

# Research Statement

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My overall research focus is at the intersection of technology and business & society.<sup>1</sup> Theory or structured knowledge is methodologically central to all of 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 technologies.
- (B) Building *theory-based machine learning (ML)* methods incorporating structured knowledge developed from first principles. These methods are also shown to be human interpretable, and provide representations satisfying desirable properties (e.g. monotonicity).

## (A) Digital Business Models

I examine digital firms' strategic choices that drive performance in the marketplace. Digital offers new possibilities (e.g. versioning, social etc.), and these choices and their alignment drive marketplace outcomes. Within digital business models, 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*

I detail the connections between products, with a research overview and agenda provided in [P1].

*Bundling Hardware and Software*: What is the long-run value of mixed bundling (products and bundles) relative to pure bundling, or no bundling? Is bundling more effective with stronger network effects? Is bundling more impactful when product valuations are negatively correlated? In [P4], I empirically investigate these questions using data on videogame consoles (hardware) and game titles (software). Prior to this research, almost all of the literature had focused on the static impacts of bundling. I find that in dynamic settings with intertemporal tradeoffs, bundling is more effective with *positive correlation* of valuation across products. Bundles act by pulling demand forward, i.e. consumers buy now rather than wait – a new mechanism, only possible to identify in a dynamic setting – and higher sales obtain under positive correlation. My results are in contrast to extant work that has considered a static context and found 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. I 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.

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<sup>1</sup>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.

*Related Methodological Studies:* The research on bundling also 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 easily estimated [P2]. Specifically, for a large class of problems (with terminating or renewal choice) using market-level data, I can obtain consumer preferences with the computational complexity of a linear regression, and I formally prove identification for this method, and I then conduct counterfactual analysis.

*Versioning:* Freemium is the most popular digital business model (e.g. app stores, cloud storage, SaaS). Few consumers (typically <5%) migrate to the paid version, so product strategy is of critical importance, yet unknown. I undertake a deep dive into designing freemium for a storage service, examining the growth-monetization tradeoff. In [P16], I evaluate product design (value of free version) and referral incentives, which impact the value of the free product, and therefore, upgrades. In counterfactuals, I find that offering a greater referral bonus can increase growth but reduce monetization, while beyond a threshold, it can decrease both growth and monetization, which is counterintuitive. This double-sided risk of generosity is novel and has direct impact for firms. I provide an overview of issues in Freemium for a general audience in [P11].

I examine the strategic use of time as a versioning and monetization strategy (wait for free) in [P18]. Consumers can either purchase immediately or wait for the content to become free. This strategy is commonly employed by many platforms publishing content (e.g. novels as serialized episodes), but current research on consumer impact of this strategy is limited. I leverage an exogenous change – wait time is reduced by the platform for some content – to study the impact on consumer choices. Existing consumers were found to increase paid consumption, and more new consumers start reading, increasing aggregate consumption. I show how a microfounded mechanism with complementarity across episodes can rationalize these data patterns. Overall, this research demonstrates the strategic role of temporal versioning in driving user choices, with implications for the versioning strategy chosen by content firms.

*(Digital) Transformation:* Transformation through technological change is a critically important, yet inherently risky and challenging process for firms. Empirical, especially structural studies of transformation are rare. In [P10], I examine the transformation strategy 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, I first estimate consumer preferences for viewing content in physical form. I evaluate optimal pricing across the multiple versions, faced with heterogeneous consumers. Next, in counterfactuals with reduced service time, I find the value created increases, but differentiation across versions decreases (even collapses). I uncover novel mechanisms showing how a transformation that enables more value to be created for all consumers results in lower profits and revenue for the firm. This research identifies and quantifies new mechanisms by which transformation risk is created.

*Open Source:* The puzzle in open source software is that free-riding can produce high quality products. In [P14], I examine product strategy in this market, where contributions made either by

developers or by any firm are available to all competing firms (e.g. Linux or Android). My model with interconnected markets (developer and product) explains how this happens. Developers signal their capabilities by making contributions of features to the open source software (public good). My research shows how free-riding is sustained in equilibrium. Firms can build on features to differentiate on another complementary dimension (usability), and a greater degree of open source contributions can enhance the differentiation value of usability. I show that, in contrast to prior research and beliefs of industry leaders, allowing free-riding can result in increased product quality.<sup>2</sup>

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

The next connection that I examine 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 across several 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 identification of the Willingness to Pay (WTP) distribution for subscriptions without price variation 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 distribution of consumer willingness-to-pay (WTP), which was not thought to be possible without price variation. I combine usage data with exogenous factors impacting usage to first estimate usage utility, then aggregate this stream, combined with purchase data to obtain the WTP distribution. I can then conduct counterfactual analyses, such as product design. The framework is flexible in accommodating a large class of usage utility models, making it widely applicable.

## ***3) Connections across Consumers – Networks***

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

I empirically study whether using friendship paradox strategies can achieve greater product adoption in [P13]. Using a model of communication and adoption across social networks estimated on data, I evaluate counterfactuals using the above seeding strategies, which have not been empirically

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<sup>2</sup><https://www.zdnet.com/article/ballmer-i-may-have-called-linux-a-cancer-but-now-i-love-it/>

examined. I show that ego-based friendship seeding outperforms random seeding, and surprisingly, obtains higher adoption than even leader-based seeding. The results hold across a range of specifications and networks, demonstrating robustness and empirical value, and have implications for referral design. Overall, in contrast to prior work, my research shows that it is possible to leverage networks to impact interventions with theoretical guarantees for *any* network, without knowing the network, and is empirically shown to work better than using demographic attributes (e.g. leadership).

## **(B) Theory-based Machine Learning**

My research focus in ML is based on integrating structured knowledge to develop new ML methods, which in turn, enable us to obtain insights about consumer responses. First, there is a growing set of important research questions where ML is required. Marketing in practice involves important elements that impact consumers that cannot be appropriately captured by structured data (e.g. text, visual design, music, videos). Yet, the vast majority of research has focused on structured data, since they are more available and have standardized methods to analyze them. Traditional non-ML quantitative methods are not great at capturing the nuances of unstructured data. Moreover, ML also makes it feasible to generate novel unstructured data like 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 do not have a true understanding of the consumer.<sup>3</sup> Third, they are typically not interpretable – we don't know *why* they work. They are prone to failure (e.g. hallucinations), and we cannot know *when* this will happen because we have little visibility.<sup>4</sup>

My focus is on solving these challenges, developing better ML methods based on theory or structured knowledge.<sup>5</sup> My research is focused around three aspects: (a) develop methods to incorporate structured knowledge into ML models, (b) provide complete model and data transparency, and (c) improve explainability and interpretability along with performance. Rather than using commercially available black box models, I develop models from basic elements.

The sources of knowledge that I examine include ideas and concepts from fields like marketing and economics, but is not limited to these. What concepts and ideas can we contribute to ML? How can we incorporate theory into complex deep learning models with unstructured data? How can we demonstrate impact? These are the critical challenges that I detail below, across a variety of studies.

*Visual Characteristics:* I aim to obtain and quantify interpretable visual characteristics of products and consumer preferences for them in [P19]. Visual appearance of products is important in

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<sup>3</sup>The same CNN deep net models used for marketing applications are also used in biology.

<sup>4</sup>Consider the algorithms for self-driving vehicles illustrating these points – only now are we beginning to get some idea about the inner workings. See [The Hidden Autopilot Data That Reveals Why Teslas Crash](#) (Wall Street Journal, 07/30/2024).

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

many categories, yet very high-dimensional and therefore challenging to characterize and explain. Prior research either required human experts to pre-define the set of characteristics, or focused on obtaining 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” like LV handbags or BMW cars. The method leverages brand and other characteristics to supervise disentanglement, in contrast to unsupervised ML methods. I find significantly higher performance *and* human interpretability. Importantly, we can automatically *generate* counterfactual visual designs without expert involvement, which was not thought possible for products.

*Music and Emotion:* Music is a major driver of user 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 changes that. I use ideas about consonance and dissonance of music, and how that connects to the listener’s emotion using theory from multiple fields. Specifically, the knowledge is based on both: (a) the mathematics of sound waves and (b) psychology of human music perception. Here, theory is used as the basis for creating flexible and non-contiguous consonance filters, which is unique and novel, since almost all of ML uses contiguous filters for visual processing. Using these filters, we get a representation that enables explainability, so we can visualize how the features of music impact listener responses. The research also develops an application using emotional congruence (or contrast) as a form of contextual targeting for ads, without using any consumer data, greatly improving privacy.

*Learning Unknown Demand Curves:* To learn an unknown demand curve by experimentation, I develop a reinforcement learning model with nonparametric multi-armed bandits (MAB) [P20]. 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.<sup>6</sup> I find that monotonicity adds two sources of value. First, the performance of the algorithm improves substantially, since it learns not just from each price (arm) experimented, but across arms (an informational externality). Second, including theory guarantees that the resulting demand curve obtained is monotonic. This aspect is especially important when algorithms are used to make automated pricing decisions. Without monotonicity, we can get an upward sloping demand curve, resulting in unrealistically high prices and increasing the risk of failure.

Overall, all the ML-based research I have undertaken brings in the power of structured knowledge to enhance the capability of ML along several aspects: performance, interpretability / explainability, and providing representations satisfying desirable properties. In turn, these ML methods are useful to help us gain valuable insights into consumer and firm behavior, leading to a symbiotic process. All my ML research is transparent with the 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

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<sup>6</sup>There are exceptions (e.g. Veblen goods).

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## Teaching

I have developed and taught elective courses at the masters and doctoral levels, 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. Given the connection to my research, I've incorporated exercises based on research into the course material. 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 objective is to help students understand the ideas, gain familiarity with the methods and their business applications. I introduce the primary ML methods (supervised, 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 my pedagogical experiments, I've found that assigning students to present (carefully selected) academic papers can be effective, with faculty guidance.



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