**Thesis**

### MASTER THESIS MARKETING MANAGEMENT/MARKETING ANALYTICS FALL 2022

Name: Riano Martinez Francisco

SNR: 2070510

Company: N/A

*Chapter 1 – Introduction*

* 1. *Problem indication*

Most retailers fall far short of delivering an individualized experience demanded by customers. The vast majority have not even started to define what customization means to their consumers and business which is a crucial first step (Abraham et al., 2019). This could be produced due to several reason. According to a survey made by Boudet et al (2019) fewer than 10% of the respondent companies currently deploy personalization beyond digital channels in a systematic way. Additionally, it also important to mention the low investment, made by retailes, which is aimed to imporve customization. Retailers are investing, on average, 0.7% of their revenues while top retailers are investion 0.9% or about 1.3 times more (Abraham et al., 2019).

A research conducted in 2019, found that only one in five organizations are effetive at personalizing content at-scale; moreover, altough 14% of the marketing budget is going toward personalization, 74% of the organization surveyed said thay are struggling with personalization efforts (Britt, 2019).

Customization occurs when the user indicates what he or she prefers to see, as a change, on a specific product, for instance through changing an automobile vendor’s site to display a particular car model with specific color and feature options. Customization could lead to several benefits such as: increment of loyalty, reduction of operational costs or widening the net (Nielsen, 2009). However, at the same time, misunderstandings in regard to what, specifically, about the product could be customizable can lead to lost sales (Cardello & Nielsen).

With the appearance of the internet, the customization services provided by companies have increased sharply, for this reason nowadays it is more appropriate to talk about mass customization rather than just customization. Mass product customization is much more difficult than providing customization in goods towards a reduced consumer group. The first step to ensure the product’s success is assembling the customer specification (Roy, 2021).Nowadays, companies are trying to embrace mass customization in an attempt to provide unique value to their customer; nevertheless, many managers at these companies have discovered that mass customization can produce unnecessary costs and complexity (Pine & Gilmore, 1997).

Customizing a product by each attribute tends to be onerous for consumers. As a result, the benefits produced by product customization could be countered by an increase in choice complexity, leading to a decrease of customer satisfaction along with other relevant variables as well (Hildebrand et al., 2014). Due to the high level of complexity around mass customization, it is fundamental to address the specific customers desires, within a customization context, in order to make the whole process simpler. Product customization necessities should be led by some determined factors such as the market demand, innovation, the value provided to the customers and the niche market the product is targeted to (Roy, 2021).

Research has been able to prove that companies have been struggling to achieve cost improvements promised by mass customization. This could be produced by the pressure, faced by companies, to deliver customized and affordable products (Wiengarten et al., 2017). Cost increase, in a customization context, could be produced by the maintenance of a variety of machinery and infrastructure that can produce different product, color, shapes, etc (Global Electronic Services, 2022). The tools and technologies required to reach mass customization at low cost are not accessible easily yet. There is no specialized infrastructure that offer access to all the capabilities of mass customization (Roy, 2021).

From the previous stated problem indication, it is believed that companies, in an attempt to offer a very wide variety of options for their customers in order to customize products, they are adding, unconsciously, complexity and unnecessary costs to the whole process. For this reason, organizations, which offer product customization, could consider to narrow the variety available for users in order to just include the specific type and number of features, to customize, that the customers are actually looking for.

In order to manage this complexity and unnecessary costs, it is proposed that companies should focus their efforts in order to identify the type of features that are the most appealing for user when customization is an available option for them. The negative effects of complexity on mass customization are lower for expert consumers (Dellaert & Stremersch, 2005). It is believed that this “expert consumers” are more associated with technical or utilitarian features while average consumers are linked with more visual or hedonic features. Based on the previous statement, it is considered that utilitarian features will have a significant difference with hedonic ones in the way that consumers interact with them under a customization context.

Customization studies have been able to reveal that in fact, customers designing their own products might be willing to pay premium prices (Schreier, 2006). But an important detail that has not been deepened enough is the preferred level of customization available for consumers. After all, as it has just been mentioned before, a product with a high level of features to be customized, also could be seen as a complex task.

The new context, propelled by the circular economy, in accordance with Morewedge et al (2021), will produce important changes in consumption through the replacement of legal ownership of private goods with legal access to goods and services owned and used by others. Psychological ownership, among other items, were included in the “bundle of rights” provided by the legal ownership (Morewedge 2020).

One of the alternatives proposed by Morewedge et al (2021) to preserve psychological ownership is through customization. It has a great potential to retain psychological ownership, this statement could be confirmed by the research made by Arora et al (2021) which found that 71% of consumers expect companies to deliver personalized experiences and 76%, of them, get frustrated when this does not happen. Additionally, in accordance with Teasdale (2022) 33% of consumers interested in customization feel that standard products do not meet their expectations. There are important opportunities for companies to enhance customization experiences, offered to their clients, as a replacement for legal ownership.

Psychological ownership can be understood as a form of emotional attachment between consumers and the goods and services they use (Shu & Peck, 2011). Within this new context, psychological ownership could be threatened by the changes in consumption given that legal ownership, as it was described previously, has been the main source of it in the traditional model (Morewedge et al., 2021). But at the same time, it represents a challenge for companies in order to find new alternatives, that allow to protect or even boost this emotional link between users and products.

Psychological ownership is a relevant variable that deserves to be borne in mind by companies because it has important influence on both approaches: for the consumers and for the companies as well. According to Li & Atkinson (2020), psychological ownership fulfills basic psychological needs and therefore increments customer well-being. Additionally, this variable is positively associated with consumer demand, willingness to pay, word of mouth and competitive resistance (Morewedge et al., 2021), variables that are quite linked with the performance of companies in the short, mid and long term.

Despite of the importance of the psychological ownership and the potential of customization to protect it, companies nowadays are not well enough oriented in the search of the level and type of features that are the most appealing for customers at the time of customizing the products that will be used by them. These findings could be fundamental in order to strength psychological ownership and maximize the perceived value of the products customized by users even if these are not owned by them. The overall purpose of this research is to contribute to find answers to the problems, questions and uncertainties described above. This is expected to be achieved through the research which will enable us to determine if the level and type of features to customize products could have an impact on willingness to pay and also if this relationship is explained by the emotional link, between users and modified products, called psychological ownership.

* 1. *Problem statement*

*To what extent is the relationship between level of customization and willingness to pay explained by psychological ownership, and what is the moderating role of type of features used to customize products on the relationships between level of customization and both; willingness to pay and psychological ownership?*

* 1. *Research questions*
     1. *Theoretical research questions*

Supported by the literature review, the theoretical research questions that are expected to be answered are:

* What is psychological ownership?
* What is product customization?
* What is a hedonic feature?
* What is a utilitarian feature?
  + 1. *Empirical research questions*

Supported by an experimental design the empirical research questions that are expected to be answered are:

* To what extent is the willingness to pay affected by the level of customization on a product?
* To what extent is psychological ownership affected by the level of customization on a product?
* To what extent is the relationship between willingness to pay and level of customization moderated by the type of features used to customize products?
* To what extent is the relationship between psychological ownership and level of customization moderated by the type of features used to customize products?
* To what extent does psychological ownership have a mediating role in the relationship between the level of customization and willingness to pay?
  + 1. *Conceptual model*

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* 1. *Research method*

In order to give an answer to the problem statement and the research questions mentioned above a literature review and an online experiment will be carried out. The literature review will contribute to define the main the key concepts that are encompassed by this research. Additionally, it will help us to understand how the variables included are related to each other, based on previous research done; that, at the same time will support the hypotheses which are going to be eventually stated.

The experiment will include two treatment variables, each variable will have 2 conditions; therefore, it is going to be an 2x2 online between subject design experiment. The respondents will be randomly assigned to each of the 4 experimental conditions and will be able to customize a car based on the conditions given. Afterwards they will be required to fill out a questionnaire that will be used as a guide to measure the psychological ownership. Finally, they will be asked to give their willingness to pay towards the customized product.

* 1. *Relevance*

### The conceptual model depicted above, has been developed with the aim to offer a customization framework in order to determine, through an emotional and economical approach, which are the most appealing type of features (utilitarian vs hedonic) for users when product customization is an alternative available for them. Additionally, it is intended to show the effect of level of customization on both, psychological ownership and willingness to pay. Finally, it is desired to determine the degree to which this emotional link (psychological ownership) explains the relationship between customization and the economic value ascribed to a physical customized good (willingness to pay).

* + 1. *Academic relevance*

From an academic approach, this research could be relevant for several reasons. The main of them is that this study tries to test and develop a model based on one of the suggestions made by Morewedge et al., (2021) where the customization was proposed as a replacement of legal ownership as a response to the changes in consumption produced by the circular economy. Although the importance of this proposal, it has not been tested through an experimental design approach or not at least in the way how has been designed in this study.

Second, as it was mentioned before, customization studies have been able to reveal that in fact, customers designing their own products might be willing to pay premium prices (Schreier, 2006); however, this literature fails to determine if psychological ownership is a variable that explains why customers tend to pay higher prices for customized goods. The present research dives deeply in the effects of customization on psychological ownership and on the willingness to pay for products modified by users.

Third, although utilitarian and hedonic conditions have been manipulated in other studies such as the one made by Dhar & Wertenbroch (2000), what makes this research different is that thses conditions will be used as a features rather than product types, it is believed that this is a relevant contrast based on the difference about how customers interact with the product, as a holisitc unit, and how they interact with each feature, of the same product, but separately. Additionally it is going to be measured its impact in a customization context which will lead us to determine what are the favorite type of features used to modify products. This answers has not been given yet by the current literature.

* + 1. *Managerial relevance*

From a managerial approach this research could also give relevant contributions. The first of these is based on the challenge identified by Hildebrand et al., (2014) who stated that customization could increase choice complexity due to the huge number of options offered and the high variability and diversity of customer preferences; therefore, it is important for companies to offer just the options that are the most appealing for customers when a product customization is an option available for them. After all, consumers tend to defer choice when the choice environment becomes more complex (Swait & Adamowicz, 2001).

Customization is a way to offer a unique and differentiated proposition to customers. But part and product complexity come at a price that could be harsh to measure, with hidden costs flying under the radar (Chaudhury et al., 2021). Given the previous statement, it is believed that strategically narrowing the options offered to users at the time to customize a product could be a painkiller in order to deal with issues related to operational costs, produced by the desire of companies to satisfy the high variety and diversity of customer preferences in customization context. This study intends to present a framework that leads to knowing which are the most appealing type of features and degree of customization for users. Through this approach, it is expected to achieve this strategic narrowing.

* 1. *Structure of the thesis*

This thesis is divided into 5 chapters. The introduction is presented in the first one. In the second and third the theoretical framework and the methodology respectively, are discussed. Chapter four contains the obtained results and the analysis of those. Finally, chapter five includes the conclusion of the research, the managerial implications and the limitations, and future research as well.