**Thesis**

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

Name: Riano Martinez Francisco

SNR: 2070510

Company: N/A

1. *Chapter – Introduction*
2. *Chapter – Theoretical framework*
   1. *Main effect – Level of customization*

According to Clark (2021) customization is the process where the users, directly, make changes to a determined item to meet their needs or requirements. Consuming customized products is labeled as an experimental purchase because is more self-defining and gives uniqueness to consumers (Lee & Kim, 2020). To ensure the product in mind is developed within a customization context, customers must be aware of their preferences and must be able to depict them (Simonson, 2005). Given that even basic mass customization configurations have endless solutions (Franke et al.,2009), Huffman & Kahn (1998) say that the preferences customers generate when faced with the challenge of defining a product are a local optimum, if not an almost random choice.

Mass customization refers to the ability to quickly design, produce, and deliver products that meet specific customer needs at close to mass-production prices (Puligadda et al., 2010). Additionally, mass customization configuration refers to the outline or arrangement of the different product components that can be mass-customized (Dellaert & Stremersch, 2005). According to Schreier (2006) mass customization is a buyer-centric strategy whose main objective is to provide superior customer value through the increase of satisfaction triggered by the individualization of products. Mass customization configurations may differ in the number and levels of product modules that a consumer may customize (Dellaert & Stremersch, 2005).

It is important to mention that level of customization has been included, in the present research, following the contributions made by Schreier (2006) and Franke et al. (2009). Both studies were aimed at analyzing the effect of customization on willingness to pay. While the first tested it through the comparison of self-design against standard products; the second made it through the assessment of the relationship between customization and WTP moderated by some variables such as preference insight, ability to express preferences and product involvement.

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 the level of customization and willingness to pay could be quite obvious. As 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.

The connection between the level of customization and psychological ownership was introduced 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 greater psychological ownership than those who modified it to make it more attractive to be purchased by others. Although, in this experiment customization was not a variable itself, but rather was a means 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 toward 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 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 factors: product features and the set of efforts to introduce the good in the market (Du et al., 2015). Features refer to a product´s physical characteristics which determine what the product consist of (Blakely, 2022). Consumers tend to assess products with many components more positively (vs products with few of them) because they think that each additional component gives new capabilities to the good (Irmak & Goodman, 2013). In accordance with the purposes of this research, the type of features used to customize products is going to be classified into two conditions: hedonic and utilitarian.

### This classification is based on the fact that consumption is supported by two main elements strongly related with both conditions. According to Batra & Ahtola (1990) purchasing and consumer behavior, of the customers, are driven by these element which are: consummatory (hedonic) gratification, mainly triggered by sensory attributes; and instrumental (utilitarian) motivated by expectations of consequences. Based on the previous statement, it is possible to differentiate both concepts within a consumption context. Hedonic experiences are intrinsically motivated and fulfilling and for this reason, are sought after as a final destination. On the other hand, utilitarian experiences are extrinsic because they are seen as instruments to achieve a higher-level goal (Botti & Mcgill, 2011).

### Based on the research made by Crowley et al (1992) where they were able to develop a framework in regard of the bidimensional (hedonic/utilitarian) approach to comprehend consumer attitudes towards product categories, the present paper goes a step further by applying this bidimensional framework toward a more specific approach based on the features that could be used to customize products. The utilitarian-hedonic classification is not limited to product level because some goods have both: utilitarian and hedonic characteristics (Chernev, 2004; Dhar & Wertenbroch 2000); therefore, this framework could be applied to features as well. While hedonic features are those linked with a sensory experience of aesthetic or sensual pleasure and fun; utilitarian attributes are those orientated to a specific goal and with the accomplishment of a practical task (Dhar & Wertenbroch 2000).

### It is believed that consumers are more attracted toward hedonic elements than utilitarian ones. A recent survey carried out by Splashlight (2017) determined that almost 50% of U.S online consumers rate product images as the most influential factor at the time to make a purchase. In their research, Dhar & Wertenbroch (2000) were able to demonstrate that participants tend to assign a higher value to a hedonic product than to a utilitarian one, through an experiment that 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, and therefore a higher willingness to pay, towards hedonic products. Based on the contribution made by Irmak & Goodman (2013), stated previously, which says that consumers usually prefer products with a high number of features; and additionally, given the contributions made by Dellaert & Stremersch (2005) where it was found that complexity, perceived by consumers in a customization context, did not increase due to the manipulation of different module levels within a range of mass customization. It is believed that products customized with a relatively high number of hedonic features will be preferred by the users rather than another type of customization configurations.

### The variable type of features used to customize products, and its two conditions, were 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 on the connection between the 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 retailers can enhance psychological ownership by encouraging consumers to touch products or letting them 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 products customized through hedonic features than products customized through utilitarian ones.

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

* 1. *Mediation effect – Psychological ownership*

Ownership could be divided into two broad terms, 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).

The value-enhancing consequences derived from psychological ownership are linked with the traits associated with the self and positive self-associations that are transferred to the product thus, increasing the emotional attachment towards the good, which leads to the enhancement of its perception and value (Morewedge et al., 2021). According to Pierce & Van Dyne (2004), there are three main elements to which psychological ownership has a strong link; these are attitudes, self-concept and sense of responsibility.

The literature about psychology of possession has proved that people tend to develop positive feelings toward tangible and intangible targets of ownership (Pierce & Van Dyne, 2004). In regards of the self-concept, this same literature proposes that people are bound to view tangible and intangible possessions as part of the extended self, mainly caused by feelings of ownership (Belk, 1998). Finally, about the sense of responsibility, authors like Hall (1966) propose that possession compels people to protect and defend their ownership rights.

As was said by Morewedge et al (2021) willingness to pay is a variable positively related with psychological ownership. Based on the research previously described, where was found a positive relationship between the level of customization and willingness to pay, it is expected that level of customization could affect, in the same way as WTP, the emotional link developed by customers toward products called psychological ownership.

Based on the literature review done 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). In their research, they were able to get significant partial mediation by psychological ownership, in the relationship between product format and willingness to pay. This could be considered an important influence in the present study because it helps us to understand how PO could explain the effect of both: the level of customization and types of features used to customize products on willingness to pay. After all, the treatment variable and the manipulation strategy used by them are quite related to the features of some determined products and the way that customers interact with them.

In addition, it is important to highlight the studies made by Shu & Peck (2011). In one of their experiments, they were able to show that in fact, this variable was significantly related to product valuation when the ownership length, towards a specific object, was manipulated. They even went further in their research to prove that the independent constructs of psychological ownership can help explain many of the endowment effect findings registered in the literature. In general terms, they tested across nine different studies that psychological ownership and affective reaction could have a significant effect, as mediators, on either object valuation or choice under a variety of manipulations. These approaches open several opportunities to formulate, and subsequently test, hypotheses based on the effect of psychological ownership as a mediator.

As it was stated before, hedonic products tend to develop stronger psychological ownership than 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 the 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 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