significantly over time. As Kotler and Keller point out, loyalty programs are designed to retain customers by encouraging repeat purchases and building a strong relationship with the brand (Kotler & Keller, 2016). The goal of loyalty programs is to develop relationships with customers. Managing them requires the use of the right and effective approaches. Relationship marketing is focused on the long-term perspective. This can be achieved by developing a sense of loyalty to the company and its products [6]. The concept of

relationship marketing has evolved and is becoming increasingly important today [7]. Marketing is built around relationships. Some of these are one-time transactions that are narrow in scope and do not involve specific relationships, while other relationships are broader. The latter may involve significant social contacts and be ongoing [8].

There are different types of loyalty programs, for example, some companies reward customers with points. In addition, customer status can be divided into levels. After passing each level, the buyer is assigned a higher status, which implies certain additional benefits. The main goal of cashback and exclusive club membership offers is to encourage repeat purchases and reduce the likelihood of switching to competitors. Blattberg *et al.* emphasize that loyalty programs are not only tactical tools, but also long-term investments in improving customer equity [9]. Loyalty programs are an important tool that transforms a simple transactional relationship with a customer into a deeper and longer-term relationship. Based on the marketing concept, the buyer is the main object of a company's attention. The consumer prefers to buy from the company that will give him the most satisfaction [10].

Technological progress provides both great opportunities and difficult challenges. The relevance of the relationship marketing approach lies in its ability to establish trust-based communications. This marketing approach is a specific philosophy focused on customer orientation, their satisfaction and retention. This means helping them, being sincere in relationships and taking actions aimed at solving their desires or problems [11]. Customers are different from each other. For some, the most attractive is a low price, for others - a brand image, etc. Therefore, without a deep understanding of their needs and gaining their trust, it is impossible to establish long-term relationships with customers [12][13].

The main goal of loyalty programs is to increase business sustainability and customer engagement. One of the main functions of loyalty programs is customer retention. As Reinartz and Kumar argue, although not all loyal customers are profitable, targeted loyalty strategies can improve customer retention and long-term profitability (Reinartz and Kumar, 2002). Loyalty programs can increase total customer lifetime value (CLV). These programs allow companies to identify profitable customers and allocate marketing resources more effectively [14].

Loyalty programs that offer status recognition, exclusivity, and personalized experiences create stronger emotional connections with the brand and increase brand loyalty. Sheth and Mittal, as well as Lemon and Wangenheim, argue that emotional motivators, such as relationship and appreciation, are essential in loyalty programs [15][16]. Modern loyalty systems, through data collection and personalization, allow firms to track purchasing behavior, segment customers, and offer personalized offers. Blattberg and Deighton emphasize that customer data is a key asset for predicting future behavior and tailoring offers to them [17]. In saturated markets, loyalty programs help create competitive advantage. They can create barriers for customers to switch to competitors [18].

Loyalty programs are practical tools that aim to build ongoing consumers engagement and trust [19][8]. Therefore, they help to establish and strengthen customer relationships. Loyalty programs directly contribute to the growth of customer equity, as they increase customer retention rates and increase average profitability per customer over time [9]. Brand loyalty is often based on emotion and personal experience. Factors such as status, recognition, exclusivity, and relationships influence customer loyalty. Given these characteristics, tiered loyalty programs that offer members exclusive privileges effectively affect their motivation. As a result, both customer satisfaction and brand loyalty are strengthened [15].

The advent of digital technologies has revolutionized loyalty strategies. With the development of CRM systems, it has become possible to collect and analyze customer data to create tailored offers. Mobile applications and digital wallets have introduced ease of access, and digital technologies have further enhanced personalization capabilities [14]. In a competitive market, companies should focus on the effective use of new digital technologies. Marketing is of great importance in generating company revenues. Modern companies are actively using digital technologies to market their products. Georgian consumers' views on traditional marketing approaches are changing and they are paying more attention to new methods of promotion [20][21].

Today, loyalty programs are integrated with broader business strategies. Some brands, such as Amazon, Starbucks, and Sephora, use AI-based platforms to deliver real-time rewards and predictive offers. These innovations not only increase sales, but also strengthen the emotional connection between the brand and the customer [22]. Moreover, brands today no longer rely solely on discounts and bonuses to increase customer loyalty, but instead strive to create unique and positive experiences that emotionally connect the customer with the brand. This approach is in line with the growing expectations of modern consumers.

RESULTS ANALYSIS

The distribution of respondents by gender in the study indicates a certain dominance of women. In particular, 39.1% of respondents are male, while the absolute majority, 60.9%, are women. This may be due to their interest in the research topic, as well as socio-cultural factors affecting the desire to participate in the study. Young respondents dominate the study: 53.3% are 18-24 years old, and 24.7% are 25-34 years old. The combination of these two categories indicates that the main material of the study reflects the positions of those generations that are active and open to marketing innovations. The share of middle-aged respondents is relatively small: the age group of 35-44 years old is represented by 13.5%, and respondents aged 45-54 years old - by 5.3%. The segment of people over 55 years old accounts for only 3.3%, which may indicate both the specificity of the research format (electronic questionnaire) and the low engagement of these users in digital channels.

The marital status of the respondents is as follows: the majority (63.5%) are single, which indicates the presence of a young demographic group in the study. Married individuals make up 31.6%, the share of divorced people does not exceed 2.6%, and the share of widowed people is 1.3%. The absolute majority of respondents (92.8%) have information and know about loyalty programs, while a small part - does not. The majority of respondents (78%) state that they use loyalty programs, while the rest do not use them.

To the question: "Which companies' loyalty programs have you participated in? (Name the 3 most important companies (brands) for you". When processing the received answers, the top 3 companies were identified, these are: 1-Bank of Georgia; 2- TBC Bank; 3- retail trade chain "Ori Nabiji". The survey results revealed that respondents most often use loyalty programs such as points accumulation systems and discounts. Consumers most often use loyalty programs in Georgia in the banking, retail, pharmacy and online shopping sectors. "After joining and joining a loyalty program, how actively do you continue to accumulate points and improve your status?" - This question helps us determine how effectively loyalty programs work in Georgia. As it turned out, 45.1% of users actively continue to accumulate points and try to improve their status as much as possible. 38.5% pay attention, but not daily, and 15.5% often do not remember to use or accumulate points.

It is interesting to determine the sources of information about the loyalty program. Therefore, we gave the respondents the opportunity to choose several answer options. The absolute majority named social networks, private messages and the company's website. In loyalty programs, 61.8% of respondents name discounts as the most attractive incentive, 23% - exclusive offers, 13.8% - receiving special customer status, while the least result - 1% - was the accumulation of points.

As determined, the most common form of customer engagement in loyalty programs is through mobile applications (46.7%) and a physical card (45.4%), while a relatively small portion (7.6%) is through a website visit. It also confirmed that the majority of respondents easily understand the terms and conditions of loyalty programs. Only 24.7% find the terms and conditions of the program partially unclear and difficult to understand. As for customer satisfaction after using the loyalty program, it was found that 14.1% of respondents were very satisfied, 54.3% were satisfied, 31.6% were neutral, and no customers were dissatisfied or very dissatisfied.

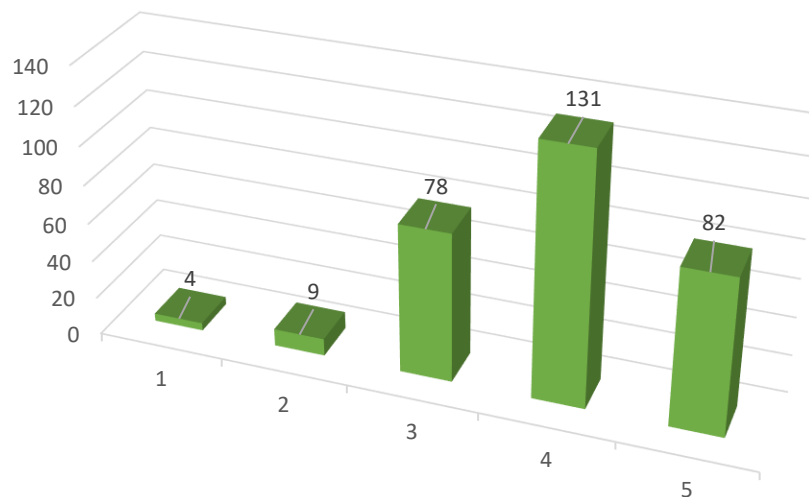


Figure 1: Consumer attitudes towards a points-based programs.

Regarding ratings of point-based programs on a five-point scale, the majority of respondents give these programs a high rating of 4 point (43.1%), while 27% give the maximum 5. Low ratings, such as 1 or 2 points, are rarely recorded. Thus, the majority of users have a positive attitude towards point-based programs.

Figure 2 shows the answer options. To the question "What is the most important and attractive element of a loyalty program for you?" Respondents were asked to select up to three answers from the following list:

- Ease of use
- Transparency
- Value of rewards
- Personalization
- Gaming elements

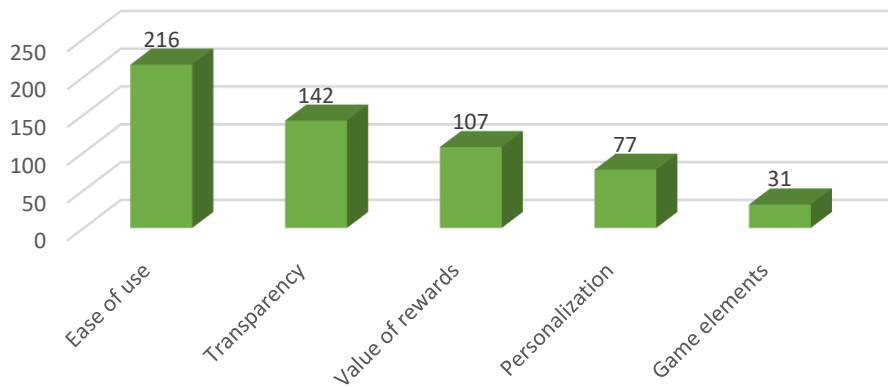


Figure 2: The most important elements for the customer in a loyalty program.

The majority of respondents (79 %) believe that loyalty programs really help build brand loyalty. Only 21 % disagree. This shows that loyalty programs play an important role in developing long-term relationships with brands for the majority of consumers.

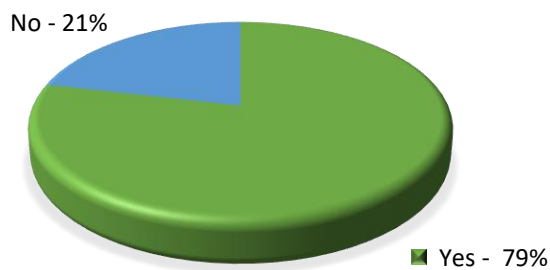


Figure 3: Loyalty program as a tool for emotional connection with the brand.

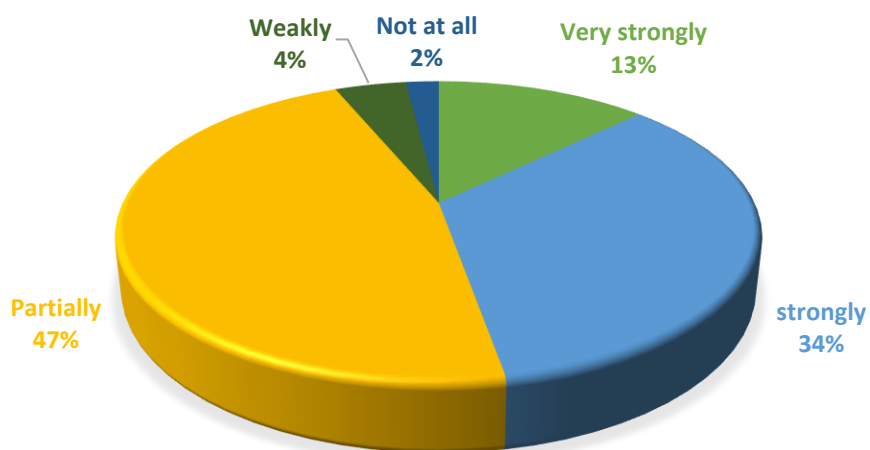


Figure 4: The impact of loyalty programs on consumer purchasing behavior.

It was also interesting to find out whether there was a case where a respondent stopped participating due to an ineffective loyalty program. The survey showed that 60.5% had a similar experience. In

our opinion, this result indicates the existence of information gaps, which may limit the effective use of programs and prevent them from realizing their full potential.

When asked the question "Have you ever had a case where a loyalty program deepened your connection with a specific brand?", the majority answered yes (55.3%). Those respondents who answered „yes“ to this question were asked to record their opinion on which loyalty program specifically deepened their connection with the brand. When processing this question, the top 3 companies were identified, these are: Bank of Georgia; TBC Bank; retail chain „Ori Nabiji“. It is noteworthy that respondents consider the loyalty programs of these three companies to be the best and associate them with an active, diverse and customer-oriented loyalty system. The named companies widely use such types of models as points-based, discounts, cashback, partner offers and personalized offers.

As a result of the survey, we also determined whether, in the opinion of the respondents, loyalty programs contribute to the formation of a long-term relationship with the company. The majority of respondents (92.8%) answered yes. While 7.2% answered no. When asked, "In your opinion, what is the most important aspect of a loyalty program for maintaining a long-term relationship?", the majority of respondents named discounts (53.1%), while 20.7% _ emotional connection, 15.9% — personalization, and 9.4% — constant communication.

We determined whether the terms of loyalty programs are understandable to the user. 51% of respondents stated that the terms of the program are very easy to understand and comply with, which confirms the structural sophistication and user-friendliness of loyalty programs. The remaining part of the users gave an average rating to the understanding of the terms of the program, which indicates the need to convey the program rules in a simpler way.

According to the results, 66.4% of respondents prefer loyalty programs that offer rewards that accumulate over time, which suggests that long-term motivation and benefits are particularly attractive to consumers, reflecting their tendency towards planning and precision. Only 33.6% prefer small but predetermined benefits. Respondents' satisfaction with the digital use of loyalty programs is as follows: 42.1% of users rate it 4 out of 5, and 30.9% give it a full 5. Thus, we can say that applications and web platforms are adapted and convenient for most users (see diagram 5).

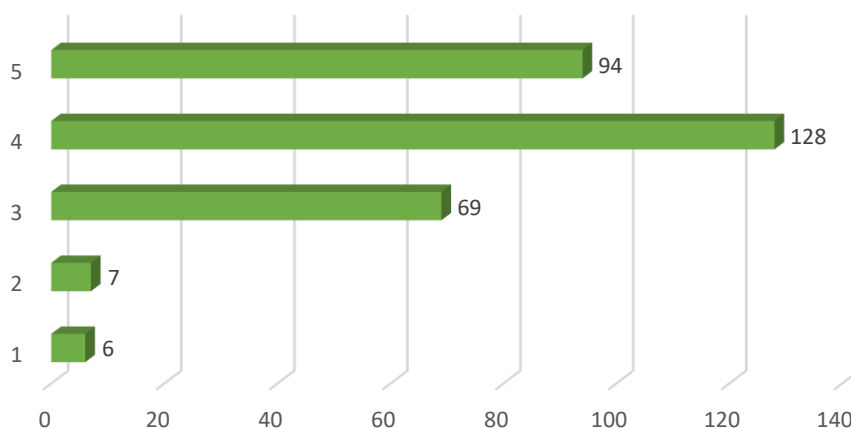


Figure 5: Customer satisfaction level when using loyalty program digital channels.

CONCLUSION

The modern marketing environment, characterized by fierce competition and constant growth of consumer expectations, determines the need for strategies that not only encourage sales, but also ensure the formation of long-term relationships with consumers. Loyalty programs are one

of the important mechanisms in this process, which, with proper planning and technological support, offer real value to both companies and consumers. The results of our marketing research have shown that loyalty programs in Georgia are also characterized by a development corresponding to global trends. The research has confirmed that successful programs lead to increased customer loyalty, reduce the likelihood of switching to a competitor, and contribute to deepening trust in the brand. In order to increase the effectiveness of loyalty programs and deepen long-term relationships with customers, we have developed the following recommendations:

- In our opinion, companies should implement not just one, but different loyalty programs (for example, systems based on points, levels, cashback and subscription models) and use them hybridly for different segments of customers;
- It is important to develop communication with customers after the program is implemented;
- In our opinion, we should offer customers not only discounts, but also help them receive emotional satisfaction, which can be obtained through exclusive experiences.

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