# Research Statement

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My research is situated at the intersection of technology and business & society.[1] Theory or structured knowledge is methodologically central to all my quantitative modeling. Given my background and training in engineering, economics and marketing, I am interested in two areas.

(A) *Digital business models:* My research focuses on distinct strategic long-run choices relevant to digital firms, a topic of interest to multiple fields. I study this area using methods based on microfoundations of agents' preferences, typically empirical structural models. These models yield economically interpretable estimates, enabling counterfactual evaluation of firm or regulatory policies, and exogenous changes in technology.

(B) Building *theory-based machine learning (ML)* methods incorporating structured knowledge developed from first principles. These methods are human interpretable, and provide representations satisfying desirable properties (e.g. monotonicity of learned demand curves).

## (A) Digital Business Models

Digital firms have unique issues to consider, e.g. open versus closed source, indirect network effects, or freemium with perpetually free products, that are not seen with physical products. My research can broadly be themed as focusing on three different sources of connections: between *products*, *consumers* and *data*.

### *1) Connections across Products – Product Line*

Product design is especially important to digital firms. I detail the connections between products, with a research overview and agenda provided in [P1].

*Bundling Hardware and Software:* Bundling is an especially flexible product strategy, and is commonly used across many markets. Past work focuses on how bundling can leverage the negative correlation in consumers' static valuations across products. However, very little is known about the dynamic effects of bundling. To empirically evaluate the long-run impact, in [P4], I develop a forward-looking model, where consumers first purchase hardware (consoles) followed by software (games). I find that bundles act by pulling demand forward, i.e. lower valuation consumers buy now rather than wait – a new mechanism, only possible to identify in a model with forward-looking consumers. Using this model, I am able to examine several strategic questions. First, I find that bundling increases both the quantity of sales, and shifts the timing to occur earlier. This is especially important here, since having a larger installed base of hardware enables multiple software purchases to occur earlier. Second, I find that pure bundling as a strategy is dominated by mixed bundling. Third, a more positive correlation (relative to negative correlation) results in greater sales, through the above mechanism.

[1] For simplicity of exposition, this document is written in the first person singular, although most of my work is in collaboration with a wonderful set of co-authors.

My results due to a dynamic mechanism contrast with extant work that considers a static setting and finds bundling to be more effective with negative correlation. I also show that bundling is more effective when indirect network effects are weaker, which was not known earlier. Overall, my research has implications to any context where dynamic factors are important. Methodologically, I was among the first researchers to connect the software and hardware markets using an integrated structural model, rather than using quantity as a proxy for indirect network effects like prior work. Consumers here form expectations over both hardware and software value when they make hardware purchases. I also develop a novel identification strategy for correlation in valuations based on the tying ratio, leveraging the feature that consumers purchase one hardware but many software units.

*Related Methodological Studies:* The above research led me to investigate methods for estimating dynamic demand models. Examining the commonly used inclusive value approach, I show that it can lead to highly biased estimates of economically important quantities like elasticities and profits [P5]. Motivated by the need for models to flexibly accommodate dynamics with large state spaces, I develop a new method that can be estimated without needing to reduce the dimensionality [P2]. For a large class of problems (with terminating or renewal choice), I obtain consumer preferences with the simplicity of a linear regression. I formally prove identification and recover the evolution of unobservable product characteristics, enabling counterfactual analysis. I evaluate the monetary value of product features in the (early) market for smartphones, finding that Bluetooth and Wi-Fi had the biggest impact on Apple's sales, relative to other features.

*(Digital) Transformation*: Transformation through technological change, linking the old product to the new, is a critically important but inherently risky and challenging process for firms. Yet, empirical structural studies of the impact of transformation are rare. In [P10], I examine the transformation for a firm moving a product based on an older technology (physical or slower service time) to one based on newer technology (digital or faster). Using a panel from a firm using the "Netflix" model with multiple versions (plans), I obtain consumer preferences for viewing content in physical form. Typically, quality improvements are expected to improve the value generated for all consumers, and therefore, the surplus available to the firm as revenue. However, I show that with service improvements, this logic may not hold. The reason is that such improvements also reduce the differentiation between the product versions (plans). In the limit (zero service time), just one plan would be offered. Thus, the firm has fewer options to price discriminate, and facing heterogeneous consumers, is not able to extract as much surplus. In counterfactuals with reduced service time, I find the value created increases, but differentiation across versions decreases (even collapses). This novel mechanism shows how a transformation that enables more value to be created results in lower profits and revenue for the firm. This risk is likely to exist in many transformations, especially digital ones. The implication is that firms need to first understand and then evaluate these transformation risks, finally developing strategies to overcome them.

Methodologically, I develop a dynamic structural model with forward-looking consumers. I incorporate a rich specification of heterogeneity, which is important because the mechanism I study relies on heterogeneity. I also suggest a new strategy for identification of switching costs without price variation, based on content enhancement that increases the gains from switching; this approach would be broadly applicable elsewhere, e.g. for app subscriptions.

*Open Source:* The puzzle in open source software is that free-riding can produce high quality products, and my model shows how this is sustained in equilibrium [P14]. I examine product strategy, where contributions to product features made either by developers or by any firm are a public good available to all competing firms (e.g. Linux, Android or Meta's Llama LLM). Developers signal their capabilities by making feature contributions to open source. Firms build on features and differentiate on a complementary dimension (usability), and a greater degree of open source contributions can enhance the differentiation value of usability. I show, in contrast to past research and industry leaders' beliefs, that allowing free-riding can result in higher product quality.[2]

**Other Related Work:** Freemium is the most popular digital business model (e.g. app stores, cloud storage, SaaS). I undertake a deep dive into designing freemium for a storage service [P16], where referrals are rewarded with an improvement to the free product. I evaluate how there is a tradeoff between growth and monetization, but if the firm is too generous, it can counterintuitively hurt both. I also examine the use of time as a versioning and monetization strategy (wait for free) in [P17]. I provide an overview of issues in Freemium for a general audience in [P11]. I also examine the case of a retailer with a physical and digital channel, and evaluate when it is optimal for the firm to match its own price across channels [P9].

***2) Connections across Data – Linking Purchase and Usage***

The next connection I study is the linkage between types of data, i.e. purchase data and usage data. In digital settings, usage data is more easily (even uniquely) available, and valuable in obtaining insights about consumer preferences. However, most studies in marketing and economics involve only purchase data. I connect purchase and usage data in several product settings, including [P16, P10]. In [P3], I demonstrate how usage data is conceptually distinct, and is critically important for identification of demand, not just estimation. Specifically, I show that without price variation, the *nonparametric identification of the Willingness to Pay (WTP) distribution* for subscriptions is possible by leveraging usage data, but impossible without it. The key insight is that combining high-frequency usage data with purchase data allows for a conceptual leap in identification of the valuation (WTP) distribution, which was not thought possible without price variation. I crucially show that this result does not rely on specific parametric functional forms or distribution of shocks, which is methodologically challenging. I model the stream of usage utilities over time, and then connect the (expectations of) aggregated utility to the purchase decision. I combine usage data with exogenous factors impacting usage to first estimate usage preferences, then using expected usage value with purchase data to obtain the WTP distribution. I conduct counterfactual analyses, such as product design. The framework is flexible in accommodating a large class of usage utility models, making it widely applicable.

[2] Former Microsoft CEO Steve Ballmer described this free-riding thus: "Linux is a cancer that attaches itself in an intellectual property sense to everything it touches." (Link)

*3) Connections across Consumers – Networks*

Word-of-mouth and referral effects can impact business models. However, my research in this area is quite general, and broadly applicable to a wide class of network interventions beyond that, e.g. public health. In network interventions, highly-connected individuals are useful to leverage as seeds for interventions, e.g. word-of-mouth. I investigate privacy-sensitive methods for leveraging network structure to obtain higher-degree nodes in *unknown* networks [P15]. The literature focuses on obtaining the entire network structure (not privacy-friendly!), and does not offer provable guarantees, which is challenging in networks. My research addresses both issues. I demonstrate two strategies (ego-based and alter-based), based on the friendship paradox, that ask individuals to nominate one or more random friends. These strategies have distinct mathematical properties, are simple to implement, and offer provable theoretical guarantees of obtaining higher-degree individuals. I also discover a new network property (inversity) that perfectly determines the strategy which obtains highly-connected seeds.

I empirically study whether using friendship paradox strategies can achieve greater product adoption in [P13]. Using a model of communication and adoption, estimated with data on real networks, I evaluate counterfactuals using different seeding strategies. I show that ego-based friendship seeding outperforms random seeding, and surprisingly, obtains higher adoption than even leader-based seeding. Thus, I show we can improve product adoption by just using (randomly chosen) friends as seeds, which was unknown, thus providing a privacy-friendly approach. The results hold across a range of specifications and networks demonstrating robustness. Methodologically, I provide a novel nonparametric identification strategy, leveraging the shape of the adoption trajectory to identify the differential impact of leaders, even when only leader seeding is used.

## (B) Theory-based Machine Learning

My research in ML is focused on integrating structured knowledge (theory) to develop new ML methods, which then enable us to obtain insights about consumer responses. There is a growing set of important research questions where ML is required. Marketing in practice involves important elements based on unstructured data, e.g. text, visual design, music, videos. Yet, the vast majority of research has used structured numerical data, since they are readily available, and have standardized methods for analysis. Traditional non-ML quantitative methods are not great at capturing the nuances of unstructured data, or in generating novel text or images.

Given their growing capabilities, ML models are being increasingly used in academia and industry. However, they are typically opaque black box models (e.g. ChatGPT), leading to significant problems. First, these models are highly complex (with billions of parameters) and humans don't know the interpretation of these parameters. We also don't know the data on which they are trained. Second, they are designed to be atheoretical and so do not have a true understanding of the consumer.[3] Third, they are typically not interpretable – we don't know *why* they work, why they don't (e.g. hallucinations), and *when* this will happen.[4]

[3]For example, the same CNN deep net models used for marketing applications are also used in medicine.

[4]Algorithms for self-driving vehicles illustrate these points; only now are we beginning to understand their inner

My focus is on solving these challenges by developing ML methods based on theory or structured knowledge.[5] My research is focused around three aspects: (a) develop methods to incorporate structured knowledge (from marketing, economics and other fields) into ML models, (b) provide model and data transparency, and (c) improve explainability and interpretability along with performance.

Several questions arise. What concepts and ideas can we bring to ML? How can we incorporate theory into complex deep learning models with unstructured data? How can we demonstrate impact? I detail these critical challenges across a variety of studies below.

*Visual Characteristics:* I obtain and quantify interpretable visual characteristics of products and consumer preferences for them in [P18]. Visual appearance of products is important in many categories, yet very high-dimensional and therefore challenging to characterize and interpret. Prior research either required human experts to pre-define the set of characteristics, or focused on characteristics without any interpretability. My theory-based method automatically discovers and quantifies visual characteristics *without expert input*. Theory plays a crucial role in the following ways. First, the objective function is designed to incentivize low-dimensional and orthogonal representations, based on the idea that the product designs satisfy that property. Second, I leverage the idea that products have a distinct look tied to the brand, with recognizable "visual signatures" (think BMW cars or LV handbags). I transform the learning problem from unsupervised to supervised (using brand and other characteristics), leading to substantially higher performance *and* greater human interpretability. Importantly, we can automatically *generate* counterfactual visual designs without experts, representing a methodological leap not thought possible for products.

*Music and Emotion:* Music is a major driver of consumer emotional response, yet greatly underexplored. In the music emotion research [P7], explaining why a listener feels a specific emotion when listening to music was a black box earlier, and this research is the first to explain that. I use ideas on consonance and dissonance of music, and how that connects to the listener's emotion using theory from multiple fields: (a) the mathematics of sound waves and (b) psychology of human music perception. Here, theory is used as the basis for creating novel non-contiguous consonance filters operating within a convolutional neural network. This approach is unique since almost all of visual ML is based on contiguous filters. Using these novel filters, we obtain a representation that enables explainability, so we can visualize how specific features of music impact listener responses. I further develop an application using emotional congruence (or contrast) for contextual targeting for ads, without using any consumer data, providing a privacy-friendly advertising approach.

*Learning Unknown Demand Curves:* To learn an unknown demand curve by experimentation, I develop a reinforcement learning model with nonparametric multi-armed bandits (MAB) [P19]. The classic experiment (A/B) is inefficient since it explores all prices equally. MABs provide a more sophisticated approach ("learning while earning"), yet are atheoretical. Economic theory informs us that demand curves are downward sloping, but incorporating this knowledge into MABs is quite challenging.[6] I find that monotonicity adds two sources of value. First, the performance of the

workings. See The Hidden Autopilot Data That Reveals Why Teslas Crash (Wall Street Journal, 07/30/2024).

[5] Other researchers are trying to integrate theory from their academic fields into ML, e.g. in physics [O1].

[6] There are exceptions (e.g. Veblen goods).

algorithm improves substantially, since it learns not just from each price (arm) experimented, but across arms (an informational externality). Second, I can guarantee that the resulting demand curve is monotonic. This aspect is especially important when algorithms are used to make automated pricing decisions. Without monotonicity, we commonly get an upward sloping demand curve, resulting in unrealistically high prices and increasing the risk of algorithmic failure.

Overall, all the ML-based research I have undertaken brings in the power of theory to enhance the capability of ML along several aspects: performance, interpretability, and providing representations satisfying theoretical properties. In turn, these ML methods are useful in gaining valuable insights into consumer and firm choices, leading to a symbiotic process of knowledge creation. All my ML research is transparent with open source code publicly available for others to examine, critique and build on. I expect this approach to improve stakeholder trust and acceptance of AI systems.

**Teaching**

I have developed and taught elective courses at the masters level, and have also contributed to the executive MBA and executive education. I use a mix of lectures to help with learning principles, complemented with discussions featuring case studies by the Socratic method. In *Digital Strategy*, I explore digital business models (e.g. Dropbox), and evaluate models used by disruptors and complementors. I investigate the drivers and barriers of platform success, and examine digital transformation and emerging technologies. Digital transformation has been used in custom executive education programs at Yale, e.g. YGELP.

I recently developed and taught a masters-level elective course titled *Artificial Intelligence: Strategy & Marketing*. The goal is to help students understand the ideas, gain familiarity with the methods and their business applications. I introduce the primary ML methods (unsupervised, supervised, reinforcement and generative), followed by an examination of how organizations obtain value from AI, through case studies. I also demonstrate how fairness (and bias) can be and are often designed into algorithms, whether intentionally or not, and the resulting implications for all stakeholders. In pedagogical experiments, I have found that assigning students to present (carefully selected) academic papers can be effective, with faculty guidance.

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