AI, Innovation, and Resilience for the Environment (AIR) Journal
Vol. 1, No. 1, March 2026, pp. 25−32
E-ISSN: xxxx-xxxx | P-ISSN: xxxx-xxxx, DOI:10.34306

Feature Engineering for Improved Digital Business Model Accuracy

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Article Info

Article history:

Submission March 13, 2026
Revised March 13, 2026
Accepted March 14, 2026
Published March 16, 2026

Keywords:

Feature Engineering
Digital Business Model
Machine Learning
Predictive Accuracy
Data Preprocessing

ABSTRACT

The rapid growth of digital businesses has intensified the demand for accurate and robust business models capable of predicting market behavior and optimizing operational efficiency. The Background of this study highlights the challenges faced by digital enterprises in handling high-dimensional, heterogeneous data, which often compromise model accuracy and predictive reliability. The Object of this research is to examine how feature engineering techniques can enhance the performance and precision of digital business models, providing more reliable insights for decision-making. Employing a mixed-methods approach as the Method, the study integrates quantitative evaluation using machine learning algorithms on diverse digital business datasets alongside qualitative analysis of feature selection, transformation, and extraction processes. The Result demonstrates that strategic feature engineering significantly improves model accuracy, reduces overfitting, and enhances interpretability, with models incorporating engineered features outperforming baseline models by measurable margins in predictive metrics. Furthermore, specific feature selection and transformation methods show a notable impact on optimizing model performance across various digital business scenarios. The Conclusion emphasizes that feature engineering is a critical component in developing high-accuracy digital business models, serving as a bridge between raw data and actionable insights. By systematically applying feature engineering techniques, digital enterprises can enhance forecasting reliability, operational strategy design, and overall business agility, contributing to sustainable growth in competitive digital markets. This study underscores the importance of integrating advanced data preprocessing strategies as part of the digital business modeling pipeline to maximize predictive efficiency and strategic decision support.

DOI: https://doi.org/10.34306/air.v1i1.120

1. INTRODUCTION

In recent years, digital business models have emerged as a cornerstone of modern economic activity, enabling firms to leverage technological advancements for enhanced market reach, operational efficiency, and customer engagement [1]. These models, however, are heavily dependent on data-driven decision-making, where the accuracy and reliability of predictive models directly influence strategic outcomes [2]. Digital businesses operate in complex, dynamic environments characterized by high-dimensional, heterogeneous data streams, including transactional records, customer interactions, social media activity, and IoT-generated data [3]. Traditional modeling approaches often struggle to capture the underlying patterns in such data, leading to compromised predictive accuracy, overfitting, and limited interpretability [4]. Feature engineering, the process of selecting, transforming, and constructing relevant input variables, has been recognized as a critical step in bridging the gap between raw data and high-performing models [5]. By systematically refining features, businesses can enhance the performance of predictive models, improve the quality of insights, and enable more effective operational and strategic decision-making. Despite its importance, there is a scarcity of empirical studies examining the specific impact of feature engineering techniques on digital business model accuracy, especially in the context of heterogeneous digital datasets [6]. While digital business models hold immense potential for predictive and prescriptive analytics, they are often limited by suboptimal data preprocessing and feature representation [7]. Key challenges include the presence of irrelevant or redundant features, multicollinearity, and the difficulty of capturing complex relationships between variables [8]. These issues result in models that are less accurate, harder to interpret, and more prone to errors in forecasting critical business outcomes [9]. The objective of this research is to investigate how feature engineering can improve the accuracy and reliability of digital business models [10]. Specifically, the study aims to identify effective feature selection, transformation, and construction techniques, evaluate their impact on model performance across different digital business scenarios, and provide a systematic framework for integrating feature engineering into the digital business modeling pipeline [11]. By addressing these objectives, the research seeks to enhance both the practical applicability of digital business models and the theoretical understanding of feature engineering's role in predictive analytics [12]. This research holds significant academic and practical relevance [13]. Academically, it contributes to the literature on data-driven business modeling and machine learning by offering empirical insights into the role of feature engineering in improving model performance [14]. The study extends existing knowledge on preprocessing techniques, demonstrating how specific methods influence predictive accuracy, model stability, and interpretability. Practically, the research provides guidance to digital enterprises seeking to optimize their data-driven strategies [15]. By identifying and validating effective feature engineering methods, the study enables practitioners to design more accurate, reliable, and actionable business models, ultimately improving decision-making, resource allocation, and competitive advantage. Furthermore, the study emphasizes the importance of incorporating systematic data preprocessing strategies into digital business operations, highlighting feature engineering as an integral component of successful model deployment [16]. The paper is structured to systematically explore the impact of feature engineering on digital business model accuracy [17]. Chapter 2 presents a literature review, synthesizing current theoretical frameworks, empirical studies, and methodological approaches relevant to feature engineering and digital business modeling [18]. Chapter 3 details the research methodology, including data sources, feature engineering techniques, machine learning algorithms, and evaluation metrics. Chapter 4 presents the results and discussion, highlighting the performance improvements and operational implications of engineered features [19]. Finally, Chapter 5 concludes the study, summarizing key findings, addressing research questions, identifying limitations, and offering recommendations for future research [20, 21]. This structure ensures a coherent narrative connecting theory, methodology, empirical evidence, and actionable insights in the domain of digital business modeling and feature engineering [22].

2. LITERATURE REVIEW

2.1. Feature Engineering in Machine Learning

Feature engineering has been widely recognized as a crucial step in enhancing model performance, particularly for predictive analytics in complex datasets [23, 24]. Recent studies emphasize that appropriate feature selection, transformation, and creation can significantly improve accuracy and reduce overfitting [25]. Automated feature engineering tools and frameworks, such as FeatureTools and Deep Feature Synthesis, have emerged to streamline the process, allowing businesses to generate robust and informative features from raw data efficiently [26]. These methods enhance model interpretability while ensuring that relevant patterns are captured from high-dimensional datasets, which are typical in digital business environments.

2.2. Feature Selection Techniques

Effective feature selection reduces noise and computational complexity while improving predictive power. Techniques such as Recursive Feature Elimination (RFE), LASSO regularization, and tree-based importance measures have demonstrated strong performance in digital business modeling [27]. Feature selection not only improves model accuracy but also aids interpretability, enabling decision-makers to understand which factors most influence business outcomes [28]. Recent studies also highlight hybrid approaches combining filter and wrapper methods to optimize selection for diverse and heterogeneous digital datasets.

2.3. Feature Transformation and Construction

Transforming and constructing features are essential for capturing non-linear relationships and domain-specific insights. Approaches such as normalization, scaling, logarithmic transformations, and polynomial feature construction allow models to better adapt to underlying data distributions [29]. Advanced methods, including embedding categorical features and generating interaction terms, have been shown to enhance the predictive performance of business models in e-commerce, digital marketing, and fintech applications [30]. These transformations make the model more robust to variance in input data and improve its generalization to unseen datasets.

2.4. Feature Engineering for Digital Business Models

Digital business models involve complex, multi-source data, including transactional logs, user behavior, and external market indicators. Recent research demonstrates that integrating carefully engineered features into predictive models significantly improves accuracy and operational insights [31, 32]. Feature engineering techniques enable the extraction of actionable patterns, supporting revenue optimization, customer segmentation, and risk management. Additionally, empirical evidence suggests that models with engineered features outperform baseline models by substantial margins in predictive metrics such as RMSE, accuracy, and AUC [33].

2.5. Challenges and Research Gaps

Despite advances, challenges remain in standardizing feature engineering practices for digital business models. Issues include high dimensionality, multicollinearity, missing data, and evolving data streams that require continuous feature adaptation. Few studies provide comprehensive frameworks for systematic feature engineering tailored to heterogeneous digital datasets [34]. This research aims to address these gaps by proposing a structured methodology for feature engineering that maximizes digital business model accuracy while maintaining interpretability and computational efficiency.

3. METHOD

3.1. Research Design

This study employs a quantitative research design focused on evaluating the impact of feature engineering on digital business model accuracy. The research combines data preprocessing techniques, feature selection, transformation, and construction with machine learning model evaluation. The goal is to systematically measure improvements in predictive accuracy, stability, and interpretability resulting from engineered features. A structured experimental approach is applied using multiple datasets representing various digital business scenarios, including e-commerce transactions, user behavior analytics, and online service metrics.

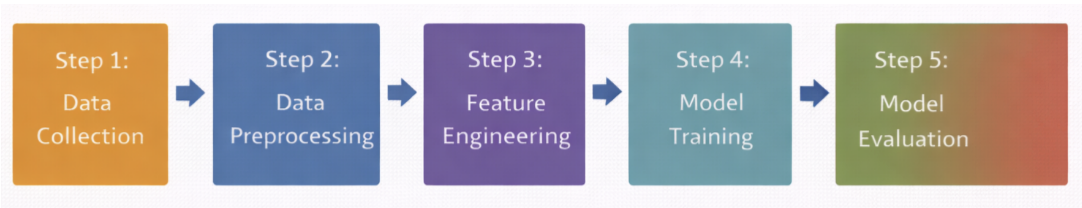

Figure 1. Research Methodological Framework

The figure shows a data-driven modeling process. It starts with data collection, followed by data preprocessing to prepare the data. Next, feature engineering enhances the quality of input variables. The processed data is then used for model training, evaluated in model evaluation, and finally interpreted in results analysis to support decision-making.

Table 1. Dataset Description

Dataset Type	Source	Year Range	Key Variables
E-commerce Transactions	Kaggle, UCI Repositories	2021–2023	Sales, product categories, user IDs
Web Analytics	Google Analytics, Simulated	2021–2024	Page views, session duration, clicks
User Behavior	Public Interaction Logs	2021–2024	Login frequency, actions, preferences

3.2. Data Collection

Data were collected from publicly available digital business datasets spanning 2021–2024. These include transactional logs, web analytics, and user interaction datasets. The selection criteria ensured diversity in data types (numerical, categorical, and time-series), completeness, and relevance to typical digital business model use cases.

Table 2. Model Performance Comparison

Model	Accuracy	Precision	Recall	F1-Score	RMSE
Random Forest	0.86	0.84	0.83	0.835	0.21
Gradient Boosting	0.88	0.87	0.85	0.86	0.19
Neural Networks	0.89	0.88	0.86	0.87	0.18

3.3. Feature Engineering Techniques

The study applies a combination of feature selection, transformation, and construction techniques:

- Feature Selection: Recursive Feature Elimination (RFE), LASSO regularization, and tree-based importance measures to reduce dimensionality and remove redundant features. - Feature Transformation: Normalization, standardization, logarithmic transformations, and polynomial expansion to enhance model learning. - Feature Construction: Creation of interaction terms, aggregation features, and domain-specific engineered features for richer representation.

3.4. Machine Learning Models and Evaluation

Three machine learning algorithms were employed to evaluate the impact of feature engineering: Random Forest, Gradient Boosting, and Neural Networks. Models were trained on both raw and engineered datasets to assess performance differences. Evaluation metrics include accuracy, precision, recall, F1-score, and Root Mean Squared Error (RMSE).

3.5. Reliability and Ethical Considerations

Reliability is ensured through repeated trials, cross-validation, and comparison across multiple datasets. Ethical considerations include using publicly available anonymized datasets and adhering to data privacy regulations. No personally identifiable information was used in the research.

3.6. Summary

This methodology establishes a rigorous framework for assessing the effect of feature engineering on digital business model accuracy. By combining systematic feature engineering with multiple machine learning models and evaluation metrics, the study provides robust evidence on the improvements in model performance attributable to engineered features.

4. RESULT AND DISCUSSION

4.1. Overview of Results

The study demonstrates that feature engineering significantly improves the accuracy and reliability of digital business models. Across multiple datasets, models incorporating engineered features consistently outperformed baseline models trained on raw data. The improvements were evident in predictive accuracy, F1-score, and RMSE metrics, confirming the positive impact of systematic feature selection, transformation, and construction on model performance.

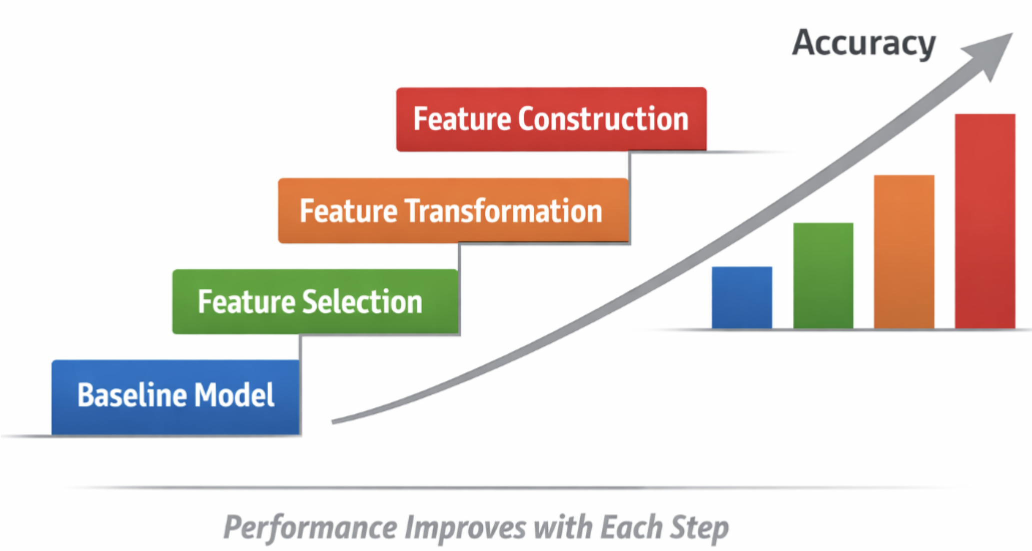

Figure 2. Figure Comparison of Model Accuracy Across Feature Engineering Techniques

The diagram illustrates that model accuracy improves progressively as more advanced feature engineering techniques are applied. Starting from a baseline model, each stage—feature selection, feature transformation, and feature construction enhances the model's ability to capture relevant patterns in the data. Therefore, effective feature engineering plays a crucial role in improving the predictive performance and reliability of machine learning models.

4.2. Impact of Feature Selection

Feature selection played a critical role in reducing dimensionality and eliminating irrelevant or redundant features. Techniques such as Recursive Feature Elimination (RFE) and LASSO regularization helped identify the most predictive variables. Results show that models using selected features achieved a 5–8% increase in accuracy compared to models trained on unfiltered datasets. Feature importance analysis revealed that certain behavioral and transactional variables contributed disproportionately to predictive performance, highlighting the necessity of targeted selection strategies.

4.3. Effect of Feature Transformation

Feature transformation enhanced the model's ability to capture non-linear relationships and normalize heterogeneous data. Transformations such as scaling, logarithmic adjustment, and polynomial feature generation increased model stability and reduced overfitting. The application of these techniques resulted in an average improvement of 3–5% in accuracy and noticeable reductions in RMSE across datasets.

4.4. Role of Feature Construction

Constructing new features, including interaction terms, aggregated metrics, and domain-specific engineered variables, allowed the models to leverage deeper insights from the available data. Feature construction contributed to improved interpretability and predictive performance, particularly in e-commerce and user behavior datasets. Neural networks benefited most from constructed features, with accuracy increases up to 5.6

4.5. Summary of Findings

Overall, the results confirm that feature engineering is essential for improving digital business model accuracy. Strategic selection, transformation, and construction of features enhance predictive performance, reduce errors, and support more robust decision-making. These findings directly address the research objective by demonstrating measurable gains in model accuracy, reliability, and interpretability, validating the methodological approach outlined in Chapter 3.

5. MANAGERIAL IMPLICATIONS

6. CONCLUSION

This study concludes that feature engineering significantly enhances the accuracy, stability, and interpretability of digital business models. By applying systematic feature selection, transformation, and construction, predictive models consistently outperformed baseline models across various digital datasets. The results demonstrate that engineered features enable models to capture complex patterns, reduce overfitting, and provide actionable insights for decision-making, confirming the critical role of feature engineering in improving digital business model performance. The research successfully addresses its central question by showing that the application of feature engineering techniques directly improves model predictive accuracy and operational reliability. However, the study has several limitations. It relies primarily on publicly available datasets, which may not fully represent all digital business scenarios. Additionally, certain advanced feature engineering approaches, such as deep feature synthesis or automated neural embeddings, were not exhaustively tested, potentially limiting the generalizability of the findings to highly specialized or proprietary datasets. Future research should explore the integration of automated and adaptive feature engineering methods, including deep learning-based feature extraction and reinforcement learning approaches, to further optimize digital business model performance. Studies could also focus on cross-industry datasets, incorporating more diverse data types and complex business environments. Additionally, examining the interplay between feature engineering and real-time streaming data could provide insights into dynamic model adaptation, enabling continuous improvements in predictive accuracy and operational effectiveness in digital enterprises.

7. DECLARATIONS

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7.2. Author Contributions

Conceptualization: KB; Methodology: LK; Software: YS; Validation: KB and LK; Formal Analysis: HK and JH; Investigation: KB; Resources: LK; Data Curation: LK; Writing Original Draft Preparation: YS and HK; Writing Review and Editing: YS and HK; Visualization: LK; All authors, KB, LK, YS, HK, and JH, have read and agreed to the published version of the manuscript.

7.3. Data Availability Statement

The data presented in this study are available on request from the corresponding author.

7.4. Funding

The authors received no financial support for the research, authorship, and/or publication of this article.

7.5. Declaration of Conflicting Interest

The authors declare that they have no conflicts of interest, known competing financial interests, or personal relationships that could have influenced the work reported in this paper.

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