**Thesis**

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

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*1 Chapter – Introduction*

* 1. *Problem indication*

Nowadays the circular economy concept has taken place on the agenda of some countries in order to face some environmental, social and economic set of challenges. According to Lacy et al (2020), the circular economy is a system which has a set of rules aiming to disunite the economic growth from the consumption of scare resources. One of the new business models produced by the circular economy is the one known as Product-as-a-service (PaaS). In this model the customers are not the owners of the product, rater they rent or lease it.

This new context, 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).

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.

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 of legal ownership.

Customization occurs when the user indicates the computer what he or she prefers to see, 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 customization contexts.

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.

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*

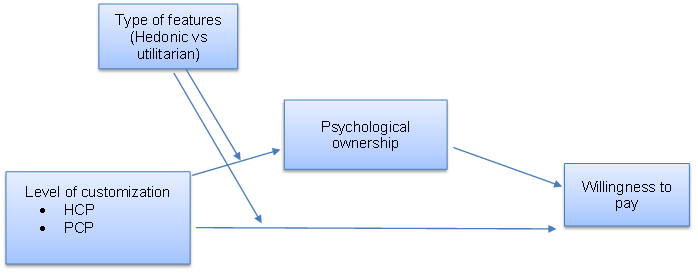
*To what extent is the relationship between level of customization and willingness to pay explained by psychological ownership, and what is the moderating role of type of features used to customize products on the relationships between level of customization and both; willingness to pay and psychological 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?
* What is highly customizable product?
* What is a poor customizable product?
  + 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 the 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. Aditionally 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 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 comes at a price which could be harsh to measure, with hidden cost 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 with 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 which lead to know 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 in 5 chapters. The introduction is presented in the first one. In the second and third the theoretical framework and the methodology respectively, are discussed. The chapter four contains the obtained results and the analysis of those. Finally, chapter five include the conclusion of the research, the managerial implications and the limitations and future research as well.

1. *Chapter – Theoretical framework*
   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 year 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 studies carried out by Dellaert & Stremersch (2005) and Hildebrand et al (2014). The first was focused on findings related with which customization configuration is preferred by customers; while the second was aimed to find answer to make the customization process less onerous. Both research show that the positive effects of customization depend on some variables like the number of components that can be customized in a product given that a high number of components to be customized could be associated, by customers, with an increase of complexity that usually leads to negative results.

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 these 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.

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.

**H1:** Highly customizable products will produce a higher willingness to pay than poor customizable products.

**H2:** Highly customizable products will develop a stronger psychological ownership, on customers, than poor customizable products.

* 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).

### 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.

### Hedonic products trigger more psychological ownership and more positive affect than utilitarian products (Shu & Peck, 2011). Additionally, as it was demonstrated by Dhar & Wertenbroch (2000), hedonic products also generate more loss aversion. Based on these two studies, the following hypotheses have been stated.

### H3: Products customized through hedonic features will produce a higher willingness to pay than products customized through utilitarian features.

### H4: Products customized through hedonic features will develop a stronger psychological ownership than products customized through utilitarian features.

* 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.

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 touch with willingness to pay for extended warranties.

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:** Highly customizable products will produce a higher willingness to pay than poor customizable products and 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

### 4. Research Design/Onderzoeksmethode

|  |  |  |
| --- | --- | --- |
| Variable | Name | Measurement |
| Independent | Level of customization | It is going to be treated as a categorical variable. In total there are going to be just 2 conditions. Each condition is going to be stated as follows:   * HCP = High customizable product (between 6 to 10 features to customize) * PCP = Poor customizable product (between 1 to 5 features to customize |
| Independent | Type of features | It is going to be treated as a categorical variable. In total there are going to be just 2 conditions. Each participant is going to be assigned randomly to one of the following conditions:   * Hedonic features * Utilitarian features |
| Mediator | Psychological ownership | Measurement: 5 items scale including: I sense this car its mine; I feel a very high degree of personal ownership towards this car; I feel personally connected to this car; it is hard for me to think about this car as mine; this car does not make me feel that it is mine. Respondents will be asked to indicate their opinion on a seven-point scale (1= strongly disagree; 7 strongly agree) |
| Dependent | Willingness to pay | Respondents will be asked to give their willingness to pay for the customized product. |
| Covariate | Demographic data | The information required will be:  Age and gender. |

The study will be carried out through a 2 (HCP, PCP) x 2 (hedonic, utilitarian) between subject design online experiment in order to test the hypotheses previously developed. For the experiment, the respondents will be asked to fill out an online questionnaire and randomly will be assigned to one of the four experimental conditions.

Participants will be shown a standard car. The product was chosen based on the study made by Dhar & Wertenbroch (2000). then, they will be asked to customize that product based on the independent variables’ conditions assigned. Later, they will be required to fill out a five-item scale, developed by Pierce & Van Dyne (2004), in order to measure their psychological ownership toward the customized product. Finally, they will be able to give their willingness to pay for the customized object.

An ANOVA will be carried out, complemented with a mediation analysis that is comprised of three sets of regressions: X → Y, X → M, and X + M → Y (Kim, 2016). The whole analysis will be supported through the bootstrapping technique in order to get the expected results.

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