

Fractional 0–1 programming and Submodularity

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ABSTRACT. In this note we study multiple-ratio fractional 0–1 programs, a broad class of \mathcal{NP} -hard combinatorial optimization problems. In particular, under some relatively mild assumptions we provide a complete characterization of the conditions, which ensure that a single-ratio function is submodular. Then we illustrate our theoretical results with the assortment optimization and facility location problems, and discuss practical situations that guarantee submodularity in the considered application settings. In such cases, near-optimal solutions for multiple-ratio fractional 0–1 programs can be found via simple greedy algorithms.

Keywords Fractional 0–1 programming, hyperbolic 0–1 programming, multiple ratios, single ratio, submodularity, assortment optimization, facility location, greedy algorithm.

1. INTRODUCTION

We consider a multiple-ratio *fractional* 0–1 program given by:

$$\max_{x \in \mathcal{F}} \sum_{k \in M} \frac{\sum_{i \in N} a_{ki} x_i}{b_{k0} + \sum_{i \in N} b_{ki} x_i}, \quad (1)$$

where $M = \{1, \dots, m\}$, $N = \{1, \dots, n\}$ and $\mathcal{F} := \{x \in \{0, 1\}^n : Dx \leq d\}$ for given $D \in \mathbb{R}^{q \times n}$ and $d \in \mathbb{R}^q$. Problem (1) is often referred to as a multiple-ratio *hyperbolic* 0–1 program. Problems of the form (1) can also be viewed as a class of set-function optimization problems that seek a subset S of N with its indicator variable $\mathbb{1}_S \in \mathbb{R}^n$, where the i -th element of $\mathbb{1}_S$ is 1 if and only if $i \in S$.

Throughout the paper, we make the following assumptions:

A1: The denominator is strictly positive for each ratio in (1), i.e., $b_{k0} + \sum_{i \in N} b_{ki} x_i > 0$ for all $k \in M$ and all $x \in \mathcal{F}$.

A2: $a_{ki} \geq 0$, $b_{k0} \geq 0$ and $b_{ki} > 0$ for all $k \in M$ and $i \in N$.

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Assumption **A1** is standard in fractional optimization [10, 11, 34]. In particular, it ensures that the objective function is well defined. Assumption **A2** is not too restrictive as it naturally holds in many application settings, see examples in [11], including those considered in this note, see Section 4. Finally, for our results developed in this note we also require an additional relatively mild assumption on the structure of the feasible region, \mathcal{F} , in (1); it is formalized in Section 2.

Applications of single- and multiple-ratio fractional 0–1 programs as in (1) appear in many diverse areas. For example, Méndez-Díaz et al. [35] discuss an assortment optimization problem under mixed multinomial logit choice models (MMNL). Tawarmalani et al. [49] consider a facility location problem, where a fixed number of facilities need to be located to service customers locations with the objective of maximizing a market share. Arora et al. [2] study a class of set covering problems in the context of airline crew scheduling that aim at covering all flights operated by an airline company. Furthermore, many combinatorial optimization problems can be formulated in the form (1) including the minimum fractional spanning tree problem [13, 50], the maximum mean-cut problem [26, 42] and the maximum clique ratio problem [45]. More application examples can be found in the studies by [8, 18, 14], the recent survey by Borrero et al. [11] and the references therein.

Generally speaking, problem (1) is \mathcal{NP} -hard even in the case of a single ratio [24, 40]. Moreover, this problem is even hard to approximate, see, e.g., [40]. Also, Rusmevichientong et al. [44] show that for the unconstrained multi-ratio problem, there is no approximation algorithm with polynomial running time that has an approximation factor better than $\mathcal{O}(1/m^{1-\delta})$ for any $\delta > 0$. Other related theoretical computational results are discussed in [40, 41].

Exact solution methods for (1) encompass mixed-integer programming reformulations [10, 18, 34], branch and bound algorithms [49], and other enumerative methods [11, 22, 23]. However, due to \mathcal{NP} -hardness of (1), these methods do not scale well when the size of the problem increases. Motivated by these computational complexity considerations, a number of studies rely on approximation schemes and heuristics for solving (1). Rusmevichientong et al. [43], Mittal and Schulz [36] and Désir et al. [16] all propose approximation algorithms for assortment optimization under the MMNL model when the number of customer segments, m , is fixed. Amiri et al. [1] develop a heuristic algorithm based on Lagrangian relaxation in the context of stochastic service systems. Prokopyev et al. [41] present a GRASP-based (Greedy Randomized Adaptive Search) heuristic for solving the cardinality constrained problems. Finally, simple greedy algorithms are also used in the literature [19, 28]. However, it is often not well understood when such algorithms perform well.

Contributions and outline. The remainder of the note is organized as follows. In Section 2, we overview some necessary preliminaries and formulate our model (1) in terms of set functions.

In Section 3, we provide the main result of the note that characterizes the *submodularity* of a single ratio. Submodularity is often a key property for devising approximation algorithms [20, 38]. If the objective function can be identified as a submodular function, then simple greedy algorithms are capable of delivering high-quality solutions. In fact, it is possible to obtain $(1 - e^{-1})$ -approximations under a variety of feasible regions – independently of the number of the ratios, m , involved –, thus improving over existing approximation methods for (1). We also discuss the connections between submodularity and monotonicity in the context of fractional 0–1 optimization.

In Section 4, we consider our theoretical results in the context of two applications – the assortment optimization and the p -choice facility location problems. For the assortment optimization problem, our results suggest that submodularity is linked to a phenomenon known as *cannibalization* [37], and naturally arises in several important scenarios. The results can also be applied in the case when there is a fixed cost associated with offering a product in the assortment [4, 29], which arises, for example, in online advertisement with costs-per-impression. For the p -choice facility location problem [49], we show how to reformulate the original problem in a desirable form that can be then exploited to benefit from the submodularity property. Finally, we conclude the note in Section 5.

2. PRELIMINARIES

Notation and additional assumption. Let $a^k = (a_{ki})_{i \in N}$ and $b^k = (b_{ki})_{i \in N \cup \{0\}}$ for all $k \in M$, and for given $a^k \in \mathbb{R}^n$ and $b^k \in \mathbb{R}^{n+1}$, define

$$h(x; a^k, b^k) := \frac{\sum_{i \in N} a_{ki} x_i}{b_{k0} + \sum_{i \in N} b_{ki} x_i}.$$

Then equation (1) can be rewritten as

$$\max_{x \in \mathcal{F}} \sum_{k \in M} h(x; a^k, b^k). \quad (2)$$

This form appears in many applications such as the retail assortment and the p -choice facility location problems. Note that for each $x \in \{0, 1\}^n$, there is a unique set $S = \{i \in N : x_i = 1\} \subseteq N$, and conversely, each $S \subseteq N$ corresponds to an indicator vector $\mathbb{1}_S \in \{0, 1\}^n$. Thus, we can rewrite $h(x; a^k, b^k)$ as a set function

$$h(S; a^k, b^k) := h(\mathbb{1}_S; a^k, b^k),$$

and regard \mathcal{F} as the domain of sets, i.e., $\mathcal{F} \subseteq 2^N$. Thereafter, we may use the vector form and the set form of (2) interchangeably for convenience.

We also need the following additional assumption:

A3: \mathcal{F} is *downward closed*, i.e., if $S \in \mathcal{F}$ then $T \in \mathcal{F}$ for all $T \subseteq S$.

We note that many types of feasible regions considered in the literature, such as $\mathcal{F} = 2^N$ (unconstrained problem), $\mathcal{F} = \{S \subseteq N : |S| \leq p\}$ for some positive integer p (cardinality constraint) and $\mathcal{F} = \{S \subseteq N : \sum_{i \in S} w_i \leq c\}$ for some weights $w \geq 0$ and $c \geq 0$ (capacity constraint) all satisfy Assumption **A3**.

Submodularity and greedy algorithms. A set function $f : 2^N \rightarrow \mathbb{R}$ from the subsets of N to the real numbers is *submodular* over \mathcal{F} if it exhibits diminishing returns, i.e., $f(S \cup \{i\}) - f(S) \geq f(T \cup \{i\}) - f(T)$ for all $S \subseteq T \subseteq N \setminus \{i\}$ such that $T \cup \{i\} \in \mathcal{F}$. Equivalently, function f is submodular over \mathcal{F} if

$$f(S \cup \{i, j\}) - f(S \cup \{j\}) \leq f(S \cup \{i\}) - f(S) \quad (3)$$

for all $S \subseteq N$ and $i, j \notin S$ such that $S \cup \{i, j\} \in \mathcal{F}$.

The greedy algorithm, see its pseudo-code in Algorithm 1, is a popular choice for tackling monotone submodular maximization problems because it is easy to implement and gives a constant-factor approximation in many cases. When the feasible region is a matroid, the greedy algorithm produces a solution with $1/2$ approximation factor; see [20]. When the feasible region is given by a cardinality constraint, the approximation ratio can be improved to $(1 - e^{-1})$; see [38]. Other $(1 - e^{-1})$ -approximation algorithms or near-optimal algorithms have also been provided for other classes of feasible regions over the years [12, 27, 46], for example, when \mathcal{F} is defined with a single or multiple capacity constraints.

Algorithm 1 Greedy Algorithm for Submodular Function Maximization

Step 1. Set $S := \emptyset$.

Step 2. Set $A := \{\ell \in N \setminus S : S \cup \{\ell\} \in \mathcal{F}\}$.

Step 3. If $A \neq \emptyset$, set $\ell^* \in \arg \max_{\ell \in A} f(S \cup \{\ell\})$ and $S := S \cup \{\ell^*\}$. Go to *Step 2*.

Step 4. Return S .

3. SUBMODULARITY OF A SINGLE RATIO AND ITS IMPLICATIONS

3.1. A necessary and sufficient condition. In this section, we give a necessary and sufficient condition for the submodularity of the function $h(\cdot)$, see Theorem 1. As a direct consequence, if $h(\cdot; a^k, b^k)$ satisfies the condition of Theorem 1 for every $k \in M$, then it follows that the fractional 0–1 program (2) admits a constant-factor approximation algorithm. For convenience, we drop the superscript k in a^k and b^k and use the notation $h(\cdot; a, b)$ throughout this section.

We first consider the case where $b_0 > 0$. The key result of this note is as follows:

Theorem 1. If $b_0 > 0$, then function $h(\cdot; a, b)$ is submodular over \mathcal{F} if and only if

$$h(S \cup \{i\}; a, b) + h(S \cup \{j\}; a, b) \leq \frac{a_i}{b_i} + \frac{a_j}{b_j} \quad (4)$$

for all $S \subseteq N$, and $i, j \notin S$ with $i \neq j$ such that $S \cup \{i\} \cup \{j\} \in \mathcal{F}$.

Proof. Recall that Assumption **A2** holds. Thus, the right-hand side of (4) is well-defined. Let $S \subseteq N$, let $i, j \notin S$ with $i \neq j$ satisfying $S \cup \{i\} \cup \{j\} \in \mathcal{F}$, and define $A_S = \sum_{j \in S} a_j$ and $B_S = b_0 + \sum_{j \in S} b_j$. Observe that $h(S; a, b) = A_S/B_S$. From (3) we find that $h(\cdot; a, b)$ is submodular if and only if

$$\frac{A_S + a_i + a_j}{B_S + b_i + b_j} - \frac{A_S + a_j}{B_S + b_j} \leq \frac{A_S + a_i}{B_S + b_i} - \frac{A_S}{B_S}.$$

Multiplying both sides by $B_S(B_S + b_i + b_j)$, we get the equivalent condition

$$\begin{aligned} & B_S(A_S + a_i + a_j) - B_S \left(1 + \frac{b_i}{B_S + b_j}\right) (A_S + a_j) \\ & \leq B_S \left(1 + \frac{b_j}{B_S + b_i}\right) (A_S + a_i) - (B_S + b_i + b_j)A_S \\ \Leftrightarrow & a_i B_S - b_i B_S \frac{(A_S + a_j)}{B_S + b_j} \leq a_i B_S - b_i A_S - b_j A_S + \frac{b_j}{B_S + b_i} B_S (A_S + a_i) \\ \Leftrightarrow & a_i B_S - b_i B_S \frac{(A_S + a_j)}{B_S + b_j} \leq a_i B_S - b_i A_S + \frac{b_j}{B_S + b_i} (B_S A_S + B_S a_i - (B_S + b_i)A_S) \\ \Leftrightarrow & a_i B_S - b_i B_S \frac{(A_S + a_j)}{B_S + b_j} \leq a_i B_S - b_i A_S + \frac{b_j}{B_S + b_i} (a_i B_S - b_i A_S). \end{aligned}$$

Adding $b_i A_S + b_i B_S \frac{A_S + a_j}{B_S + b_j} - a_i B_S$ to both sides, we find

$$\begin{aligned} & b_i A_S \leq b_i B_S \frac{(A_S + a_j)}{B_S + b_j} + \frac{b_j}{B_S + b_i} (a_i B_S - b_i A_S) \\ \Leftrightarrow & b_i A_S (B_S + b_i) (B_S + b_j) \leq b_i B_S (A_S + a_j) (B_S + b_i) + b_j (B_S + b_j) (a_i B_S - b_i A_S) \\ \Leftrightarrow & b_i A_S B_S^2 + b_i A_S B_S (b_i + b_j) + b_i^2 b_j A_S \\ & \leq b_i A_S B_S^2 + b_i a_j B_S^2 + B_S A_S b_i^2 + a_j b_i^2 B_S + a_i b_j B_S^2 + a_i b_j^2 B_S - b_i b_j A_S B_S - b_i b_j^2 A_S. \end{aligned}$$

After rearranging and canceling out some terms in the above expression, we obtain:

$$\begin{aligned} & 2b_i b_j A_S B_S + b_i^2 b_j A_S + b_i b_j^2 A_S \leq B_S^2 (a_i b_j + a_j b_i) + a_j b_i^2 B_S + a_i b_j^2 B_S \\ \Leftrightarrow & b_i b_j A_S (b_i + b_j + 2B_S) \leq b_i b_j (a_j/b_j B_S^2 + a_j/b_j b_i B_S + a_i/b_i B_S^2 + a_i/b_i b_j B_S) \\ \Leftrightarrow & A_S (b_i + b_j + 2B_S) \leq a_j/b_j B_S^2 + a_j/b_j b_i B_S + a_i/b_i B_S^2 + a_i/b_i b_j B_S \\ \Leftrightarrow & (B_S + b_i)(A_S - a_j/b_j B_S) + (B_S + b_j)(A_S - a_i/b_i B_S) \leq 0. \end{aligned}$$

Finally, dividing by $(B_S + b_i)(B_S + b_j)$ and then adding $a_i/b_i + a_j/b_j$ on both sides, we get

$$\begin{aligned} &\Leftrightarrow \left(\frac{A_S - a_j/b_j B_S}{B_S + b_j} + a_j/b_j \right) + \left(\frac{A_S - a_i/b_i B_S}{B_S + b_i} + a_i/b_i \right) \leq a_i/b_i + a_j/b_j \\ &\Leftrightarrow \frac{A_S + a_j}{B_S + b_j} + \frac{A_S + a_i}{B_S + b_i} \leq a_i/b_i + a_j/b_j, \end{aligned}$$

which is precisely inequality (4). \square

As we discuss next, submodularity is closely linked to monotonicity.

3.2. Monotonicity implies submodularity. The function $h(\cdot; a, b)$ is *monotone nondecreasing* if

$$h(S; a, b) \leq h(S \cup \{j\}; a, b) \quad (5)$$

for every set S and $j \notin S$ such that $S \cup \{j\} \in \mathcal{F}$. Monotonicity is often a prerequisite for greedy algorithms, see, e.g., [38], to guarantee a constant approximation factor. Also, it arises naturally in many applications; see Section 4.1.1 for details. As we show next, monotonicity is a sufficient condition for submodularity.

Proposition 1. *If function $h(\cdot; a, b)$ is monotone nondecreasing, then $h(\cdot; a, b)$ is submodular.*

Proof. Condition (5) is equivalent to

$$\begin{aligned} &\frac{\sum_{i \in S} a_i}{b_0 + \sum_{i \in S} b_i} \leq \frac{\sum_{i \in S} a_i + a_j}{b_0 + \sum_{i \in S} b_i + b_j} \\ &\Leftrightarrow \left(1 + \frac{b_j}{b_0 + \sum_{i \in S} b_i} \right) \sum_{i \in S} a_i \leq \sum_{i \in S} a_i + a_j \\ &\Leftrightarrow \frac{\sum_{i \in S} a_i}{b_0 + \sum_{i \in S} b_i} \leq \frac{a_j}{b_j} \\ &\Leftrightarrow h(S; a, b) \leq \frac{a_j}{b_j} \end{aligned} \quad (6)$$

for all S and $j \notin S$. Therefore, if $i, j \notin S$, then $h(S \cup \{i\}; a, b) \leq a_i/b_i$ and $h(S \cup \{j\}; a, b) \leq a_j/b_j$, and inequality (4) follows. \square

Inequality (6) needs to hold for every combination of set S and element i for the function to be monotone. Thus, checking monotonicity can be done by verifying that

$$\min_{i \in N} \frac{a_i}{b_i} \geq \max_{S \in \mathcal{F}} h(S; a, b), \quad (7)$$

and the optimization problem on the right-hand side of (7) can be solved using existing algorithms for single-ratio fractional optimization; see [33, 42]. In fact, in some cases monotonicity can be verified without solving an optimization problem.

Corollary 1. *Function $h(\cdot; a, b)$ is monotone nondecreasing (and submodular) over 2^N if and only if*

$$\min_{i \in N} \frac{a_i}{b_i} \geq h(N; a, b).$$

Proof. The forward direction follows directly from (7). For the backward direction, let $a^*/b^* = \min_{i \in N} \{a_i/b_i\}$, and then we find that

$$h(N; a, b) \leq \frac{a^*}{b^*} \Leftrightarrow \frac{\sum_{i \in N} a_i}{b_0 + \sum_{i \in N} b_i} \leq \frac{a^*}{b^*} \Leftrightarrow \sum_{i \in N} \left(\frac{a_i}{b_i} - \frac{a^*}{b^*} \right) b_i \leq \frac{a^*}{b^*} b_0.$$

Since $a_i/b_i \geq a^*/b^*$, we find that $\sum_{i \in S} (a_i/b_i - a^*/b^*) b_i \leq (a^*/b^*) b_0$ for any $S \subseteq N$, i.e., $h(S; a, b) \leq a^*/b^*$ for any $S \subseteq N$. \square

3.3. On non-monotone submodular functions. From Proposition 1, we know that monotonicity implies submodularity. In general, as Example 1 below shows, the converse does not hold.

Example 1. Assume we have three variables, i.e., $N = \{1, 2, 3\}$, with the setting $(a_1, a_2, a_3) = (3, 2, 1)$ and $(b_0, b_1, b_2, b_3) = (2, 1, 1, 1)$. Then from Theorem 1 we can verify that $h(\cdot; a, b)$ is submodular over 2^N : since $a_i/b_i + a_j/b_j \geq 3$ for any $i \neq j$ and, for any $S \subseteq N$, $h(S; a, b) \leq h(\{1, 2\}; a, b) = 5/4 \leq 3/2$, we find that inequality (4) holds. However, $h(\{3\}; a, b) = 1/3 < h(\{1, 2, 3\}; a, b) = 6/5 < h(\{1, 2\}; a, b) = 5/4$, and monotonicity does not hold. \square

Nonetheless, if $h(\cdot; a, b)$ is submodular, then it is in fact very close to a nondecreasing function as shown in Proposition 2 below. In particular, if the decision variable with the smallest value a_i/b_i is fixed, then the resulting function is monotone.

Assume for the remainder of this section, without loss of generality, that $a_1/b_1 \geq a_2/b_2 \geq \dots \geq a_n/b_n$. Define $\mathcal{F}_1 := \{S \in \mathcal{F} : n \in S\}$ and $\mathcal{F}_2 := \{S \in \mathcal{F} : n \notin S\}$.

Proposition 2. *If $h(\cdot; a, b)$ is submodular over \mathcal{F} , then the following holds:*

- (i) *function $h(\cdot; a, b)$ is monotone nondecreasing over \mathcal{F}_1 ;*
- (ii) *for any $S \in \mathcal{F}_2$ and any $j \neq n$ such that $S \cup \{j\} \in \mathcal{F}$ and $S \cup \{n\} \in \mathcal{F}$, we have $h(S \cup \{j\}; a, b) \geq h(S; a, b)$.*

Proof. We first prove $h(\cdot; a, b)$ is monotone nondecreasing over \mathcal{F}_1 by contradiction. Assume there exists S and $j \neq n$ such that $n \notin S$ and $h(S \cup \{j, n\}; a, b) < h(S \cup \{n\}; a, b)$. Because $h(S \cup \{j, n\}; a, b)$ is a convex combination of $h(S \cup \{n\}; a, b)$ and a_j/b_j , we have $a_j/b_j < h(S \cup \{n\}; a, b)$. Since $a_n/b_n \leq a_j/b_j$, we find that $a_n/b_n < h(S \cup \{n\}; a, b)$. Note that

$$h(S \cup \{n\}; a, b) = \left(\frac{b_0 + \sum_{i \in S} b_i}{b_0 + b_n + \sum_{i \in S} b_i} \right) h(S; a, b) + \frac{b_n}{b_0 + b_n + \sum_{i \in S} b_i} \frac{a_n}{b_n}$$

is a convex combination of $h(S; a, b)$ and a_n/b_n , and since $a_n/b_n < h(S \cup \{n\}; a, b)$, it follows that $h(S \cup \{n\}; a, b) < h(S; a, b)$. By submodularity, $h(S \cup \{j, n\}; a, b) - h(S \cup \{j\}; a, b) \leq h(S \cup \{n\}; a, b) - h(S; a, b) < 0$, which indicates that $h(S \cup \{j, n\}; a, b) < h(S \cup \{j\}; a, b)$. Thus, $a_n/b_n < h(S \cup \{j\}; a, b)$. However, this implies $h(S \cup \{j\}; a, b) + h(S \cup \{n\}; a, b) > a_j/b_j + a_n/b_n$, which is a contradiction based on Theorem 1. Thus, (i) holds.

Next, we prove (ii) by contradiction. Assume there exists S and $j \neq n$ such that $n \notin S$ and $h(S \cup \{j\}; a, b) < h(S; a, b)$. Because $h(S \cup \{j\}; a, b)$ is the weighted average of a_j/b_j and $h(S; a, b)$, we have that $a_j/b_j < h(S \cup \{j\}; a, b) < h(S; a, b)$. Recall that $a_n/b_n \leq a_j/b_j$. Hence, $a_n/b_n < h(S; a, b)$, which implies $a_n/b_n < h(S \cup \{n\}; a, b)$ – using similar arguments as in the proof of (i). Hence, $h(S \cup \{j\}; a, b) + h(S \cup \{n\}; a, b) > a_j/b_j + a_n/b_n$, which contradicts the submodularity of $h(\cdot; a, b)$. \square

Corollary 2. *If either $\mathcal{F} = 2^N$ or $\mathcal{F} = \{S \subseteq N : |S| \leq p\}$ for any $p \in \{1, \dots, n-1\}$, then submodularity of $h(\cdot; a, b)$ over \mathcal{F} implies that $h(\cdot; a, b)$ is monotone nondecreasing over \mathcal{F}_1 and \mathcal{F}_2 .*

Example 1 (Continued). Observe that $h(\cdot; a, b)$ is indeed monotone over \mathcal{F}_1 , since $h(\{3\}; a, b) = 1/3$, $h(\{1, 3\}; a, b) = 1$, $h(\{2, 3\}; a, b) = 3/4$ and $h(\{1, 2, 3\}; a, b) = 6/5$. Similarly, we can verify that $h(\cdot; a, b)$ is monotone over \mathcal{F}_2 since $h(\emptyset; a, b) = 0$, $h(\{1\}; a, b) = 1$, $h(\{2\}; a, b) = 2/3$ and $h(\{1, 2\}; a, b) = 5/4$. \square

3.4. On homogeneous fractional functions. In this section, we show that the assumption $b_0 > 0$ is indeed necessary in Theorem 1, as otherwise submodularity does not hold in most practical situations. Proposition 3 below formalizes this statement.

Proposition 3. *Assume $b_0 = 0$. If there exists a feasible set S such that there are at least three distinct values for a_i/b_i , $i \in S$, then $h(\cdot; a, b)$ is not submodular.*

Proof. Assume without loss of generality that $a_1/b_1 < a_2/b_2 < a_3/b_3$. Then the following inequality

$$\frac{b_1}{b_1 + b_3} \left(\frac{a_3}{b_3} - \frac{a_1}{b_1} \right) + \frac{b_2}{b_2 + b_3} \left(\frac{a_3}{b_3} - \frac{a_2}{b_2} \right) \geq \frac{b_1}{b_1 + b_2 + b_3} \left(\frac{a_3}{b_3} - \frac{a_1}{b_1} \right) + \frac{b_2}{b_1 + b_2 + b_3} \left(\frac{a_3}{b_3} - \frac{a_2}{b_2} \right).$$

holds since denominators are greater on the right-hand side. Subtracting $2 \cdot (a_3/b_3)$ on both sides, we find that

$$-\frac{a_1 + a_3}{b_1 + b_3} - \frac{a_2 + a_3}{b_2 + b_3} \geq -\frac{a_1 + a_2 + a_3}{b_1 + b_2 + b_3} - \frac{a_3}{b_3},$$

which is equivalent to $h(\{1, 3\}; a, b) + h(\{2, 3\}; a, b) \leq h(\{1, 2, 3\}; a, b) + h(\{3\}; a, b)$, violating the definition of submodularity. \square

4. APPLICATIONS

In this section, we discuss the implications of our theoretical results in the context of the assortment optimization and the p -choice facility location problems.

4.1. Assortment optimization problem. In the assortment optimization problem, a firm offers a set of products to utility-maximizing customers. The goal of the firm is to choose an assortment of products that maximizes its expected revenue. It is a core revenue management problem pervasive in practice [47]. In this subsection, we mainly consider this problem under the mixed multinomial logit model (MMNL); see, e.g., [9, 32].

Formally, let N be the set of products that can be offered to customers. Denote by r_i the revenue perceived by the firm if a customer chooses product $i \in N$. Under the MMNL model, each product $i \in N$ is associated with a random weight $v_{ki} > 0$, and the no-purchase option is associated with weight $v_{k0} > 0$; these weights encode the relative preferences for the products by a customer of type $k \in M$, i.e., set M describes market segments.

Given the preference weights v^k , if assortment $S \subseteq N$ is offered, then the probability that a customer in $k \in M$ chooses product $i \in S$ is given by

$$q(i, S; v^k) = \frac{v_{ki}}{v_{k0} + \sum_{i \in S} v_{ki}}.$$

The conditional expected revenue from offering assortment $S \subseteq N$ is

$$r(S; v^k) = \sum_{i \in S} r_i q(i, S; v^k).$$

Taking the expectation over the random vector v^k , we formulate the assortment optimization problem under the MMNL model as

$$\max_{S \in \mathcal{F}} \mathbb{E}_v [r(S; v)] = \sum_{k \in M} p_k r(S; v^k), \quad (8)$$

where p_k is the probability of a customer to be in segment k and each realization of v can be interpreted as the preferences associated with a given customer of customer segment. We assume that the support of v is finite. Hence, (8) can be posed in the form of (1), where $a_{ki} = p_k r_i v_{ki}$, $b_{ki} = v_{ki}$ and $b_{k0} = v_{k0}$ for all $k \in M$ and $i \in N$. Thus, $a_{ki}/b_{ki} = p_k r_i$.

Finally, we note that $p_k \geq 0$ for each $k \in M$. Hence, for submodularity of the objective function in (8) it is sufficient to consider the single-ratio functions $r(\cdot; v^k)$, $k \in M$. Therefore, in our discussion below when applying the results of Theorem 1 and Corollary 1 (with ratio a_i/b_i), the multiplier p_k can be dropped from consideration.

4.1.1. *Cannibalization and submodularity.* Intuitively, in retail assortment problems, monotonicity of the revenue function implies that there is limited cannibalization, i.e., the introduction of a new product i (when feasible) always increases the expected revenue perceived by the firm – despite that the revenue obtained from previously offered products in S might decrease slightly. To be more specific, this limited cannibalization phenomenon arises in online advertising: the probability that a given customer clicks on an ad is often quite low, and the advertiser usually profits from offering more ads within the limited number of spots on the webpage.

Let $r_{\min} = \min_{i \in N} r_i$ and $r_{\max} = \max_{i \in N} r_i$. By Proposition 1 and Corollary 1, we obtain the following results in terms of revenue functions immediately.

Corollary 3. *If function $r(\cdot; v)$ is monotone nondecreasing, then $r(\cdot; v)$ is submodular.*

Corollary 4. *Function $r(\cdot; v)$ is monotone nondecreasing (and submodular) over 2^N if and only if $r_{\min} \geq r(N; v)$.*

4.1.2. *Revenue spread, no-purchase probability and submodularity.* When the revenues r of all products are identical, assortment optimization problems are known to be submodular maximization problems [4, 15]. Intuitively, one would expect that if the revenues are sufficiently close (but not identical), then submodularity should be preserved. Proposition 4 formalizes this intuition: if the gap between the largest and the smallest revenues is bounded above by the odds of no-purchase, then the function is nondecreasing and submodular.

Proposition 4. *If*

$$\frac{r_{\max} - r_{\min}}{r_{\min}} \leq \min_{S \in \mathcal{F}} \frac{1 - q(S; v)}{q(S; v)}, \quad (9)$$

then $r(\cdot; v)$ is nondecreasing and submodular, where r_{\max} and r_{\min} are the largest and smallest revenues, respectively, and $q(S; v) = \sum_{i \in S} q(i, S; v)$ is the probability that an item is purchased.

Proof. Equation (9) can be rewritten as $r_{\max} q(S; v) \leq r_{\min}$ for all $S \in \mathcal{F}$. Since for any S and $i \notin S$ it follows that $r(S; v) \leq r_{\max} q(S; v) \leq r_{\min} \leq r_i$, we find that (6) is satisfied and the function $r(\cdot; v)$ is monotone submodular. \square

Proposition 4 provides us with additional intuition on the industries in which the expected revenues are submodular functions of the assortment offered. In the online advertisement, where the revenues obtained from clicks are usually similar and the odds of no-purchase are high, we would expect to obtain submodular revenue functions. In a *monopoly*, the firm offering the assortment would have a large flexibility in setting prices (resulting in a large revenue spread) and the odds of no-purchase would be low (due to the lack of competing alternatives), resulting in a revenue function

that is not submodular. In contrast, in a *competitive market*, the odds of no-purchase would be larger and firms have little or no control over prices (and if the values r_i are interpreted as profits instead of revenues, the spread would typically be low), resulting in submodular revenue functions.

From Proposition 4 we also gain insights on the differences between revenue management in the airline and hospitality industries, two industries that are often treated as equivalent in the literature [48]. In the hospitality industries, no-purchase odds can be high as shown by the relatively low occupancy rates – 66.1% in the US [25] in 2018; in addition, revenue differences between products are often due to ancillary charges (e.g., breakfast, non-refundable, long stay), which account for a small portion of the baseline price for a room. In such circumstances we would expect revenue functions to be submodular and simple greedy heuristics to perform well. In contrast, in the airline industries no-purchase odds are often smaller – the load factor was 86.1% in the US in 2018 [21] –, and air fares can change dramatically depending on the conditions. Thus, in the airline industry we would expect to encounter non-submodular revenue functions, and simple heuristics may be inadequate.

4.1.3. On the greedy algorithm and revenue-ordered assortments. Revenue-ordered assortments are optimal for unconstrained assortment optimization under the MNL model, and tend to perform well in practice [47]. Berbeglia and Joret [7] study the revenue-ordered assortments under the general discrete choice model and prove performance guarantees.

Proposition 5 (Berbeglia and Joret [7]). *Revenue-ordered assortments are a $\frac{1}{1+\log\left(\frac{r_{\max}}{r_{\min}}\right)}$ -approximation for the unconstrained assortment optimization problem under the MMNL choice model, where r_{\max} and r_{\min} are the largest and smallest revenues, respectively.*

Thus, the quality of revenue-ordered assortments depend on the ratio r_{\max}/r_{\min} ; in particular, if $r_{\max}/r_{\min} = 1$, then the revenue-ordered assortments strategy delivers an optimal solution, and the guarantee degrades as the value of the ratio increases.

From Proposition 4, we can also obtain guarantees depending on the ratio r_{\max}/r_{\min} . Define:

$$\alpha(S) = \max_{k \in M} q(S; v^k) = \max_{k \in M} \sum_{i \in S} q(i, S; v^k) \quad (10)$$

as the maximum probability that a customer from any segment purchases an item when assortment S is offered.

Proposition 6. *If $\mathcal{F} = \{S : |S| \leq p\}$ for some positive integer p and $r_{\max}/r_{\min} \leq 1 + \frac{1-\alpha(S)}{\alpha(S)}$ for all $S \in \mathcal{F}$, then Algorithm 1 delivers a $(1 - 1/e)$ -optimal solution for the assortment optimization problem under the MMNL choice model.*

Unlike Proposition 5, we impose a condition on the ratio r_{\max}/r_{\min} in Proposition 6; however, if such condition is satisfied, then we obtain an approximation guarantee of $(1 - 1/e) \approx 0.63$ for the more general assortment optimization problem under a cardinality constraint.

Finally, we also point out that Rusmevichientong et al. [44] prove that if customers are *value conscious*, i.e., $v_1 \leq v_2 \leq \dots \leq v_n$ and $r_1 v_1 \geq r_2 v_2 \geq \dots \geq r_n v_n$ for all realizations of v , then the revenue ordered assortments are optimal for the unconstrained and cardinality constrained cases. It is easy to check that in this case the solutions obtained from the greedy algorithm correspond precisely with the revenue ordered assortments. Thus, Algorithm 1 delivers optimal solutions as well.

4.2. p -choice facility location problem. Facility location problems deal with deciding where to locate facilities across a finite set of feasible points, taking into account the needs of customers to be served in such a way that a given economic index is optimized [6]. Submodularity often arises in facility location problems; see [3, 17, 30, 39]. In this subsection, we consider a particular class of facility location problems with a fractional 0–1 objective function, referred to as the p -choice facility location problem, which is considered in [49]. In the p -choice facility location problem, a decision-maker has to decide where to locate p facilities in n possible locations to service m demand points, in order to maximize the market share.

Formally, let $d_k > 0$ be the demand at customer location $k \in M = \{1, \dots, m\}$, and $v_{ki} > 0$ be the utility of location i to customers at k . Let $S \subseteq N := \{1, \dots, n\}$, $|S| = p$, be the set of facilities chosen by the decision-maker. It is assumed that the market share provided by facility $j \in S$ with respect to demand point k is given by:

$$d_k \frac{v_{kj}}{\sum_{i \in S} v_{ki}}.$$

Let $w_i > 0$ be some weight parameter that represents the importance of locating facility in location $i \in N$. Then the problem of determining the set of facility locations S that maximizes the weighted market share can be formulated as:

$$\max_{|S|=p} \sum_{i \in S} w_i \sum_{k \in M} d_k \frac{v_{ki}}{\sum_{i \in S} v_{ki}},$$

which can be reorganized as

$$\max_{|S|=p} \sum_{k \in M} d_k \frac{\sum_{i \in S} v_{ki} w_i}{\sum_{i \in S} v_{ki}}. \quad (11)$$

Clearly, the model in (11) can be formulated as a fractional 0–1 program given by (1).

Note that from Proposition 3, the objective function in (11) is, in general, not submodular since it is homogeneous. Nonetheless, exploiting the equality constraint, we can convert the objective

function to a non-homogeneous one. Define $v_{\min}^k = \delta \cdot \min_{i \in N} \{v_{ki}\}$ for some fixed $\delta \in (0, 1)$. For any feasible solution S , where $|S| = p$, we also have that:

$$\sum_{i \in S} v_{ki} = \sum_{i \in S} v_{\min}^k + \sum_{i \in S} (v_{ki} - v_{\min}^k) = pv_{\min}^k + \sum_{i \in S} (v_{ki} - v_{\min}^k).$$

As a result, (11) can be equivalently stated as:

$$\max_{|S|=p} \sum_{k \in M} d_k \frac{\sum_{i \in S} v_{ki} w_i}{pv_{\min}^k + \sum_{i \in S} (v_{ki} - v_{\min}^k)}, \quad (12)$$

where $v_{ki} - v_{\min}^k > 0$ and $v_{\min}^k > 0$ for all $i \in N$ and $k \in M$ by our construction procedure.

Recall our discussion on the links between monotonicity and submodularity in Section 3.2. Applying inequality (7), we find that a given ratio k in the objective function of (12) is monotone nondecreasing over set $\mathcal{F} := \{S \subseteq N : |S| \leq p\}$ if

$$\min_{i \in N} \frac{v_{ki} w_i}{v_{ki} - v_{\min}^k} \geq \max_{|S| \leq p} \frac{\sum_{i \in S} v_{ki} w_i}{pv_{\min}^k + \sum_{i \in S} (v_{ki} - v_{\min}^k)}. \quad (13)$$

Hence, if (13) holds for all ratios $k \in M$, then the feasibility set in (12) can be relaxed to $|S| \leq p$. Consequently, Assumption **A3** is satisfied and (12) reduces to the maximization problem of a submodular function by Proposition 1.

The right-hand side of (13) can be interpreted as the best average revenue weighted by market share, or simply the best total revenue that can be obtained from customer segment k . The intuition for (13) to hold in the p -choice facility location problem is rather similar to our observations in the assortment optimization problem. Indeed, it is easy to verify, for example, that if all locations have the same utilities and weights, i.e., $v_{ki} = v^k$ and $w_i = w$ for all $i \in N$ and some v^k and w , then (13) holds. Moreover, from (13) we obtain the following sufficient condition.

Proposition 7. *Let w_{\max} and w_{\min} be the maximum and minimum weights, and let v_{\max}^k be the maximum utility associated with customer segment k . If*

$$\frac{w_{\min}}{w_{\max}} + 1 \geq \frac{v_{\max}^k}{v_{\min}^k}, \quad (14)$$

then the revenue of customer segment k is submodular.

Proof. Observe that since $w_i \geq w_{\min}$ and $\frac{v_{ki}}{v_{ki} - v_{\min}^k} \geq \frac{v_{\max}^k}{v_{\max}^k - v_{\min}^k}$, we find that

$$\frac{v_{ki} w_i}{v_{ki} - v_{\min}^k} \geq \frac{v_{\max}^k}{v_{\max}^k - v_{\min}^k} w_{\min}.$$

Moreover, we also find that

$$\max_{|S| \leq p} \frac{\sum_{i \in S} v_{ki} w_i}{pv_{\min}^k + \sum_{i \in S} (v_{ki} - v_{\min}^k)} \leq \max_{|S| \leq p} \frac{w_{\max} \sum_{i \in S} v_{ki}}{pv_{\min}^k} \leq \frac{w_{\max} v_{\max}^k}{v_{\min}^k}.$$

After rearranging terms corresponding to the sufficient condition

$$\frac{v_{\max}^k}{v_{\max}^k - v_{\min}^k} w_{\min} \geq \frac{w_{\max} v_{\max}^k}{v_{\min}^k},$$

we obtain precisely (14). □

Simply speaking, if the considered facility locations are sufficiently similar with respect to their utilities, i.e., $\frac{v_{\max}^k}{v_{\min}^k} \approx 1$, then ratios in (12) are submodular. Submodularity may be preserved for larger spread of utilities, provided that the weights are sufficiently close. If all the considered facility locations are sufficiently similar with respect to their utilities and weights, then (11) can be reduced to maximizing a submodular function; consequently, high-quality solutions can be obtained by a greedy approach, e.g., Algorithm 1.

4.3. On minimization problems. In this note we focus on identifying submodularity in maximization problems, in which case greedy algorithms can be used to obtain near optimal solutions. However, submodularity can be exploited in minimization problems as well. Indeed, the epigraph of a submodular set function is described by its Lovász extension [31], which can be used to improve mixed-integer programming formulations via cutting planes. Moreover, even if a given ratio is not submodular, the results presented in this paper can be used to decompose any ratio into two components such that one of which is submodular (and strengthening can be done using the submodular component); see, e.g., [5].

5. CONCLUSION

In this note we explore submodularity of the objective function for a broad class of fractional 0–1 programs with multiple-ratios. Under some mild assumptions, we derive the necessary and sufficient condition for a single ratio of two linear functions to be submodular. Therefore, if the derived condition holds for every considered single-ratio function, then simple greedy algorithms can be used to deliver good quality solutions for multiple-ratio fractional 0–1 programs. Finally, we also illustrate applicability of our results in the context of the assortment optimization and facility location problems.

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