THE INCREASING ROLE OF EMPATHY IN CUSTOMER VALUE[1][2]

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This conceptual study examines the evolving role of empathy in management and marketing literature and practice. At the end of the 20th century, the concept of empathy, borrowed from philosophy, had become so popular that it was adopted as a fundamental concept in marketing.
However, the rapid development of digitalisation in the 21st century has resulted in a decline in its importance. Due to emerging digital methods companies use to communicate with their customers, empathy has been integrated into the complex system of customer experience and customer value.
Based on a comprehensive literature review, this study examines the role of customer experience in creating greater customer value. The paper creates the so-called value equation. Analysing the new norms caused by the pandemic crisis, the study intends to determine which parts of this value equation were mostly affected by the pandemic and other global crises. The global inflation that followed the pandemic, on the other hand, has influenced the other side of the value equation.
The study concluded that, due to increased sensitivity among people during this pandemic and inflationary times, empathy has regained importance. So, it has become crucial for companies to strike the right balance between "high tech" and "high touch" in their communication and interactions with both existing and potential customers.
Keywords: empathy, customer experience, customer value
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1. INTRODUCTION

At the end of the 20th century, the marketing literature was particularly focused on the use of the concept and practice of empathy, borrowed from psychology (McBane, 1995[1]; Escales & Stern, 2003[2]). This topic was so popular that empathic marketing became an important concept in marketing at the turn of the century. One notable representative of this concept was M. Töröcsik, who advocated for empathic marketing in her book, published at the turn of the millennium (Törőcsik, 1999[3]).

Technological and environmental changes over the past two decades have placed our understanding of empathy in a different context. The aim of this study is to demonstrate how empathy has become integrated into the complex system of customer experience and customer value, and how it has regained importance due to the impact of the pandemic-related crises and subsequent global inflation.

2. THE IMPORTANCE OF EMPATHY IN MARKETING

Everyone agrees on the crucial role empathy plays in marketing, as it is the ability to understand and put oneself in the emotional state of another person with whom one is interacting. The most important participant in marketing is the customer, who comes into contact with various representatives of the selling organisation during the customer's decision journey. During these encounters, it is important for the seller to approach the customer with maximum empathy, as otherwise, the company can quickly lose its customers (Ingwer, 2012[4]; Brooks, 2016[5]).

However, human relationships do not have an equal role in every aspect of the economy. The most important area for human-to-human (H2H) relationships is undoubtedly the service sector (Wieseke et al., 2012[6]; Bore, L.L., 2019[7]). In the case of physical products, it is also evident that the long-dominant "goods-dominant logic (G-DL)" is increasingly being replaced by service-dominant logic (S-DL), thus making human relationships even more important (Kotler et al., 2022[8]).

However, not everyone has this empathic ability.
Therefore, it is an important HR task to ensure that employees with adequate emotional intelligence (EQ) are placed in these positions to interact with customers (Goleman, 2006[9]).

3. ENVIRONMENTAL CHANGES OF THE 21ST CENTURY

In the first two decades of the 21st century, numerous well-known changes in the world economy significantly impacted marketing theory and practice. In a previous study, we identified six megatrends (Rekettye & Rekettye Jr., 2013[10]). Of these, the most significant for the topic of this study is the technical progress known as the fourth industrial revolution, and within that, the rapid advancement and spread of digitalisation and the emergence of artificial intelligence.

During this period, the toolset of relationships between companies and customers was dominated by new methods resulting from technological development (Grewal et al., 2020[11]; Hoffman et al., 2022[12]). The spread of the internet, the proliferation of social media, big data analytics, and more enabled innovative digital marketing solutions. The rapid proliferation of smartphones resulted in the expansion of mobile marketing.

This development affects nearly every aspect of marketing: research, information acquisition and utilisation, the creation and communication of products and services that provide value to customers, customer relations, delivery methods, etc. It leads to changes in consumer behaviour, transforms decision-making mechanisms, and changes the customers' decision journey.
Research by Court et al. (2009)[13] found that in today's digital world, the decision journey is very different from what we experienced in the past. For example, instead of a sequential process, the entire path to purchase can be described as a circular movement, starting with an initial list followed by an active evaluation phase, during which brands can be eliminated and new ones added. Then comes the closure, the purchase, followed by a post-purchase phase during which the consumer experiences the product, evaluates it, and, in a best-case scenario, enters the loyalty loop. Throughout each phase of the decision-making process, there are direct or indirect contacts between the company and the customer, touchpoints. However, typically only a minority of these touchpoints are personal, with the majority being digital, thereby reducing the role of empathy.

4. CUSTOMER EXPERIENCE, WHICH HAS INTEGRATED EMPATHY

This means that empathy has been integrated into the extensive system of relationships between the company and its customers, known in the literature as customer experience (CX), and has been increasingly influenced by technological advances in recent years (Hoyer et al., 2020[14]). The importance of customer experience is well demonstrated by a 2023 survey of nearly 7,000 consumers in 8 advanced countries conducted by Marigold, which found that 86% of respondents favour brands that provide a consistent customer experience (published by MarketingCharts.com in January 2023). It is a rather complex task for the sellers to provide excellent customer experience (Leachman and Scheibenreif, 2023[15])

The position of the customer experience is well illustrated by the novel representation of the product value levels shown in Figure 1.

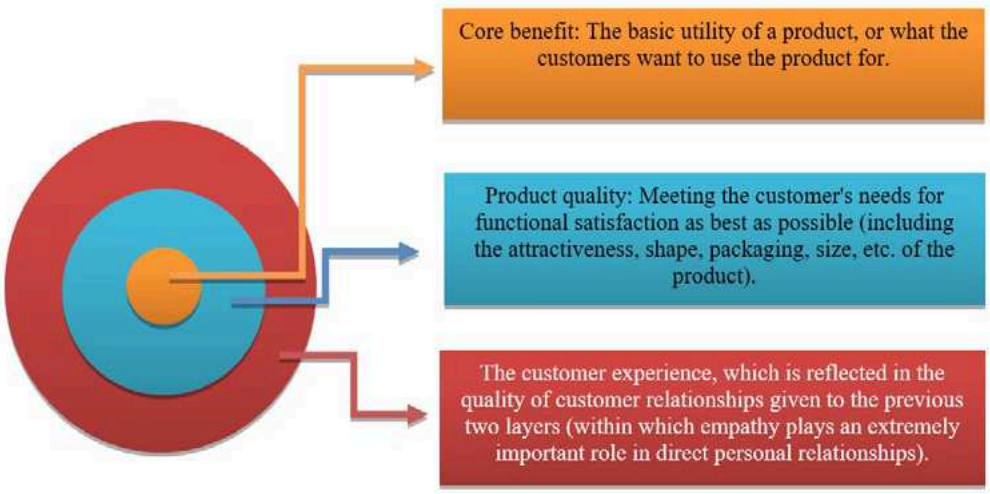


Figure 1. Levels of product value
Source: Rekettye, 2019, p. 81[16], slightly modified

But what is customer experience? It's not easy to define. According to Adam Richardson, the author of the first part of a series of articles on customer experience in the Harvard Business Review, experts have been struggling for years to define customer experience. Sometimes they talk about it as a digital experience or interaction, citing websites and smartphones, sometimes they refer to retail experiences, sometimes to customer service, and sometimes to how quickly something is resolved on a phone call with customer service. Richardson believes all of this is part of customer experience, but customer experience is more than just a snapshot of the customer and company or product relationship at a given moment. It's the accumulation of feelings in the customer that has been built up throughout their entire history of interacting with the brand or company (Richardson, 2010[17]).

In the company-customer relationship system, there is of course a place for personal relationships as well. As we move from convenience products to shopping products to specialty products, the role of personal relationships and empathy increases. This is even more true in B2B markets, where personal relationships play a decisive role in procurement (supply).

5. THE EQUATION OF CUSTOMER VALUE

There is a wealth of literature on defining customer value, but there is not enough space in this study to present them all. Let's start with the simple principle that customers prefer a product when, in their perception, it is more valuable than the possible competing products. They feel the product is valuable when the benefits provided by the product (which can be functional and emotional or even social) exceed the costs required for the customer to acquire the product. The simple equation

for customer value is therefore customer value equals benefits minus costs (CV = B - C). What the customer pays for is not just the price (cash, cards, interest, and costs incurred during use - such as fuel consumption and maintenance for cars), but also non-price items such as time, effort, energy, psychological and physical discomfort spent on searching, gathering information, purchasing, etc.
Starting from Figure 1, we can design the generalized model of customer value (Figure 2).

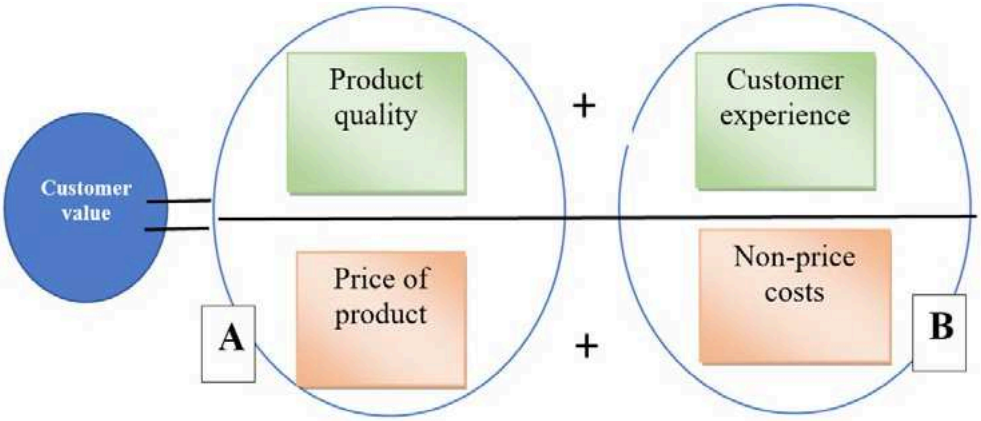


Figure 2: Generalised model of customer value
Source: Jackson and Fonvielle, 2021[18], modified.

If we break down the equation into two parts, we can conclude that the A-part of the equation (product quality and price) is more aimed at acquiring new customers, while the B-part (customer experiences and non-price costs) plays a greater role in retaining customers and increasing their loyalty.

6. CHANGES IN CUSTOMER VALUE DURING THE PANDEMIC AND INFLATION YEARS

The question arises as to what impact changes in consumer behaviour due to the pandemic had on customer value (Daniel et al., 2021[19]). Our view is that despite the increase in demand for certain product categories and the decrease in demand for others, the value component labelled A in the equation remained stable. However, the pandemic significantly changed the value component labelled B in the equation.

Consumer expectations, particularly regarding the procurement of products and services, underwent significant changes. There were significant shifts in both the numerator and denominator of the equation. A good example of this is retail. Companies that could not meet the changed requirements and could not reduce the increased energy and psychological stress on customers were left behind in the competition.

The isolation caused by the pandemic heightened people's sensitivity. Companies and brands that were authentic and inspired trust in people became popular again. Thus, an empathetic approach to customers once again played a greater role, to the extent that some authors wrote about empathy-driven marketing (see, for example, Pedersen, 2021![20]).

As we mentioned earlier, inflation has dominated the global economic landscape since the second half of 2021, particularly in 2022. This naturally affected the components of customer value. This time, the value component labelled A in the customer equation was most affected, particularly the price. Less affluent people are forced to constantly monitor price developments, sacrificing comfort for better prices, and often having to choose cheaper, lower-quality, or private-label brands instead of their usual brands. They may even reduce the quantity of goods they purchase or delay their purchases.

7. CONCLUSIONS

In summary, we can conclude that the role of empathy in marketing has increased again during the pandemic. In these turbulent times, companies need to pay close attention to maintaining a balance between "high tech" and "high touch" in their communication and interactions with customers. Following the emergence and business applications of artificial intelligence, further research is needed to determine what Liu-Thomkins and colleagues propose in their article (Liu-Thomkins, 2022[21]): how empathic AI can be, and whether we can even talk about artificial empathy[22].

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