

The CPaaS market continues to consolidate

May 2021

Stephen Sale and Ameer Gaili

Business spend on application-to-person (A2P) messaging services will grow quickly; businesses spent USD23 billion on A2P messaging in 2020 and we [forecast that this will increase to USD36 billion by 2025](#).

Communications Platform-as-a-Service (CPaaS) providers such as Twilio and Vonage have established themselves as key players in the A2P value chain and are well positioned to capture an increasing proportion of revenue. The CPaaS market landscape is rapidly consolidating as players look to M&A for geographical expansion and to acquire additional capabilities. This comment outlines some of the drivers for consolidation and is accompanied by a spreadsheet that lists recent M&A activity.

CPaaS providers are increasingly owning the customer relationship

CPaaS providers offer flexible and cost-efficient software-as-a-service (SaaS) solutions that enable businesses to use voice and messaging services for use cases such as marketing promotions, security (multi-factor authentication), notifications and customer services. Companies such as Kaleyra, Plivio and Twilio offer user-friendly capabilities such as flow builders and turnkey app integrations while buying messages (SMS and RCS) and voice in bulk from network aggregators. They also work with the large app providers such as Facebook to provide a wide range of communication channels to their business customers.

Players that want to scale up, enter new countries and expand their SaaS capabilities will continue to drive the consolidation of the market

Almost all major A2P messaging and CPaaS players acquired a company in 2020 and the trend has continued in the first half of 2021. Inorganic growth is a key strategy for entering new countries, gaining customers and adding new technologies. Common technological infrastructure makes the integration relatively easy for the buyer and the target asset. Organic growth is difficult because most high-value customers and mobile network operators (MNOs) have long-established relationships with rival CPaaS providers, making it challenging to secure new clients and expand geographically.

The number of mergers and acquisitions in the A2P messaging and CPaaS space has increased significantly in the last 2 years and a pattern has emerged: large companies are willing to buy smaller, local CPaaS providers or specialised software providers. Some are even listing to collect the necessary resources for acquisitions. For example, LINK Mobility and Routemobile went public in 2020 to raise funds, and both announced acquisitions only 1 month later (see Figure 1).

Figure 1: Recent IPOs of CPaaS companies

Company	Market cap (at 1Q 2021)	Date
LINK Mobility	USD1.85 billion	4Q 2020
Lleida	USD95 million	4Q 2020
Routemobile	USD1.41 billion	4Q 2020
CM.com	USD885 million	1Q 2020
Kaleyra	USD530 million	4Q 2019

Source: Analysys Mason

Aggregators are buying competitors to increase their scale

Merging or acquiring to enter new geographical regions or customer segments is common. For example, Sinch made four such acquisitions in 2020, including ACL in India for USD75 million. Buying competitors is also used as a defensive tactic. Infobip acquired OpenMarket, and Sinch acquired SAP Interconnect to enter the US market and consolidate its leadership position in the messaging aggregation space.

Cisco's and Twilio's recent acquisitions suggest that Tier-1 CPaaS providers are planning to become CRM technology providers

CPaaS providers typically have the long-term strategic objective of serving all their customers' communication, engagement and analytical needs. Twilio took a major step towards this when it acquired Segment, a market leader in customer relationship management (CRM) technology, for USD3.2 billion. Cisco acquired IMImobile for USD750 million to complement its existing CRM platform and integrate its UCaaS capabilities with a CPaaS proposition.