The Aggregator Business Model

Idea In Short

Ben Thompson's Aggregation Theory explains why a handful of digital platforms now dominate industries that once had thousands of independent players. The internet made distribution nearly free and cut transaction costs to almost nothing, so companies stopped competing for exclusive supplier deals and started competing for the best user experience instead. Whoever wins the most users attracts the most suppliers, which improves the experience further and locks in a leading position that is hard to dislodge. This differs from a marketplace, where sellers keep control of pricing and presentation. Aggregators set the rules, standardize quality and treat individual suppliers as interchangeable inventory. Expedia illustrates the pattern in travel, bundling hotels, flights and rental cars under one brand while pushing hotels toward commodity status. Executives building platform strategies need to understand this dynamic before their suppliers do.

Origins of Aggregation Theory

Ben Thompson introduced Aggregation Theory in 2015 to explain a pattern he saw forming across the technology sector: a small number of companies were winning entire markets by controlling the user experience rather than the supply chain.[1] Before broadband and mobile devices spread everywhere, distribution was expensive, so whoever owned the physical channel, a bookshelf, a broadcast tower or a travel agency counter, held the power. Once digital distribution became nearly free, that advantage stopped mattering as much. The framework travels well beyond software, and online travel booking is one of the clearest examples of it at work.

Turning the Value Chain Upside Down

The old travel industry ran on relationships built by human travel agents, who bundled flights, hotels and local knowledge into a single booking. The internet broke that bundle apart. It let a company organize thousands of hotel listings and airline fares into one searchable catalog, at a marginal cost close to zero for each additional visitor. Suppliers, once the scarce resource a distributor needed to court, became interchangeable line items ranked by price, rating and availability. That reversal, from courting suppliers to courting users, sits at the mechanical core of the aggregator model.

The Virtuous Cycle of Users and Suppliers

Once an aggregator attracts a critical mass of travelers, hotels and airlines have little choice but to list with it, since that is where demand concentrates. 2 More suppliers listing means more choice and often better prices for travelers, which draws in even more travelers, and the cycle repeats on itself.

> The platform with the most users becomes the platform suppliers cannot afford to skip

This compounding advantage explains why later entrants into travel booking struggle to compete on selection alone. They also need travelers to have a reason to break an established habit, which selection and price alone rarely provide.

Aggregators Are Not Marketplaces

It is tempting to treat aggregators and marketplaces as interchangeable, since both connect buyers with a fragmented set of sellers. The distinction lies in control: a marketplace mostly facilitates a transaction between two sides that keep their own pricing and presentation, similar to how a two-sided platform is described in economic literature. 3 An aggregator goes further, setting quality standards, ranking rules and sometimes the final price the buyer sees. Expedia's contracts with hotels specify rate parity, review standards and how listings get ranked, terms a true marketplace would leave largely to the seller. That extra layer of control is what lets an aggregator promise a consistent experience across thousands of unrelated suppliers.

How Aggregators Turn Traffic Into Revenue

Aggregators typically earn a commission each time a booking or transaction closes, rather than charging suppliers a flat listing fee. Expedia Group reported full-year revenue of $11.7 billion in 2022 against gross bookings of $95 billion, a gap that reflects the commission and markup it keeps from every transaction it processes. 4 Some of that revenue comes from a straightforward agency commission, where the hotel sets the price and Expedia takes a cut. The rest comes from a merchant model, where Expedia negotiates a bulk rate and resells rooms at a markup, plus advertising fees that suppliers pay for better placement in search results.

Why Suppliers Keep Signing Up

Individual hotels and airlines join aggregators for the same reason smaller retailers once signed up with department stores: reach they cannot build on their own. Booking Holdings and Expedia together account for roughly 60 percent of travel bookings across Europe and the United States, and the four largest online travel agencies capture the vast majority of the sector's revenue. 5 That concentration means a hotel that skips the major aggregators forfeits access to a large share of travelers who start their search there by default. The commission cost is real, but for most independent properties, it is smaller than the cost of building comparable demand through their own marketing.

The Limits of Aggregation

No aggregator advantage lasts forever without upkeep. Hotel chains have expanded loyalty programs and offered member-only discounts specifically to pull bookings back to their own websites, and some airlines restrict how fares reach third-party distributors. Regulators in several markets have also questioned rate-parity clauses that stop hotels from offering cheaper direct rates, arguing they entrench aggregator power rather than reflect fair competition. None of these pressures have broken the leading aggregators' position yet, but they show the model requires continuous reinvestment in the user experience rather than treating an early lead as permanent.

Key Partners

Expedia depends on a wide network of hotels, airlines, car rental agencies and vacation rental hosts that supply the inventory travelers book. Vrbo brings individual property owners into the fold, while payment processors handle transactions across dozens of currencies.

Cloud infrastructure providers and advertising platforms such as Google round out the partner list, supporting both the technology backbone and customer acquisition. Sister brands including Hotels.com, Orbitz and Travelocity share supplier relationships and booking infrastructure across the group.

Key Activities

The core activity is running the search and booking platform that matches traveler demand with supplier inventory in real time. Expedia negotiates rates and availability directly with hotels and airlines, then merchandises those options through search ranking and package bundling. Marketing consumes a large share of daily effort, since paid search and brand campaigns drive most first-time visits. Continuous investment in personalization and pricing algorithms keeps the platform competitive against rivals offering overlapping inventory.

Key Resources

Expedia's most valuable resource is its portfolio of consumer brands, which lets it capture different traveler segments without diluting a single name. Traffic volume and the behavioral data it generates support pricing, ranking and marketing decisions across the group. Proprietary booking technology, including inventory management and payment systems, underpins every transaction on the platform. Long-standing relationships with hundreds of thousands of properties give Expedia negotiating scale a new entrant could not easily replicate.

Value Propositions

Travelers get to compare hotels, flights, cars and packages in one place rather than checking supplier sites individually. Bundling often lowers the total price of a trip compared with booking each component separately. Reviews, ratings and transparent pricing help travelers judge quality before committing, reducing the risk of an unpleasant stay. The One Key loyalty program adds rewards across brands, and round-the-clock support handles cancellations and itinerary changes.

Customer Relationships

Most travelers interact with Expedia through self-service tools on the website or mobile app, booking and managing trips without ever speaking to a person. The One Key loyalty program builds a longer relationship by rewarding repeat bookings with points and status perks. Customer service teams step in for cancellations, disputes and itinerary changes, particularly during travel disruptions. Personalized recommendations, built from past search and booking history, keep travelers returning to the same brand.

Channels

Expedia.com and its mobile app remain the primary channels for consumer bookings. Sister brands such as Hotels.com and Vrbo operate as separate channels aimed at slightly different traveler segments. Expedia Partner Solutions distributes inventory to travel agents and corporate booking tools through a business-to-business channel. Paid search and metasearch listings on platforms like Google act as an acquisition channel that funnels new visitors into the ecosystem.

Customer Segments

Leisure travelers booking vacations make up the largest segment, drawn by package deals and price comparison. Business travelers use the platform for flexible, last-minute bookings tied to corporate travel policies. Independent travel agents and tour operators rely on Expedia Partner Solutions to access inventory they cannot source directly. Hotels, airlines and other suppliers count as a segment too, since Expedia sells them advertising and distribution access alongside its consumer offering.

Cost Structure

Marketing is the largest cost line, with selling and marketing expenses running close to half of total revenue in recent reporting periods. Technology development and maintenance for the booking platform, personalization engines and mobile apps represent a steady, ongoing investment. Customer service operations, especially during periods of travel disruption, add variable cost pressure. Under the merchant model, Expedia also carries some inventory risk by prepaying or guaranteeing room blocks before they sell.

Revenue Streams

Commissions on bookings made through the agency model form the base of Expedia's revenue, paid by hotels, airlines and car rental firms. The merchant model adds markup revenue, since Expedia negotiates bulk rates and resells them at a margin. Advertising, sold through Expedia Group Media Solutions, lets suppliers pay for placement and visibility beyond organic ranking. Expedia Partner Solutions contributes additional fee revenue by licensing booking technology and inventory access to other travel businesses.

- 1Aggregation Theory
- 2Network Effects Arent Enough
- 3Two Sided Market
- 4Expedia Group Fourth Quarter And Full Year 2022 Results
- 510 Biggest Online Travel Agencies

Summary

Aggregation Theory holds up as a lens for judging platform strategy, but it is not a permanent law. Suppliers that once had no leverage are building direct channels, and regulators are scrutinizing how much control a platform can exert over price and access. Expedia's position in travel shows both sides of the model: it built a durable advantage by owning the booking experience, yet it now competes with hotel loyalty programs and metasearch rivals chipping at its margins. Executives should treat the framework as a diagnostic tool, asking who controls the customer relationship, whether switching costs are real and whether suppliers still have room to organize. The businesses that outlast the next disruption will be the ones that keep earning the user relationship rather than assuming that a position, once won, stays won.