**Thesis**

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

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1. *Chapter – Introduction*
2. *Chapter – Theoretical framework*

In this chapter the hypotheses regarding the present study will be stated. A theoretical background will be developed in order to sustain the hypotheses. Following this purpose, a literature review will be carried out to explain the key concepts, of the conceptual model, and draw connections between them. This will be done with the aim of comparing and critically assessing previous theories, elaborated by other authors (Vinz, 2015), related with the main concepts and subjects of this research.

* 1. *Main effect – Level of customization*

According to Lee & Kim (2020) customization is the process where products are designed from common materials, leading to a feeling of uniqueness for consumers or users. In recent years customization has started to be seen as a relevant marketing strategy driven by increase of supply of technology focused on customization, the declining of production costs and the internet, which enhances the communication with the customers (Franke et al., 2009).

Nowadays it is becoming relevant to market product and services to small niche segments, going further even to customization in order to aim individual preferences (Puligadda et al., 2010). This, in fact, is quite important due to the customers’ demand for customized products has augmented and customers´ desires have become highly heterogeneous in several markets (Franke et al., 2009). The mixture of advanced engineering techniques and information technology gives firms the opportunity to be highly flexible for providing product variety through customization (Dellaert & Stremersch, 2005).

It is important to mention that level of customization has been included, as an independent variable, in this paper, following the contributions made by Schreier (2006) and Franke et al. (2009). Both were aimed to analyze the effect of customization on willingness to pay, but while the first tested it through the comparison of self-design against standard products; the second made it through the assessment of tailored products belonging to several categories. As it has been mentioned before, willingness to pay is a variable positively related with the psychological ownership (Morewedge et al., 2021), therefore it is expected that customization could influence, in the same way as willingness to pay, psychological ownership as well.

Additionally, this research will be influenced by the study carried out by Dellaert & Stremersch (2005). They found that consumers did not perceive a significant increment in product complexity over the rather wide range of modules and module levels manipulated in this study, and they were in fact able to get increased product utility. This is important to consider because initially it was believed that the relationship between level of customization and willingness to pay could be quite obvious; nevertheless, as it was said by Hildebrand et al (2014), customization by individual components could produce an increment in choice complexity and it could lead to the decrease of relevant variables such as product utility or even willingness to pay.

It is important to recall that the effect of customization on willingness to pay has been documented already in the literature however, what makes this research different, is that those researches focused their attention in the comparison between standard products and customized products. This research proposes the contrast between products with a high level of customization and products with a low degree of it.

Retailers who employ techniques of fostering in customers to encouraging product customization, may be able to increase psychological ownership (Shu & Peck, 2011). This statement is completely aligned with the proposal made by Morewedge et al (2021) who affirms that the increased control imbued by improved considerations set and customization may produce a higher level of psychological ownership as well. Although the above declarations have had an important relevance within the customization literature, these have not been proved or tested through an experimental design research approach; therefore, this is one of the key added contributions expected to be given by this present research.

The connection between level of customization and psychological ownership was created due to the influence of a study carried out by (Jami et al., 2021) where ownership was manipulated through the customization of a product. Their results showed that the participants who customize the product for themselves, developed a greater psychological ownership than those who modified it in order to make it more attractive to be purchased by others. Although, in this experiment customization was not a variable itself, rather was a mean to manipulate ownership, it showed that in fact, there could be a relationship between the degree or level of customization and the psychological ownership developed by customers towards products modified directly by them.

Bearing in mind the previous theories, results and statements, the following hypotheses have been proposed:

**H1:** Products with a high degree of customization will produce a higher willingness to pay than products with a low degree of customization.

**H2:** Products with a high degree of customization will develop a stronger psychological ownership, on customers, than products with a low degree of customization.

* 1. *Moderation effect – Type of features used to customize products*

### Products could be seen as bundles of features with their attractiveness determined as a compensatory function of feature levels (Lancaster, 1966). At a fundamental level, the appeal of a product can be viewed as a function of two sets of factors: product features and marketing efforts (Du et al., 2015). Consumers tend to assess products with many features more positive (vs products with few features) because they think that each additional feature gives new capabilities to the product (Irmak & Goodman, 2013).

### A product feature is a component of a product that fulfills a customer need. Feature could influence the pricing strategy and companies modify features to enhance the user experience (Blakely, 2022). Marketing team have an important role in product development and hence in the management of its features. By building product features that consumers want and, at the same time, differentiate it from the competence could be fundamental in order to achieve the sales goals (Nguyen, 2022).

### In accordance with the purposes of this research, type of features used to customize products is going to be classified in two conditions: hedonic and utilitarian. Hedonic features are those linked with a sensory experience of aesthetic or sensual pleasure and fun; while utilitarian attributes are those orientated to a specific goal and with the accomplishment of a practical task (Dhar & Wertenbroch 2000).

### The inclusion of this variable and the development of the hypotheses in this regard, have been done based in the research made by Dhar & Wertenbroch (2000). In this study they were able to demonstrate that participants tend to assign higher value to a hedonic product than to a utilitarian one, through an experiment which asked participants to imagine that they were to sell their car, therefore the minimum selling price should be stated. Additionally, hedonic products trigger more psychological ownership and more positive affect than utilitarian products (Shu & Peck, 2011); moreover, as it was demonstrated by Dhar & Wertenbroch (2000), hedonic products also generate more loss aversion, which at the same time, could be driven or influenced by the emotional attachment (Shu & Peck, 2011) developed by users towards products (psychological ownership).

### As it has been explained, consumers tend to develop stronger emotions towards hedonic products and also, based on the contribution made by Irmak & Goodman (2013), stated previously, which says that consumers usually prefer products with a high number of features, it is possible to infer that products customized with a relative high number of hedonic features will be preferred by the users rather than other type of customization configurations.

### Initially both conditions, utilitarian and hedonic were linked just with the type of product but not directly with the process of customization; however, as it was stated by Broniarczyk & Griffin (2014), nowadays customers have more opportunities to customize products and services to meet their desires, providing a feeling of uniqueness as well as hedonic or experimental benefits related to the process of customizing. This statement confirms that consumers, usually, tend to relate the process of customization with a hedonic feeling.

### The moderating role of the type of features used to customize products, and its two conditions, was proposed based on the research made by Bonaventure & Chebat (2015). This study showed that the type of product variable, and both conditions; hedonic and utilitarian, could have a moderating role. In this research the moderating role is significant in the relationship between touching products and both: willingness to pay and psychological ownership; therefore, it is expected that type of features used to customize products could have a moderating influence in the connection between level of customization and the two previously described variables. Additionally, it is important to bear in mind the suggestion made by Jami et al (2021), who said that retailer can enhance psychological ownership by encouraging consumers to touch products or letting them to customize them.

### H3: Products with a high degree of customization will produce a higher willingness to pay than products with a low degree of customization and this relationship will be stronger for product customized through hedonic features than products customized through utilitarian ones.

### H4: Products with a high degree of customization will develop a stronger psychological ownership, on customers, than products with a low degree of customization and this relationship will be stronger for product customized through hedonic features than products customized through utilitarian ones.

* 1. *Mediation effect – Psychological ownership*

Ownership could be divided in two broad terms, the first is psychological ownership and the second one is legal ownership. According to Li & Atkinson (2020) psychological ownership could be understood as the individual feeling of possession a consumer could hold for a target, it is based on subjective feelings. Legal ownership, on the other hand, is the possession of a product, endorsed by a legal document, usually a deed, a bill or a receipt. Although both concepts are closely related to each other they also can operate separately, specifically psychological ownership can exist without legal ownership (Shu & Peck, 2011), for instance, consumers could develop psychological ownership towards ideas or goods for which they do not have any legal claim (Morewedge et al., 2021).

According to Brown (2018) there are 4 ways to foster psychological ownership in a marketing context. These are: firs, through physical interaction; second, with user-generated content; third, using collaborative content; and last but not least, by means of interactive social media campaigns. This is especially important due to the value-enhancing consequences derived from the psychological ownership which are linked with the traits associated with the self and positive self-associations that are transferred to the good thus, increasing the emotional attachment towards the good, that leads to the enhancement of its perception and value (Morewedge et al., 2021).

Based on the literature review done in order to carry out this research, the mediating effect of psychological ownership on willingness to pay has been already documented. For instance, Atasoy & Morewedge (2017), determined the influence of psychological ownership, as a mediator, between product format (digital vs physical) and product valuation (WTP). Similarly, Bonaventure & Chebat (2015) established in their model the mediating role of psychological ownership in the relationship of touching product with willingness to pay for extended warranties.

In addition, the inclusion of psychological ownership as a mediator variable, was based on the insights found by Shu & Peck (2011). In one of their experiments, they were able to show that in fact, this variable was significantly related with product valuation when the ownership length, towards a specific object, was manipulated. They even went further in their research in order to prove that the independent constructs of psychological ownership can help explain many of the endowment effect findings registered in literature.

As it was stated before, hedonic products tend to develop a stronger psychological ownership that utilitarian ones. As a complement it is important to mention the research made by Norton et al (2012) where it was explained the IKEA effect. This effect states that persons tend to assign a higher product valuation when the good has been ensembled directly by them. In addition, it says that the positive impact of effort on product valuation is likely to happen when the effort ends up in a successful completion of a task. Based on this research, it is believed that products that have been customized, by users, modifying or changing more features, will develop this IKEA effect and therefore will get a higher willingness to pay and psychological ownership as well.

The present research is focused on determining the degree on what psychological ownership explains the effect of customization on willingness to pay for products modified by the potential users. This challenge has not been addressed yet by the current literature so therefore, this is one of the key contributions expected to be given by this present study.

**H5:** Products with a high degree of customization will produce a higher willingness to pay than products with a low degree of customizationand the relationship will be mediated by the psychological ownership

**H6:** Products customized through hedonic features will produce a higher willingness to pay than products customized through utilitarian features and the relationship will be mediated by the psychological ownership