Blueshift RESEARCH REPORT

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New Relic's New Pricing Not Disruptive to Dynatrace, But It Will Help Grow Sales

Companies: AMZN, AVGO, CSCO, DDOG, DT, ESTC, MSFT, NEWR, NOW, SPLK

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Report Type: ☑ Initial Coverage ☑ Full Report Rating: **DT: 4/5; NEWR: 3.5/5**

Research Question:

How will New Relic's new pricing model in the observability space affect Dynatrace and the rest of the industry?

Summary of Findings

- New Relic Inc.'s (NEWR) new product, New Relic One, and its new pricing model are not expected to have a significant impact on Dynatrace Inc. (DT), but will likely boost of observability use and adoption among SMBs.
- At the enterprise level, where Dynatrace is highly regarded and considered a premium product, price is rarely a top consideration as functionality and service are the priority. New Relic's price change may, however, have some effect in the SMB market segment, which is where the company already excels.
- Industry consultants, observability sales professionals, and New Relic customers commented positively on New Relic's new product's ability to accept open source data. Its new pricing will remove barriers to adoption, while creating pricing pressure in the market. These sources expect New Relic to become more competitive, winning new business and encouraging existing customers to add additional observability functions.
- The application performance monitoring (APM) and observability market is experiencing high and growing demand. One source said the market is only 10% penetrated, making growth for all legitimate vendors likely.
- Key market trends include observability customers' migration to the cloud, which is currently split about 50/50 with on premise usage. Over the next five years, cloud usage is expected to grow to 80% to 100%. Use of logging is trending up and Splunk Inc. (SPLK) is strong in this sector. Its SignalFx acquisition has expanded its overall capabilities. AI and real-time streaming are also increasing in demand.
- New Relic's competitors were highly critical of the new pricing, describing it as confusing, a shell game, and a desperate move. One said pricing changes daily industry wide. These sources also indicated that pricing rarely drives sales.
- The APM and observability market is highly competitive, and customers frequently use multiple vendors to meet their needs. New Relic, Dynatrace, and Cisco Systems Inc.'s (CSCO) AppDynamics are all considered industry leaders. Other highly regarded companies used by sources and discussed as viable competitors include Elastic N.V (ESTC), Datadog (DDOG), ServiceNow (NOW), Broadcom Inc. (AVGO), and Amazon.com Inc.'s (AMZN) CloudWatch.

Silo Summaries

1) Industry Specialists

NEWR's new pricing model and acceptance of open source application data has removed the barrier for widespread adoption and will bring pricing in the space down. DT is not expected to be impacted by NEWR's pricing model in the near term, as the two companies do not directly compete for the same customers. **DDOG, which offers very aggressive pricing, may now lose some share to NEWR as a result of its new product and pricing model.** SPLK's SignalFx is the leading observability tool for cloud applications.

2) Observability Sales and Support Channel

Two sources said NEWR's new pricing model will make it more competitive and should help with new customer acquisition. One source added that NEWR's new pricing is not likely to help it compete against DT. One said workload and observability are not connected, the other said as a company grows demand for observability increases. Both said observability ROI is very high. Companies using APM and observability typically use a mix of vendors to meet their need, which is expected to continue. Midmarket companies are gaining share and one company mentioned was Honeycomb.

3) Observability Companies

Competitors' reaction to NEWR's new pricing model was generally negative. **One source has seen an increase in inquiries from NEWR customers as a result of the new pricing model.** Customer spending in the space does have some correlation to workload increase, though it is not 1:1. DT and NEWR are disadvantaged by the cloud expansion as they are older, proprietary systems built as on-prem applications and not considered native cloud solutions. **One source noted that cloud companies like Google are likely to get more involved in the observability space.**

4) Observability Customers

NEWR's new pricing is not expected to significantly impact DT or the observability market, according to four DT users. However, **two NEWR users said the new pricing could drive increased use of its products and help it gain share from DDOG and DT.** DT users said function and service drive decision making in the APM and observability market vs. pricing. **The observability market is growing, and companies increase their spend as their IT infrastructure expands or new APM or observability functions are added.**

	Effect of New Relic's Pricing on Dynatrace	Effect of New Relic's Pricing on Market	Observability Market Growth
Industry Specialists	Limited	Will Pressure Pricing	↑
Observability Sales and Support Channel	Limited	Will Make New Relic More Competitive	↑
Observability Companies	Limited	Limited	↑
Observability Customers	Limited	Limited	↑

Background

Blueshift Research's initial research into the observability industry found New Relic shaking up the market with a new combined product and new pricing model. The pricing is designed to remove the financial disincentives for companies to broadly apply observability across the industry's entire production ecosystem. As the digital transformation of virtually all business processes continues to rage, the demand for application performance monitoring (APM) and observability SaaS is exploding, but it can be expensive. The new combined product and new pricing model being offered by New Relic is in its early stage and early reaction from industry experts is positive. How the pricing will impact competitors and the overall industry remains to be seen.

Observability has gained a lot of popularity lately, however it was introduced over seven years ago in a Twitter engineering blog. Observability is the combining of metrics, events, logs, and traces in complex software environments and is essential to understanding and making sense of the performance of all of a business's applications. Used in conjunction with APM, the goal of observability is to answer any arbitrary question at any point in time about what is happening inside a complex software system. The market for APM and observability is lucrative and highly competitive. An Aug 3rd blog post by Hayden James lists 100 companies providing the service including Datadog, Dynatrace, Elastic and Splunk, to name a few. Gartner calls this market IT Operations Management (ITOM) and estimates it will reach $37B in spending by 2023.

APM and observability tools are expensive and typically involve a per node or per server-based pricing model. A company performing APM and observability typically uses a combination of tools, leading to hidden costs and difficulty calculating and tracking different costs for monitoring capabilities throughout its stack—running hosts, computing units, page views, events, retention, spans, invocations, and logs. This opaque pricing model drives a company to limit instrumentation to only a small subset of systems which provides less than optimal performance.

On July 30, New Relic Founder and CEO Lew Cirne announced the reconfiguration of its New Relic One and its entire product suite into three products, offering simple pricing and packaging. The new standard plan is $99 per user/month and includes one free full access user. Each month a company can ingest 100 GB free and then pay only $0.25 per GB ingested after that for all its telemetry data. The $0.25/GB is up to 95% lower than some of New Relic's major competitors.

The industry reaction to New Relic's new product offering and pricing has been positive. Jason Bloomberg, president of industry analyst firm Intellyx said, "New Relic is changing the economics of observability by empowering companies to leverage all available telemetry at dramatically lower cost than before. For companies that leverage modern IT infrastructure, correlating all available performance data with the performance of their business has become mission critical. New Relic is removing the barriers to deploying essential observability across a company's entire production environment."

Blueshift's past work in the space said that ESTC's top-notch solutions should continue to grow. Sources in Blueshift's Feb. 6 report said ESTC offers a fast, powerful stack of enterprise search and monitoring technologies whose popularity should continue to rise. The underlying software's ease of use, an active developer community, and frequent updates have combined

to make Elasticsearch and its related tools the platform of choice for a wide range of uses and industries. Sources added that ESTC is well positioned in the observability space and could develop a unified solution for tasks such as application monitoring, logging, and SIEM (Security Information and Event Management). ESTC faces some challenges in getting users to pay for licenses rather than choose the free, open source version available from both ESTC and Amazon. This preference for the free version supports New Relic's reimagined product and pricing model approach.

Current Research

Blueshift Research assessed how New Relic's new pricing model would impact the observability market and specifically one of its primary competitors, Dynatrace. We employed our pattern mining approach to establish five independent silos, comprising 15 primary sources and three secondary sources focused on APM and the observability market. Interviews were conducted August 24–September 4.

1) Industry specialists (2)
2) Observability sales and support channel (2)
3) Observability companies (5)
4) Observability customers (6)
5) Secondary sources (3)

Next Steps

Blueshift Research will continue to research the observability market to determine how New Relic's new product and new pricing is impacting the market. We will also review the competitive landscape to determine which observability providers are gaining and losing share.

Silos

1) Industry Specialists

One source said New Relic's new pricing model and acceptance of open source application data has removed the barrier for widespread adoption and will bring pricing in the space down. This source does not expect Dynatrace to be impacted by New Relic's pricing model in the near term, as the two companies do not directly compete for the same customers. Dynatrace is well entrenched in the large enterprise customer space, while New Relic has succeeded in the SMB market. He added that New Relic is now trying to penetrate deeper into the enterprise market. Datadog, which offers very aggressive pricing, may now lose some share to New Relic as a result of its new product and pricing model. The other source said Splunk's SignalFx is the leading observability tool for cloud applications. New Relic, AppDynamics and Dynatrace struggle to work in the cloud because they are based on old technology. One source noted that there is a lot of innovation in the APM and observability space which is only 10% penetrated. Both sources agree that as a business grows in sales, adds applications in the cloud, and increases IT capacity, its spending for observability increases.

Key Silo Findings

Background

- 2 are APM and observability consultants.

Observability Pricing and Product Changes

- 1 said Datadog was the first pricing disruptor and now New Relic's new pricing will remove the barrier for widespread adoption of observability and bring pricing pressure to the market.
    - New Relic said it has experienced a small increase in per customer billings for its larger customers as a result of the new pricing model.
- 1 did not specifically comment about pricing changes.
- 1 said New Relic's new pricing will not directly impact Dynatrace in the short run as the companies do not compete in the same market segment. Dynatrace targets large enterprise while New Relic focuses on the SMB market. New Relic is starting to concentrate on larger businesses so in the future there could be some competitive impact.

Observability Value
- 1 said the lower pricing will allow for deeper observability market penetration.
- 1 said the value of observability is huge as one server going down means large financial loses.

Observability Onsite vs. Cloud
- 1 said AppDynamics, Dynatrace and New Relic are challenged in the cloud environment because they simply converted their legacy on premise products for use in the cloud.
- Splunk's SignalFx was designed from the ground up for the cloud environment.

Observability Sales Growth
- 2 said as a business grows sales, deploys additional applications or expands IT environment there is an increase in observability spend.
- 1 said the observability market is only 10% penetrated and with lower pricing sales growth is anticipated.

Competition
- Datadog, AppDynamics, New Relic, Dynatrace and Splunk were discussed as key APM and observability providers.

1) Bernd Harzog, CEO of APM Experts

New Relic's new pricing model removes the economic barrier to widespread adoption of its tool. The new product also opens up the data sources to different open source systems, creating a further opportunity for New Relic. However, since Dynatrace and New Relic do not at this time compete directly for the same kind of customer, the new model will not yet affect Dynatrace materially. New Relic could gain share from other vendors like Datadog. The observability market is growing and evolving rapidly, creating tremendous opportunity for penetration, which has remained at about 10% for the last six years. Pricing will be coming down to address this low penetration issue.

Background
- APM consultant

Observability Pricing and Product Changes
- "One of the main trends in observability is the digital transformation that's taking place. Companies are implementing their business processes and software, and people are building applications that run the business. To make sure they work, you have to monitor those applications. The top line, the total number of applications that need to be monitored by APM tools, is growing extraordinarily rapidly. It's growing faster than APM tool vendors are building and selling software."
- "The opportunity for APM vendors, that is to say the available market, is growing so fast that penetration of that market is not increasing. It's been stuck at around 10% for the last six years. It is one of the few multi-billion dollar markets where penetration is low and not growing, just because the top line market is growing so fast."
- "A second trend is the tremendous innovation in the space. This is because there's so much demand to implement business software from companies and because there aren't enough developers to do all the work. The innovation is occurring on various fronts in order to try to close the demand-supply gap. I'm guessing that one in a thousand companies are able to implement their software projects as quickly as they would like and enhance them as frequently as they would like. Everybody is struggling with this."
- "We keep inventing new programming languages that are a better fit for particular purposes. We are also inventing new ways to run applications, like OpenShift, Docker, Kubernetes."
- "Running applications is becoming more complicated because of the diversity of the systems that get used to run them. In many modern applications, this is all dynamic now – Kubernetes scales it up and down. You might be running one thousand containers now, 10,000 in 30 minutes, and only 5,000 of the 10,000 30 minutes after that. That means you have to operate a diverse and rapidly changing environment."
- "The third trend is CICD [Continuous Integration and Continuous Deployment]. It is about changing the actual software and production as frequently as needed. That means the software can sometimes change hundreds or thousands of times a day."
- "We now have an unprecedented combination that ranges from the complexity of the environment to dynamic operations [the automation is changing how it runs minute by minute], and to the constant change in the applications themselves."

- "It's a monumentally complicated problem to solve for APM vendors. We have a problem that is rapidly increasing in size and at the same time, the complexity of the problem is increasing dramatically."
- "Additionally, Datadog has disrupted the cloud infrastructure monitoring space at a very aggressive price point, around $180 per server per year. APM has historically been priced at $2,000 per server per year. Some customers decide it's cheaper to just monitor the infrastructure."
- "New Relic's reaction to Datadog's disruptive pricing was to turn around and implement disruptive pricing of their own to try to turn the tables."
- "With observability, the idea is that we ought to put all the data types that we need to understand what's going on in one place. We need to collect all the data comprehensively and frequently. That is leading to an explosion in the amount of data and costs more money. It creates exponentially more data. New Relic's reaction to that is to change the way they package the price. Instead of charging $2,000 per server per year, they are charging $0.25 per GB of data that's generated, no matter where it comes from."

Observability Value

- "Because the APM market is only 10% penetrated, I think APM pricing is going to come down and I think as a result, that low penetration problem is going to start getting addressed."

Observability Onsite vs. Cloud

- Not discussed

Observability Sales Growth

- "First, New Relic's new pricing model removes the economic barrier to widespread adoption. Second, it opens up the data sources to things other than the New Relic agent. You're not limited to just using New Relic to collect the data that goes into New Relic. You can use many different open source systems – things like Prometheus, collectd, and Open Telemetry. This new pricing and packaging model turns all those open source things into an opportunity for New Relic as opposed to a problem."
- "I asked New Relic for their public answer of how the new pricing model would impact the user's bill. The answer was that in their experience at the time they were announcing the new pricing, with their larger customers, the net of the incentive effect was that their revenue per converted customer had gone up slightly. In other words, customers would want to add more servers to be monitored if they no longer had to pay $2,000 per server."
- "They said the New Relic database gives them a fundamental cost advantage over anybody else. Their database is more efficient and allows them to cost plus price the data. $0.25 per GB is essentially a markup on their cost of ingesting and processing the data. They believe they have an economic advantage over those who have cobbled together their back-end out of common open source components."

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Bernd Harzog, CEO of APM Experts

- "I think it's a plausible assertion and they've modeled this out. Looking at the history of these kinds of moves, sometimes there are short term costs to a long-term benefit. Net, I think this should be a good thing for New Relic's business."
- "Because New Relic and Dynatrace don't compete directly today, I don't expect it to affect Dynatrace materially in the short term. If it has an effect, it will have an effect first on Datadog because they sell to the same kind of customers. Beyond that, we'll have to see what the reactions are."
- "Dynatrace and New Relic don't compete head to head frequently. They're both considered APM vendors, but they don't sell to the same kind of customers and for the same reasons. Dynatrace is an enterprise grade company. They sell to the enterprise operations team, to the enterprise monitoring team, and to the team that supports large scale enterprise applications. Dynatrace's revenue per customer is upwards of $200,000 per customer per year. They have about 2,400 big customers. New Relic has around 17,000 customers. They have smaller customers but more of them. Their customers are smaller cloud first companies – a small team doing a new application on maybe five servers in the cloud."
- "New Relic is now trying to get deeper into the enterprise and at the same time, Dynatrace is being very effective as well in the cloud first market. They will be competing against each other more."

Competition

- "Datadog's principal business is to monitor the cloud infrastructure. It's not APM. However, since they've acquired many cloud infrastructure customers, they now have the opportunity to upsell APM to those customers as their APM product matures."
- "Splunk is the world's leading log analytics vendor. The predominant use case for Splunk is security log analytics. They are principally a security company (and not a monitoring company). However, they bought SignalFx, a monitoring company, and they're now investing in that and making it into a more robust and capable solution. For the moment, it's the right solution only in a very narrow set of cases."
- "Splunk has a long way to go before it becomes an enterprise grade monitoring company like Dynatrace. They're both enterprise grade and they both have impressive enterprise customer bases but for now, you can't stop using Splunk and start using Dynatrace, and you can't stop using Dynatrace and start using Splunk. I think it's going to be several years, maybe three, before that even becomes remotely possible."

2) Consulting technical director, formerly a senior solution engineer and with AppDynamics and SignalFx

As a business grows so does its observability spend. Sales growth, cloud growth, infrastructure growth, and the addition of new apps and software all contribute to increased spending on APM and observability. The most modern cloud applications require microservices environments which call for a whole new criteria of monitoring tools. All of the leading companies in the space fall short except SignalFx. Dynatrace, New Relic and AppDynamics are all at a technical disadvantage compared to Splunk's SignalFx when it comes to true cloud environments. Google will start to catch up to AWS over the next five years, as large retailers and others see the value in walling off their data from Amazon, and also the integration advantages that Google brings with Kubernetes.

Background

- "My experience in this space was first as a customer of the tools, as a technical lead, designing the observability strategy for [a large bank in the UK]."
- "After the bank, I took a job at AppDynamics to get a look inside the process before moving into SignalFx as a senior engineer, which was starting to grow in Europe."
- "[When I then went and worked for a consultancy most recently] I was mainly implementing AppDynamics for customers needing the older [type of observability] work [on premise and simple cloud] and SignalFx for true cloud transition projects. I was working a lot in the GCP [Google Cloud Platform] and AWS area."
- "It was interesting being in both the vendor side and on the consumer side with big corporations. So I have visibility of the tools from both sides."

Observability Pricing and Product Changes

- "I started to use AppDynamics, and we also started to evaluate Dynatrace. And then, because I was lead engineer at one of the largest banks in the world, we did an entirely new payments platform from scratch – microservices, cloud, cloud native … the point is, when you had monolithic applications, the tools that were around from the beginning were fine."
- "But when you move into the cloud environment, and the microservices environment, the criteria for monitoring these kinds of applications is completely different. Because everything is now ephemeral, you have more elasticity – so now you're talking about containment and not servers – and then one container might freeze for five minutes, because there is more demand on your website or platform. And after 10 minutes it's going to get killed, that container … it's very ephemeral."
- "All applications, like AppDynamics and Dynatrace … they were struggling to work properly in the cloud, or container environment [when we were evaluating the leading tools in a true cloud environment]."
- "In observability you have three things: Metrics, for example CPU, RAM, requests per second … everything that can be measured. Then traces: microservices talking to each other. You need to see the traceability of all transactions. Then you have the logs: what's the cause of the problem? So if tracing is *where* is the problem, logs is *what* is the problem."

Observability Value

- "When I was with SignalFx, one of my customers was one of the biggest start-ups in Latin America, a food delivery business similar to Uber. They had about 2,000 servers in AWS, and each of those were running 10 instances of microservices, so you had 20,000 or 30,000 containers. They ditched New Relic, they didn't renew New Relic, and

went with SignalFx because with New Relic they couldn't see things happening fast and in real time. If one microservices is down, that means no transactions, no payments, no people ordering … that's a huge cost to a company like this, to go offline for an hour."

Observability Onsite vs. Cloud

- "The challenge for AppDynamics for Dynatrace and New Relic is to adapt their technology to the true cloud environments. Their foundations, the architecture around the product, is completely [geared to monolithic monitoring environments right now] … it's like the roots of the tree. It's why Splunk bought SignalFx; they were very strong in logs, and they needed metrics and traces."
- "[By true cloud] I mean very modern applications, like microservices architecture … because you can move to the cloud, but keep your old architecture running in the cloud. So it's not just moving into the cloud – it's re-architecture. You can do a 'lift and shift' – moving to the cloud with the old technology. And then you also have companies which choose to re-architect, with containers and microservices and so on, which takes time."

Observability Sales Growth

- "As a company grows, their spend with observability vendors grows. When [the Latin American food delivery company that was my client] started, they were spending maybe $50,000 to $100,000 a year [on observability tools, first with New Relic, then with SignalFx]. Recently they signed a three-year contract [with SignalFx] for more than $1 million. Because as you have more users, you have more servers on AWS, or Google; this means you're going to have more containers, and you'll be launching more products. So in this case, they moved from delivering food to offering new products like payments, which means you need to monitor new products. So yes, [sales growth, cloud growth and spend on monitoring tools] is completely related."

> **I believe New Relic's technology isn't as strong as SignalFx. For me, the best tool at the moment for monitoring is SignalFx. The streaming architecture is amazing.**
>
> *Consulting technical director, formerly a senior solution engineer and with AppDynamics and SignalFx*

Competition

- "SignalFx is closer to New Relic, but even compared to New Relic, SignalFx was adopting a different approach and architecture – which was more aligned with the new cloud challenges. I spent two years working on observability with SignalFx, and got to understand all aspects."
- "I believe New Relic's technology isn't as strong as SignalFx. For me, the best tool at the moment for monitoring is SignalFx. The streaming architecture is amazing; I saw the tools both as a user and as an engineer, so I know how they work."
- "The problem with Dynatrace, New Relic and AppDynamics is they're based on old technology, which is called 'agents.' You have to install agents in your server, which is old technology. SignalFx is based entirely on standards like open tracing, and the new standards for observability. That makes a huge difference because you don't need to have an agent inside your server to detect the traces; you're already using the standards of open tracing and all of that to process the traces and the metrics."
- "The streaming part is so important because of how ephemeral the containers are. If your load grows quickly, meaning you have more users and more requests, you create more containers in your Kubernetes cluster … if you have a tool like polling, which is every 30 seconds or minute, I'm going to trigger an alarm. The polling architecture is very slow, and it's why with SignalFx you can detect when there is a problem in the container, because the old data is streaming slowly. I saw the architectures of AppDynamics, how they built products, and we had to do a comparison with Dynatrace and New Relic, which are all quite similar – they all have polling architecture."

2) Observability Sales Channel

Two sources said New Relic's new pricing model will make it more competitive and should help with new customer acquisition. One source added that New Relic's new pricing is not likely to help it compete against Dynatrace as it is considered the Mercedes of the market while New Relic is the Volkswagen. He added that Dynatrace is dominant in the enterprise market sector. Observability is being driven by companies moving to the cloud and the implementation of AI. One source said many of its more progressive customers are operating near 60% to 70% in the cloud and within five years some will be 100%. Sources were mixed regarding the correlation between a company's workload and increased spending on observability. One said workload and observability are not connected, the other said as a company grows demand for observability increases. Both said observability ROI is very high. New Relic, Dynatrace, Datadog, and Splunk are all key players in the space; each company and its products offer something unique. One source noted that companies using APM and observability typically use a mix of vendors to meet their need and he expects that practice to continue. Midmarket companies are also gaining share and one specific company mentioned was Honeycomb.

Key Silo Findings

Background

- 1 source is a Dynatrace partner.
- 1 source is a vendor agnostic APM and observability provider.

Observability Pricing and Product Changes

- 2 said New Relic's new pricing model will make it more competitive and help it acquire new customers.
    - 1 source that is a Dynatrace partner said New Relic's new pricing will not help it compete against Dynatrace which is considered the Mercedes of the market vs. New Relic which is the Volkswagen.

Observability Value

- 2 said observability value is high.

Observability Onsite vs. Cloud

- 1 said movement to the cloud and AI are the key drivers of observability growth and adoption.

Observability Sales Growth

- 2 expect continued sales growth for observability providers.

Competition

- New Relic, Dynatrace, Datadog, and Splunk are key players and the midmarket companies are also gaining, one specifically mentioned was Honeycomb.
    - 1 source that is a Dynatrace partner said Dynatrace offers superior automation in the cloud. He added that New Relic is also starting to offer this, but AppDynamics is behind.
    - 1 said in the early days of the observability market Splunk specialized in Logs, Datadog started out with Metrics, and New Relic specialized in APM. He added that observability users typically use multiple vendors to meet their needs and he expect that to continue.

1) Owner of a Dynatrace partner organization in Europe

New Relic's new product and pricing model will give it an advantage and help it against competitors such as AppDynamics, but not Dynatrace which is considered the Mercedes of the observability space. Dynatrace has also lowered pricing so New Relic will not be significantly cheaper. New Relic's customers are likely to increase their use of the software because of the simpler pricing structure, as happened with Dynatrace when it redid its product. Logging is an important offering that was already incorporated into Dynatrace around 2017. Moving to the cloud and AI are the two major current trends in APM, and Dynatrace is a leader in both areas. Many of this partner's customers are about 60% to 70% in the cloud, a significant increase from five years ago when most were still on premise. He expects many to be 100% in the cloud five years from now. Sales growth in observability is driven by customers realizing the need as they transition to the cloud.

Background

- "We are offering Dynatrace."

- "Log management [or log analytics] was incorporated into the Dynatrace offering a few years ago, around 2017. Elastic and Splunk also have it."
- "Enterprise customers, especially in banking and insurance, have been doing logging for at least five years. It is increasing. Many use Elasticsearch or Splunk."
- "Monitoring and streaming is something that just about all vendors do in real time. A company can't afford to wait until the end of the week for a report. It has to be in real time and must involve real-time alerts. Dynatrace is constantly improving this area."

Observability Pricing and Product Changes

- "One of the major trends is the shift to the cloud and APM in the cloud. Many enterprises waited to move to the cloud because of concerns about security. Now it is happening increasingly."
- "A second major trend is Artificial Intelligence. The more complex the environment gets, the harder it becomes to find experts. This is where Artificial Intelligence comes in and Dynatrace was early with this. Using AI makes the data more digestible for everyone."
- "SignalFx, which was recently acquired by Splunk, has a similar approach [to AI] even if it's technically different. Also, New Relic is trying to do it."
- "It was necessary for New Relic to reinvent their product [with New Relic One]. Dynatrace also did that a few years ago. It's interesting that Dynatrace named their product Dynatrace OneAgent, and now New Relic names its product New Relic One."
- "The new product is a clever idea, even if not completely new. The difference is they are separating APM [the part that looks at how the application performs and errors] from business analytics. Dynatrace reuses the data for both technical and business analytics. My first impression is that it was clever to separate these approaches because they have different requirements and they are opposites. This is interesting for businesses."
- "I haven't seen the exact pricing of the New Relic One product. Dynatrace however reacted by publishing their prices on their site. I'm not sure however if the new pricing is really disruptive. Pricing is very dependent on infrastructure and deployment. It's not that easy to calculate. New Relic's and Dynatrace's prices have always been comparable, with Dynatrace always a bit more expensive. Dynatrace has been more expensive because it has the most powerful solution in the market. It is the market leader [according to Gartner]. It is like a Mercedes vs. a Volkswagen [New Relic]."
- "New Relic One and their new pricing could drive growth for them. It will improve their competitiveness. Before, it was easy to win out with Dynatrace. Dynatrace could easily also win out against AppDynamics. This [new product and pricing] will give New Relic more traction and will make them a stronger competitor. New Relic could win deals over AppDynamics and others [but not Dynatrace]."
- "I don't think New Relic is going to be significantly cheaper than Dynatrace because Dynatrace has also lowered their pricing. They are now closer in pricing. Dynatrace still gets the enterprise deals though."

> New Relic One and their new pricing could drive growth for them. It will improve their competitiveness. Before, it was easy to win out with Dynatrace. Dynatrace could easily also win out against AppDynamics. This [new product and pricing] will give New Relic more traction and will make them a stronger competitor. New Relic could win deals over AppDynamics and others [but not Dynatrace].

Owner of a Dynatrace partner organization in Europe

- "Customers are likely to increase their use of New Relic. This has happened with Dynatrace when customers used the software for a few mission critical applications only because it was expensive and difficult to use. Now that it's easier to set up and use, most of my customers have deployed it company-wide. There are only a few technologies that are not supported. It has gotten increased use."

Observability Value

- "It's true that the different pricing models are very complicated. However, this kind of software, an observability platform, is expensive to create. Dynatrace deployed hundreds of developers for it. It gets complicated when they try to optimize how the customer pays for what they use. With Splunk's log analytics, you pay for the amount of data you digest with it and it becomes so expensive that people who would like to use it for the whole company find out that the price is exorbitant. So, they limit the use. It's similar with APM tools that have different features which have to be budgeted for."
- "The ROI, based on my experience, is very good. People don't necessarily track the time a developer has spent on fixing something, problems they've had for weeks that can be solved in five minutes. So, the ROI is hard to calculate.

The operation team always values the solution. It means time gained for the development team not having to solve problems and being freed up to develop new features."

Observability Onsite vs. Cloud

- "The mix between on premise and cloud varies widely. I would say companies that have been at the forefront of moving to the cloud are 60% to 70% cloud. There are, of course, others that are just starting now. Five years ago, the cloud was a geek topic, where maybe one person would suggest trying out AWS and especially in banks and insurance, the answer would be no, they couldn't put customer data on someone else's cloud. That has changed, especially with improvements in security and tighter regulations. Companies are moving to the cloud and I think in five years, I will have customers who will be close to 100% in the cloud. I do still have some customers using the IBM Mainframe and I don't think that's going to go away completely."

Observability Sales Growth

- "In my experience, customers who already did APM in the past on a few applications are now increasing spending and coverage with observability tools."
- "They increase coverage because they understand that observability is a must-have when transitioning to the cloud and micro-service architectures. Everything, infrastructure and software, is changing much faster, so you can't afford to 'fly blindly'."
- "[If a company's workload grows 10%], their observability spend should not grow in proportion. It shouldn't be connected. The purpose of APM and observability tools is to prevent that kind of increase in spend. It's without the tool that the spend would grow, even double."

Competition

- "Dynatrace stands out for the level of automation it can provide in the cloud. New Relic is also starting to do this but AppDynamics is behind."
- "AI is also an aspect that has wide appeal and has become very scalable. It appeals to management especially at large enterprises. Dynatrace leads in this."

2) Director of business development for an Observability integration company

Monitoring and observability are the most expensive applications in the IT suite. Observability companies like Splunk and New Relic are tied to heavy computing costs in the cloud. Companies like AWS and Microsoft own this industry, charging flat rates for time and space. These costs climb significantly in rich data environments like Observability. To save money, they partner with companies like Edge Delta to improve their cloud efficiency. As a vendor agnostic company, Edge Delta is uniquely positioned to have less biased insights in this space.

Background

- "Monitoring and observability are the most expensive applications in the IT suite."
- "Observability companies like Splunk and New Relic are tied to computing time and space in the cloud to AWS or Microsoft."
- "Edge Delta analyzes raw machine data where it resides saving time and space in the cloud."
- "We decide which machine data goes to Splunk by capturing anomalies before sending it."
- "Edge Delta is vendor agnostic."
- "Observability monitors the health of a network and takes corrective action in real time."

> **Changing their pricing model gives their sales teams more flexibility and makes it easier for New Relic to gain new customers.**
>
> *Director of business development for an Observability integration company*

Observability Pricing and Product Changes

- "Changing their pricing model gives their sales teams more flexibility and makes it easier for New Relic to gain new customers."
- "Observability companies tier their pricing. Production is tier 1 and website traffic would be tier 2. This saves companies money but not significantly."
- "There are no economies of scale in current pricing models."
- "Customers are still forced to send terabytes of ingest to Splunk, New Relic and Dynatrace."
- "Customers are still going to ingest data and it's still going to be expensive. It is pretty standard for SaaS."

- "If you change your pricing from per gig of ingest to user you are still associating the user with a measure of ingest."

Observability Value

- "The value is that machine data is growing exponentially, and it needs to be managed efficiently."
- "As the markets recently dropped, people couldn't move their money due to glitches. When this happens, consumers change institutions."
- "A regional credit union that is not keeping up with monitoring their production systems, websites, and applications will lose customers and money. This same concept applies to larger financial organizations like Vanguard who went down just two days ago."

Observability Onsite vs. Cloud

- Not discussed

Observability Sales Growth

- "Observability is gaining traction as the world becomes ever more connected."
- "Observability spend is directly correlated to increased workloads."

Competition

- "The competitive leaders in observability are the usual suspects Dynatrace, New Relic, Splunk, etc. but Honeycomb, and other midmarket companies are gaining market share."
- "In the early stages of observability, every company had its own specialty. Splunk specialized in Logs, Datadog started out with Metrics, and others like New Relic specialized in APM so each company brings a unique value to the market."
- "Most companies are still using a mix of vendors and this will probably continue for some time."

3) Observability Companies

Competitors' reaction to New Relic's new pricing model was generally negative. Two sources described the new pricing model as confusing, one said it was a 'shell game,' another said it was an act of desperation, and the last said observability companies change prices daily. One source said they have seen an increase in inquiries and online demo requests from New Relic customers as a result of the new pricing model. All the sources see demand for observability increasing and customer spending in the space does have some correlation to workload increase, though it is not 1:1. Two sources noted that spending increases as additional functionality is added, particularly apps and servers. Cloud usage is the growth trend with sources. One said cloud and on-prem usage is 50/50 while another said 50% to 60% of observability is used on-prem and 40% to 50% is cloud, though this should reverse in the next 12 to 24 months. Both said it will be 80% to 90% in the cloud in five years. Sources had a mix of opinions about their competitors. They noted that Dynatrace and New Relic are leaders but are disadvantaged by the cloud expansion as they are older, proprietary systems built as on-prem applications and not considered native cloud solutions. Elastic, Datadog, and Confluent Inc. are said to be gaining share. Dynatrace and AppDynamics are considered top venders but are also expensive. Splunk excels in logging. Broadcom, ServiceNow and Instana were also discussed. One source noted that cloud companies like Google are likely to get more involved in the observability space.

Key Silo Findings

Background

- 5 sources are competitors of both New Relic and Dynatrace. Three are public companies and two are private.

Observability Pricing and Product Changes

- 5 were negative regarding New Relic's new pricing model.
  - 2 said the pricing model is confusing.
  - 1 said the pricing is a 'shell game'.
  - 1 said the pricing is a move of desperation.
  - 1 said observability pricing changes every day and price is not a sales driver.

Observability Value

- Observability helps a business operate more efficiently and generates more revenue.
- Full IT environment observability coverage provides ultimate protection from outages.
- Strong ROI creates customer loyalty.

Observability Onsite vs. Cloud

- Observability in the cloud is the growing trend.

- 1 said its current usage split is 50% cloud to 50% on-prem.
- 1 said its current usage is 40% cloud to 60% on-prem and with 12 to 24 months it will reverse.
- Both said the 5-year expectation is for 80% cloud and 20% on-prem.

Observability Sales Growth

- 5 see high demand for observability.
  - 1 said demand for observability related to security apps is high.
  - 1 said the employee skill gap is the only thing holding back growth.
  - 1 said open source is driving high demand.
  - 1 said the market is hot and gaining momentum.

Competition

- Sources had a broad mix of thoughts and opinions regarding their competition.
  - Dynatrace, and New Relic are leaders, but are disadvantaged by the cloud expansion.
  - Elastic, Datadog, and Confluent are said to be gaining share.
  - Dynatrace and AppDynamics are considered top venders, but also high priced.
  - Splunk excels in logging, Broadcom, ServiceNow and Instana were also discussed as competitors.
  - 1 noted that cloud companies like Google are likely to get in the observability space

1) Founder and CEO of a competitor vendor

Confusion around New Relic's new pricing model should create an opportunity for Dynatrace and other competitors. It is not clear that the new pricing will lower costs for enterprise, and early feedback from one customer on the new model is that their costs actually doubled. The trend for logging will likely be an increase in 'stitching' together of various tools like tracing and performance monitoring. Logging will grow as a priority because the demand for data tied to security threat detection is going up. Datadog and Dynatrace are currently the vendors to beat in this market, but Dynatrace's high cost remains a barrier.

Background

- "In terms of our offering, we're similar to other vendors like New Relic, Dynatrace, Splunk, Datadog etc. We all in a way compete with each other. The differences are slight sets of features, and what is the go-to market approach – so are you going through resellers, or inside sales, or a larger sales force, or no sales force? So, are you going after large enterprise or medium or small businesses? We're in the SMB space, with no sales team, and with a couple of hundred customers."
- "[Included in what we call 'solutions'] We have a cloud offering, which is our SaaS. Unlike other vendors, we have both a SaaS offering and one which we call 'enterprise,' which a customer can buy a license for a year and download it, install it, and run it on their infrastructure, on their premises or wherever that is. Even if they use a cloud service like AWS, if this is their infrastructure and they want to manage [our solutions] they can buy a license and install and run it. The SaaS is obviously the more modern way of doing things."
- "Log management is one of the four solutions we offer, which [also includes] performance monitoring, user experience monitoring (or real user monitoring – RUM), and we offer synthetic monitoring (or API monitoring, or end-point monitoring – different names for the same thing)."
- "You also hear APM, which stands for application performance monitoring, and also for application performance management, which is slightly different, the latter I believe was the term Gartner invented, which said in order to be an APM vendor you had to have four different types of monitoring solutions, including infrastructure monitoring, real user monitoring, transaction tracing."
- "With logging, I think things are getting stitched a lot and kind of combined. For example, when we started doing product around 2013, in subsequent years we realized that when we have metrics, we need to have logs, so you typically set up alerts, and then you click on a link to a dashboard … and then you hopefully see where and when something went wrong. From that you go into logs, because performance charts with a simple XY axis doesn't give you the 'why' of what went wrong. In 2015 or a little earlier, we realized we needed both, and in 2017, I saw other vendors do the same thing."
- "At some point, somebody came up with a marketing name for having metrics/performance monitoring, logs and a third thing, tracing (also called distributed tracing or transaction tracing). They would call them 'three pillars of observability.' My point being that these things are tied together, so you can easily go from one to the other, and by

doing that, vendors try to make it easier for people to use their tools to solve problems like performance or stability issues with their application and infrastructure."

- "So, I think we will see more and more of logs being stitched to not only metrics, but also to traces. And I think logs are obviously a massive and really valuable data source for security issues. This is where you can find various types of data that have to do with security. I think the demand for any kind of cyber security threat detection is going up, and I think companies are willing to pay a premium for that sort of data because the price of an attack is high."
- "All of us [vendors] who provide log management solutions have to be real-time, which means basically if an application logs at 12.00.00, that event typically needs to be shipped to wherever it needs to go, and be visible in some kind of UI [user interface] in a matter of seconds – or minutes at worst. You can't really rely on a system that shows you data that happened a long time ago. So really all these systems are real time, and so ['real-time streaming'] is not a differentiator for anyone. Some vendors may use it in their marketing brochures or material, but all these systems are real-time, and 'streaming' just means it's happening on a continuous basis, and the shipping of data has to be happening on a continuous basis. If somebody's not doing that they shouldn't be in business. They can't have a system that 'batches' the shipment of this kind of data."
- "Sometimes the streaming is maybe referring to how you see it on the screen, that you as a user you can say, 'Show me the logs on the screen as they come in in real time,' but practically speaking that's rarely really ever useful, because the volume of logs is such that you can't really be looking at them in real time, because they come in in dozens and thousands per second. So, seeing the stream of logs on a screen is almost useless, unless you filter it down a lot so you can actually inspect them with your eyes."

Observability Pricing and Product Changes

- "I saw that New Relic was changing their pricing. The announcement was along the lines that they want to simplify pricing, and so now you're paying for data usage, for volume – but also for users. Maybe I'm stupid and missing something, but how is this simpler, if you have multiple factors involved?"
- "And whether it's going to be cheaper I can't really tell, but it sounds like it could be more expensive."
- "The pricing was always tied to volume of data one way or the other, for all of us vendors. Some vendors will tell you, you can send 'custom metrics,' for example, but they don't tell you what the limits are. But you know that they have limits, and when you hit those someone from their sales team calls and says you need to upgrade. They have to have a limit to protect themselves."
- "So, the pricing has always been based on usage. I think the complexity that New Relic introduced is based on the seat or user, which seems to me very traditional – the way you used to pay for licenses decades ago. That's problematic, because you understand that everyone's data volume grows – but now you're also saying that if my teams grow, I'm [also] going to pay more. That's the confusing part."

I saw that New Relic was changing their pricing. The announcement was along the lines that they want to simplify pricing, and so now you're paying for data usage, for volume – but also for users. Maybe I'm stupid and missing something, but how is this simpler, if you have multiple factors involved?

Founder and CEO of a competitor vendor

- "I went to Reddit and asked the question, what did [technical people in the observability space] think about [New Relic's new pricing]. One comment that came in from a New Relic user [who had already switched to the new pricing structure] said that their costs doubled."
- "[There was no indication as to the size of this enterprise whose costs had doubled] but in general, New Relic's customers tend to be bigger companies."
- "In the same [reddit] thread, people were mentioning Dynatrace. The story with them is that people tend to like the product, but everyone said there's a price to pay – they [Dynatrace] are very expensive."
- "There are customers who are still paying the old pricing, but I'm going to guess that New Relic will want to convert them to the new pricing. New Relic was one of the first movers in this space and has remained [with Dynatrace and AppDynamics] one of the more expensive vendors."
- "Our pricing is exactly the opposite [of New Relic's new pricing model]."

Observability Value

- "ROI and [the stickiness of each vendor offering] are connected, because you have to invest time in learning all of these tools. You have to invest the time in [employees] learning the various tools, and you do this over weeks, months, years. And sometimes this is throughout the whole company. So, I think it's really difficult to move off of a

[set of software] once you're already on it. It would have to be a big difference in either costs or functionality [to justify a switch from one vendor to another]."

Observability Onsite vs. Cloud

- "Some of our customers have only SaaS [cloud], and some have both [on-prem and cloud]. Most these days use a cloud version; organizations that don't use cloud are those that are more conservative or have requirements about keeping data safe – banks and government, for example. And anyone who has such a massive volume of data that sending it out is not only expensive because they would have to pay a lot to the vendor, but because sending it out is expensive in terms of bandwidth."
- "Organizations which either have masses or data, or very sensitive data, will choose our on premise version. It's not without issues, or its own expenses, so I think one has to be really careful about evaluating what's right for them. The on premise version requires you to pay for the infrastructure, so if you need to run 10 servers, let's say, to run the observability software, then you need to pay for these 10 servers. If this needs a couple of people to maintain it, then you have to also pay for that. You have to take that into account."
- "The mix of on premise vs. cloud has changed. I don't have the exact data, but in trend terms I think you can compare it to working remotely [in the pandemic]. A year ago, it was not as normal, and now it's suddenly OK to work from home, and it will be more OK with time. There's a similar trend with the cloud, where organizations like banks and government agencies will find a way to start using the cloud because they will see advantages. Maybe not 100% of the data, but maybe some percentage of their data will get sent to the cloud because it's less sensitive, or you find a way to clean it before shipping it, or its smaller in volume, and so on."

Observability Sales Growth

- "[Observability spend] grows somewhat [in relation to a company's growth]. If you are selling cell phones, and you have 100 customers a month, and then you jump to 100,000 a month, you have to be able to handle the traffic – people searching through the catalog, people putting stuff in the baskets, checking out, back-end functions that have to do with order fulfillment, data bases and so on … so you will have to pay for more infrastructure to handle more orders and more customers."
- "For instance, every time someone searches for a phone case on Amazon or similar, that is logged somewhere, and that volume of people is going to grow, because you've got more people doing the searching. And you may have, instead of one server, several servers, because there will have to be more things that have to be monitored. So, I'm not sure exactly what the ratio is, but the growth is correlated."
- "So yes, Dynatrace's revenue grows when the customer revenue grows. If I have a customer that has one server and they pay me $50 a month, but then they suddenly need three servers and need to monitor that, they now get $150 a month."
- "I guess you could say that [New Relic's new pricing model] is also tied to growth, because if I have more customers – if I'm selling 100,000 cell phones, for example – I will now have to grow my development team to handle more of the infrastructure, more people for customer support … and if I grow my development team, I will need to give them access to all the logs etc. in New Relic – and therefore I'm going to have to start paying more to New Relic. It just seems weird because nobody else is doing that."
- "One of the problems I think, and we had this when we started log management, we had a different pricing model – we said it was going to be a certain number of dollars per log event. And the leader in the space, Splunk, was saying they were going to charge per gigabyte. So, if you were comparing us and Splunk it was difficult, because of the different pricing models. We ended up adopting Splunk's model, but we made ours cheaper."
- "With New Relic, you now have to use a different formula [to compare competing offerings]. I would think that when people see something more complicated [like New Relic's new pricing model] they say, 'Forget about it; if I have three other, more simple solutions, I'll look at those."
- "We'll see, in a few months, whether New Relic changes it [back], if things are not working. There are other examples, like SignalFx, that was acquired by Splunk, and they had the real exchange pricing model, which was different from others, and hard for people to evaluate what the cost was. They ended up changing the pricing model because it was hard for people to understand what they were paying."
- "It occurs to me that New Relic's change in pricing might be an attempt to be less attractive to smaller businesses, but OK to larger businesses. And maybe they're trying to get rid of those smaller businesses because the CAC [customer acquisition cost] and churn and other numbers are not favorable, and they'd prefer larger customers. I'd be curious about that."
- "Or maybe [the new pricing model] works for large customers which buy from resellers. Maybe this is how they see more business [opening up]."

Competition

- "The market [for observability software] is massive. If you look at the total addressable market, I think it's tens of billions of dollars. Even those who are laggards have to be more and more online, more so with the pandemic, and with that you need more data logging and so on. Your online presence becomes more and more important, increasingly for sales revenues as well as everything else."
- "[With regard to the competitive leaders in this space] my understanding is that Datadog is eating other established vendors' lunch. I don't think they were originally that great, but they had a very attractive UI … and they integrated themselves with the ecosystem well, and exposed APIs that made that possible. I think they are stealing customers – I'm guessing – from New Relic."
- "I'm guessing that customers are switching from New Relic to Datadog quite a bit, simply because there's way more buzz around Datadog. New Relic somehow became, over the last year or two, completely uninteresting. They announced something called New Relic One, but I'm not sure that's making any difference."
- "I've heard good things about Dynatrace from [our customers] who have tried it in the past, and from channels like reddit. I don't think it's a coincidence when a number of people say good things about a vendor."
- "So, I think those two [Datadog and Dynatrace] look good."

2) Head of marketing for a next-gen APM company

Dynatrace will likely benefit from New Relic's pricing change. New Relic's new pricing system is not only confusing but appears to penalize users who want to level up their observability game. Since New Relic's new pricing model was announced, this competitor vendor has had a "significant" increase in the number of inquiries from existing New Relic customers. Spend on observability is closely related to a company's growth, meaning the more a company grows, the more it will spend on observability tools.

Background

- "We are an APM/observability provider, but we are very much focused on the cloud-native, microservices environment. Compared to New Relic, or even more so Dynatrace, if we get an opportunity where there's a lot of legacy systems, then we will probably not pursue those opportunities. We like opportunities where there's a very high degree of dev-ops, CICD, very modern software factory (that's on the development side), but also very modern deployment tactic and strategy, very much geared to the cloud. We do like on-prem, because a fair amount of our customers have on-prem, but they're only our customers due to the fact that they are very high in dev-ops maturity."
- "[To see what's happening with pricing in the space now] it's helpful to rewind the clock five to eight years, because in what is referred to as second-generation APM – so that's in the early days of Dynatrace, AppDynamics and New Relic – there was almost a consensus that the market was layered, with New Relic primarily interested in the SMB, not very technical, smaller scale environment, largely web; then the larger SMB and smaller enterprises would be more the AppDynamics environment; and the larger enterprise would be Dynatrace. More or less, all three companies' second-generation APM technology grew that way, so kind of defending the wide part of the pyramid, or middle part of the pyramid, or top part. The market was big enough for them to happily continue to grow that way."
- "What is very interesting is that with AppDynamics being digested by Cisco, Dynatrace tried to get into the middle part of the pyramid, and New Relic tried to move up, into the middle. And then there have been other new entrants into the APM space, including Dynatrace and others, which was matching a really big shift in the APM market, which was the adoption of cloud, which means that you needed to have a new generation of APM."
- "We do offer logging, primarily through integration, but we do have a log collection mechanism; it is rated slightly below Dynatrace and New Relic [in a recent well-regarded APM expert research paper]. We are on par with all of the other capabilities, or above most of them – tracing, metric collection … down to the contextual information we provide at the back of that, and also the automation we have. Both of those things – the automation and the contextual information – makes us truly a third-generation APM. From that point of view, we are a lot closer to the observability definition, or the observability holy grail than other vendors would be."
- "[With regard to real-time streaming] a lot of end users and people trying to get value out of observability, they tend to refer to the way you gather the data – what you observe and the measurements that you're taking from what you observe. And long gone are the days where having a sampling strategy was enough. It's no longer enough, because you know that if you sample the problem that you're trying to observe it's likely to happen in between two sampling

points. When people talk about continuous streaming, or continuous monitoring, or continuous observability, they refer to how you gather the information from the system that you are monitoring or observing."

- "To differentiate between us and New Relic, New Relic is more of a sampling strategy, versus continuous gathering of the information from the system that you're observing. New Relic is behind in this area; they're still a credible player – certainly on the APM side, maybe less so on the observability. I think this is why the announcement they made a few weeks ago is really a leap of faith. Because they're saying, 'We're going to open source our existing technology, which is critical, because that's the way you gather the information – and we're going to build a new platform, and by the way we're not really able to tell you when it's going to be ready, because we believe in observability.'"
- "Obviously all the APM vendors are following the trend, moving away from APM and moving to observability. This is slightly beyond the buzzword bingo; this is very much because you want to have log, metrics and tracing under one roof. But at the same time, New Relic is feeling the pressure of being second and I think it will be difficult for them to carry all their customers across to observability.
- "They are clearly refocusing themselves onto enterprise."

Observability Pricing and Product Changes

- "The reason this is all relevant now is that the price change that New Relic has indicated is extremely surprising. One, it's extremely confusing; you have a lot more variables than you care to try to understand if you are a buyer [customer]."
- "Secondly, the variables that you have to deal with penalize you against understanding your environment, because when you're observing something you're trying to have as much data as you can on the thing you're observing so that you can correlate the information and make sense of what you're trying to observe, to see what you need to change."
- "For example, having a price which is indexed on the volume of data that you need is counter intuitive – because you want to have more information to make more inference, and then provide the right answer to the question that you're trying to solve through observability."
- "And likewise, having a user-based pricing – which is one of the new things that New Relic is doing – doesn't make sense at all, because you're trying to have as many people as possible using the technology and the intelligence that the platform is providing you in order to act on it."
- "All that to say that just those two moves – the user-based pricing and a price that is essentially indexed on the volume of data that you're gathering – is utterly counter-intuitive, and goes against what observability is about, and what observability is meant to be used for."
- "What I can say confidently is that New Relic's customer base is very confused [regarding pricing]. That's for sure. And that the number of inquiries [we're seeing] from New Relic's existing customers has significantly increased."

> **What I can say confidently is that New Relic's customer base is very confused [regarding pricing]. That's for sure. And that the number of inquiries [we're seeing] from New Relic's existing customers has significantly increased.**
>
> *Head of marketing for a next-gen APM company*

- "It's not very hard to find, but if you go through the transcripts from [New Relic's] last earnings call, one analyst asks: 'Where are you going to get your revenue from, moving forward?' And the answer was, in a nutshell, that they are going to milk their customer base."

Observability Value

- "From conversations we're having both with prospect customers, but also industry analysts, including Gartner and Forrester, the key thing is more and more customers cannot NOT have part of their system not covered by observability. So they want to have all of their applications instrumented, because if you don't it's always the left out API to your pricing or something that's going to not work properly – and then you don't know what's working."
- "So, I think modern systems are required to have the entire portfolio of application instrumented to be observed, so you can make the right judgement and take the right action. So that's back to the continuity element; you do not want to have a volume-based pricing."

Observability Onsite vs. Cloud

- Did not discuss.

Observability Sales Growth

- "[Spend on observability] is somewhat linear. Obviously, there will be pricing strategies which include volume discounts and so on, to make it easier for the customer. But when you think about it, the value of observability is closely related, linear, to the business value."

- "This is where New Relic is going against any reasonable assumption that prospect customers and existing customers have. Why do I need to pay more to get the information that is required for me to observe and understand my system?"

Competition

- "Dynatrace is interesting because – whether you look at Gartner [reports] or whether you look at market size or market share etc. – they are the biggest APM provider, certainly the biggest second-generation APM provider."
- "Does [New Relic's new pricing] provide an opportunity for Dynatrace to get further in the traditional New Relic customer base? Probably. It's certainly something that we've seen – and we're a smaller player with more than 300 customers, next to Dynatrace which is the Goliath of the APM market and knowing that all the serious APM vendors are moving to observability, including us."
- "It's going to be very interesting to see whether Dynatrace will aggressively go after the New Relic customer base. We've certainly seen – just in the last couple of weeks – a higher proportion of existing New Relic customers logging demos or meetings with us."
- "And likewise, some of the existing net new [customer] opportunities – so where there's no incumbent, New Relic or otherwise – we are seeing people being confused."
- "I think AppDynamics, Dynatrace and certainly our company are very happy with this announcement [from New Relic about its pricing changes]. Because confusion always creates opportunity."
- "Keep in mind that Dynatrace price points are very much like AppDynamics – they are quite high. But they will manage to scoop elements of New Relic's customer base not wanting to bite the bullet."
- "Dynatrace, AppDynamics and [our company] will benefit from the confusion that New Relic is imposing on themselves – no doubt."
- "Keeping in mind that New Relic was more at the lower end of the [enterprise] spectrum, my gut feel would be [that New Relic deal sizes] would be anywhere from the $30,000 to $50,000 ARR [annual recurring revenue]."

3) Regional sales manager for strategic accounts with an observability company

The outlook for New Relic in this space is not a positive one. Its new pricing model seems like a move of desperation. Its platform is antiquated by today's standards as its performance has declined over the past few years. Considered monoliths today, pioneering vendors like New Relic and Dynatrace are disadvantaged by their investment in proprietary systems and premise-based solutions that were built before the wide adoption of cloud computing. In today's environment, purpose built, open source, cloud-friendly platforms are better positioned to accelerate growth and adoption of digital transformation. They hold an edge by simplifying the transformation process and lowering barriers to entry for their customers.

Background

- "An observability platform should be open, connected, and programmable."
- "New Relic does not bring anything new or unique to the table but may be a good acquisition for a tracing company like Instana."
- "New Relic will probably be taken over by a private equity firm for a 30% bump in stock."
- "Logging used to be used primarily for security, but it will go more macro. The IoT is making logging more critical."

Observability Pricing and Product Changes

- "New Relic's new pricing model is a desperate move. They have been around for more than a decade, but their performance has declined over the past few years. Its platform is antiquated so they are trying to tip the scales by offering New Relic One. It is a gateway price only."
- "Pricing models are irrelevant in the observability space. The leading companies never brag about their pricing. New Relic's new pricing is targeted toward observability-naive companies and other low hanging fruit."

> **New Relic's new pricing model is a desperate move. They have been around for more than a decade, but their performance has declined over the past few years. Its platform is antiquated so they are trying to tip the scales by offering New Relic One. It is a gateway price only.**
>
> *Regional sales manager for strategic accounts with an observability company*

Observability Value

- "In a monolithic application, everything is in the same place and the software agent watched all the functions of the shopping cart application as it was running. With the introduction of higher transaction platforms like eBay, the software could not keep up. With the introduction of Amazon and Microsoft Azure, distributed, cloud native infrastructure (like containers, Kubernetes, elastic cloud) is a component of the service.
- "Now that applications are easier to change, maintain, and expand upon, companies are able to update systems in five minutes versus months."

Observability Onsite vs. Cloud

- "On-site monolithic application monitoring is focused on latency and availability. It is not really considered observability, which is much more reactive."
- "Five years ago, only 10% was in the cloud. Today, the market is 60% on premise and 40% cloud. In 12 to 24 months, it will shift to 60% cloud, 40% on premise. Five years from now, it will be 80% to 90% cloud with the remaining on premise business resulting from regulatory requirements like HIPPA and PCI."

Observability Sales Growth

- "Open source observability is the big growth driver. Customers hate vendor lock-in due to the use of proprietary software. Many companies invested an enormous amount of time and money in SAP and now feel completely controlled by it. Open Telemetry is the most popular platform. Splunk is entirely bought in."
- "Observability spend is based on the volume of applications a company implements, not on an increase in workload/volume."

Competition

- "According to Gartner, Splunk and Datadog are considered Visionaries, whereas, Dynatrace, AppDynamics, New Relic and Broadcom are classified as Leaders."
- "Splunk owns the logging market. Logs are heavy so they are slow. Because they require so much space, they are also expensive. Unlike New Relic and Dynatrace, both of which were designed for monolithic applications, Splunk offers more comprehensive service."
- "Splunk's message to customers is: *Mr. Customer, why are you using different companies for tracing, logging, and metrics, when you could have only one throat to choke with Splunk*?"
- "Splunk wants to become a data platform company."
- "Competitors like SignalFx and Datadog started as metrics solutions but branched out into the tracing space."
- "New Relic was a SaaS before leading consumer model companies like ServiceNow existed. But ServiceNow evolved and New Relic did not. Designed for the old monolithic applications, New Relic maintains their own data center and has a stagnant server model database with updates only four times a year."
- "Dynatrace is probably the best prepared legacy provider in this space. If they cannot utilize their existing platform, they will build a new platform in the cloud. They also do a good job of communicating the benefits of their synthetic transactions which creates constant test flights to ensure applications are working with rush hour hits. It is a great story, but not as effective as real time."
- "APM tools like Wiley disrupted monitoring by offering bidirectional (up/down) monitoring. The founder of Wiley also founded New Relic. New Relic was designed for BI code instrumentation which was once the most common approach to APM. Newer software 'agents' identify the type of code running to efficiently analyze traces throughout the environment."
- "Monolithic companies like Datadog and Dynatrace are running into trouble. In the case of New Relic, they put an agent on every server, but they are still unable to keep up with every transaction."
- "Cisco acquired AppDynamics and now has a monitoring position."

4) Regional sales manager for strategic accounts with an observability company

The observability space is usage-based and pricing models are fundamentally the same across the industry. No company can avoid the high costs associated with storing and analyzing Petabytes of data in continuous workflow environments. Most pricing models, whether based on a per user or per node basis result in little to no difference on a customer bill. The ideal scenario is to optimize and streamline cloud data as efficiently as possible. Elastic offers opportunities for companies to manage their data more efficiently on a capacity-based model. Open source applications and the explosion of machine data drive the demand for Artificial Intelligence (AI) and machine learning. This makes Observability a

necessity for any data driven company to thrive in a digital economy. The greatest obstacle to growth is the skills gap between customers and the complexity of deliverables offered by providers. Getting customers up to speed is the bottleneck in Observability. This is a fluid space so agility and innovation will continue to drive market share.

Background

- "Most observability customers are trying to get away from ingest pricing models like that of Splunk."
- "Elastic offers all Observability features: Logging, Metrics, Tracing and Monitoring with a focus on capacity by replacing the older and less important logs with newer ones."
- "Open source applications and the explosion of machine data has become very challenging for the IT professionals which has increased the popularity of machine learning."
- "Real-time streaming is critical to technology and software companies. But for a plastics company, it might not be so important. The utility depends on cases, data sources, and what is being monitored."

Observability Pricing and Product Changes

- "Observability pricing is a bit of a shell game. Some customers have seen their costs increase by as much as 40% while others have seen spending decreases over time."
- "Elastic pricing is the fairest model because it is based on capacity."

Observability Value

- "The greatest challenge to growth is the customer skill set gap which limits the value they get from Observability."

Observability Onsite vs. Cloud

- "Five years ago, Elastic was 100% on premise. Today, the split is 50% cloud, 50% on premise. In five years, it will be 80% cloud, but 20% will remain on premise for customers in information sensitive areas like government and healthcare."

Observability Sales Growth

- "Observability spend is not necessarily proportional to workload/volume. Spending increases from generating more logs."

> **Observability pricing is a bit of a shell game. Some customers have seen their costs increase by as much as 40% while others have seen spending decreases over time.**
>
> *Regional sales manager for strategic accounts with an observability company*

Competition

- "Splunk was the market leader, but they are quickly becoming a legacy brand because they focus on logging."
- "Elastic, Confluent, and Datadog are growing and are effectively able to scale and increase data speed."
- "Datadog is likely to be the market leader in three years but an unknown company today can easily be the market leader in five years."
- "Dynatrace and New Relic are weighted toward APM rather than true observability. They may be feature-rich, but most customers are only using 20% of the available features."

5) Observability sales executive focused on federal government accounts

Observability companies change their pricing models daily in this market. However, price is not the driving force in in this industry. Customers are more concerned about gaining and maintaining market share through meaningful ROI. There is no need for systematic pricing changes to bolster growth. Value is achieved by fitting the right solutions with business problems. This industry is hot and gaining momentum through cloud access. It is impossible to predict who will be on top in five years due to the changing landscape. Every company in this industry is likely to be a winner.

Background

- "Observability has been around for 20 years, but it was cumbersome. Now it is accomplished in real time through dashboards making it more accessible"'
- "Companies including New Relic, Datadog and others use open source platforms and can pull data from any machine, device, or software including Windows, Linux, and hundreds of security products. Python is commonly used with Splunk and very popular with millennials."
- "None of the observability companies are profitable yet. Growth will make the model profitable, but the question is whether companies will acquire or build out to achieve it."
- "Logging is becoming more common."

- "The market for real-time streaming has been hot for eight years. We analyze in real time and provide that information to the customer."

Observability Pricing and Product Changes

- "How these services are priced is irrelevant; it is the real return that is meaningful to the customer. Promoted price models have nothing to do with anything."
- "It is the consultative sales process that makes the pricing and value work for the customer. There is no need for systematic price changes. The current pricing model is perfect as it is."
- "This market space is hot and pricing models change daily. We have five to ten pricing models at any given time, and they are all different from what we offered four to six months ago. Our competitors are doing the same thing [daily ingest, cloud ingest, vCPU, workload pricing, unlimited use pricing, etc.]. New Relic probably has a combination of the same models."
- "I would not be concerned about pricing models. You should be concerned about the cloud providers getting into this space either by developing their own platform (i.e. Google Analytics) or acquiring companies who have solutions."

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Observability sales executive focused on federal government accounts

Observability Value

- "Porsche is using Splunk's SignalFx observability tools worldwide to monitor use of the company's charging stations for their electric car model. Porsche plans to deploy 500 charging stations in North America."
- "The real value is the ability to help customers make decisions and increase revenue."
- "When COVID hit, the VA medical system had to quickly convert to telehealth, but their systems could not handle the demand and it fell apart. When they implemented Splunk, they improved uptime by 300% by monitoring workload, calls per day, and length of calls. VA was a small, niche account for Splunk prior to the epidemic which grew exponentially based on their new challenges and needs."
- "Smart cities know everything about their residents. That kind of information can be extremely valuable on many levels."

Observability Onsite vs. Cloud

- "Cloud based services are in high demand. It brings customers onboard very quickly and allows for simple management from a computer. Customers no longer need many resources to implement observability."
- "The majority of Splunk customers are cloud only now. Five years ago, it was less than 10% cloud based."

Observability Sales Growth

- "As companies realize how much they can profit from effective observability, growth will accelerate. If a company like Walmart fully embraces these technologies, they could easily surpass the success of Amazon."
- "This is similar to when the firewall market took off, and the web filtering market took off, and when the IDS market took off. Typically, all vendors win, and it is hard to pick a winner."

Competition

- "Datadog, New Relic, Dynatrace, and Splunk are all strong competitors in the space, but most good data analytics companies offer their own versions of observability."
- "Each company has their specific advantages. Elastic executes very fast data analysis on certain data sets. Dynatrace specializes in Malware. They all bring something unique to the market and many customers use multiple brands."
- "The faster applications get to the cloud, the more competitive observability companies will be."

4) Observability Customers

New Relic's new pricing is not expected to significantly impact Dynatrace or the observability market, according to four Dynatrace users. However, two New Relic users said the new pricing could drive increased use of its products and help it gain share from Datadog and Dynatrace. Dynatrace users said function and service drive decision making in the APM and observability market vs. pricing. Sources' on premises vs. cloud usage of observability varied from mostly on-prem for a financial institution to 100% in the cloud for an education related company. Expanded use of the cloud is the clear trend as source predicted 70% to 100% cloud usage in five years. Real-time monitoring, logging, and AI are also key trends being addressed by APM and observability vendors. The observability market is growing, and companies increase their spend as their IT infrastructure expands or new APM or observability functions are added. There is some correlation between a company's increased workload and observability, but only if it requires the company to expand its IT infrastructure. One source said the observability market is becoming more competitive and customers use multiple vendors to meet their needs. Elastic's ELK, Splunk, Prometheus, Amazon's CloudWatch, BMC Software Inc.'s BMC Patrol Agent, Turbonomic and keptn were all discussed as tools used by some of these sources.

Key Silo Findings

Background

- 3 use Dynatrace.
- 1 uses Dynatrace and New Relic
- 2 use New Relic

Observability Pricing and Product Changes

- 4 Dynatrace users do not expect New Relic's new product and pricing to significantly impact Dynatrace or the observability market.
- 2 New Relic users think the new product and new pricing will drive increased sales and share gains from Datadog and Dynatrace.

Observability Value

- Observability value is difficult to calculate, however, eliminating outages is a key measure.

Observability Onsite vs. Cloud

- Sources' on-prem vs. cloud usage was mixed but trending toward expanded uses of the cloud.
  - 1 said five years ago they were 100% on-prem and now they are 100% cloud.
  - 1 said their bank is mostly on-prem, but in five years they expect to be 70% cloud.
  - 2 said they are 50/50 and in five years they will be mostly cloud.
  - 1 said they are 60% on-prem 40% cloud and in five years they will be 100% cloud.

Observability Sales Growth

- Sources said the observability market is growing.
- Observability spend will increase for a company as its IT infrastructure grows. There is some correlation between a company's increased workload and increased observability spend, but only if it needs to add to its IT infrastructure.

Competition

- The market is highly competitive, and many companies use multiple vendors to meet their APM and observability needs.
- Sources discussed using Elastic's ELK, Splunk, Prometheus, Amazon's CloudWatch, BMC Patrol Agent, Turbonomic and keptn in addition to Dynatrace or New Relic.

1) IT executive with education company using Dynatrace and Splunk

Although this IT executive has not examined New Relic's new offer first-hand, based on the description, he does not think its new pricing model will affect Dynatrace and the rest of the industry. The per user and gigabyte cost would add up quickly to be more expensive than Dynatrace for his usage. He switched to Dynatrace from New Relic's old product three years ago because Dynatrace offered a robust product built from the ground up for cloud and also features robust dashboarding capabilities. He considers Dynatrace the gold standard of the industry. Spending on Dynatrace would increase if the infrastructure had to be expanded because of considerable business growth. The current infrastructure – and spending on Dynatrace as part of that – is, however, designed to handle growth. ROI with observability products is

easy to attain because, for example, they help avoid outages, which can be costly. This company was 100% on-prem five years ago but moved to cloud-only as of two years ago.

Background

- "We have been using Dynatrace for just over three years. Before that, we used New Relic."
- "We have also been using Splunk for about ten years. We are using Splunk just for log monitoring."
- "Logging is growing in use. As I phase out Splunk, Dynatrace will eventually assume that role as well. Dynatrace's log monitoring is just a different type of interface. For now, we continue to use Splunk because our older developers prefer it."

Observability Pricing and Product Changes

- "[Trending] AI is changing the way we report and act on observability. Companies like Dynatrace are taking observability to a whole new level."
- "I have many departments using Dynatrace for different things. Software Development uses it to identify code bottlenecks. Operations uses it to identify customer cart abandons to try and salvage the sale. Sales uses Dynatrace to track progress and the executives use it to track growth as well as Appdex ratings."
- "I have heard about [New Relic One] but have not yet looked into it. It appears they are trying to mimic the Dynatrace One model."
- "Dynatrace already was the disruptor and they turned the industry upside down. Now other companies like New Relic and AppDynamics are all playing catchup and trying to match Dynatrace's formula to success. As with anything else, when you have a leader, people will try to copy them."
- "As a former customer of New Relic, it is their old product that drove me to Dynatrace."
- "New Relic is a major player. Our biggest complaint was from our own IT staff. It was too hard to maintain. It was a full-time job to keep it running. Also, New Relic's dashboarding capabilities were very limited. Dynatrace's dashboarding capabilities are extremely robust. That was the first thing that drove the nail in New Relic's coffin."
- "I haven't seen New Relic's new product, but I understand they're imitating the Dynatrace model. I don't know if it's a restructured version of their old technology but Dynatrace definitely rebuilt from the ground up for cloud. They did not remake their old product. They created a brand new product designed for the cloud."
- "[Although I haven't seen it] if New Relic is pricing their new product by the user [based on the description you read to me], that wouldn't work for us. My goal is to have as many users as possible, other departments that I grant access to. That's how I get my ROI. If I have other departments using it, they can appropriate some of the cost. In terms of their gigabyte costs [based on what you read to me], that could add up fairly quickly. However, I'd have to do the analysis. With my current Dynatrace model, it doesn't matter how many users I have. It does depend though on how they define users."

Observability Value

- "Any company that makes their pricing too complex will not last. Dynatrace offers one price for everything and I believe New Relic is now doing the same thing. We need it all, so price accordingly. Modeling these products after consumer in-app purchase models will not work."
- "The ROI for me was easy to attain. Avoid one outage and you've paid for the product."

Observability Onsite vs. Cloud

- "As of two years ago we are cloud only. I started with Dynatrace when we were prem. Dynatrace was pivotal in helping us in our move to the cloud."
- "Five years ago, we were 100% on-prem."

Observability Sales Growth

- "The number of users doesn't increase our spend [with Dynatrace]. What does increase the spend is the growth of the installation and my own infrastructure as we add systems [because of growing business demand]. That will increase the number of nodes and that increases my spend with Dynatrace."
- "[If workload grows 10%, it would] not necessarily [lead observability spend to grow]. The spend would grow only if I have to add additional containers."
- "I have the ability to handle business growth in my existing systems. At some time, I'm going to reach a point where I'm going to need to add systems to compensate for the additional users. For example, if I were to increase the load

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IT executive with education company using Dynatrace and Splunk

by 10%, I have enough infrastructure to cover that. The infrastructure expense would not go up and the spending for Dynatrace would not go up. The cost of Dynatrace is part of our production infrastructure overall cost."

- "The growth in spending does not correlate to growth in revenue percentage. The existing systems can still drive revenue growth."
- "As an example, if we had 5,000 more customers this month, that's not a problem and we could handle it. If, however, we had 100,000 more customers, I would have to look at the infrastructure to see if I can handle that much additional traffic, and if not, what I need to add to my systems to do so. Anything that I add to the system infrastructure increases the cost of Dynatrace."
- "The only other additional spend on Dynatrace would be new services that we are not offering at this time, for example a new offering that would require dedicated systems. That would increase the infrastructure cost of which Dynatrace is a part."

Competition

- "From my perspective, Dynatrace is the gold standard in this space."
- "Turbonomic is another company that is innovative in the space. It's a compliment to companies like Dynatrace and New Relic. It optimizes the cloud system so it's not wasting resources. It analyzes and makes adjustments. It's designed for cost savings. It helps for companies that are not on Kubernetes, which we are moving to. Kubernetes, which is like an orchestration, does all that natively."

2) Application manager at a European bank, Dynatrace customer

He has not seen a full presentation of New Relic's new pricing model but says that the functionalities that the different APM tools offer are even more important than price. Even as COVID has made companies more sensitive to how much they spend, this source would not switch to New Relic for lower pricing alone. The hardest part for any observability or APM tool is gaining entry into a company. From there, they grow because IT departments easily see how important they are in solving problems. That was the case when this company started using Dynatrace about seven year ago. They are now using Dynatrace on five times as many servers as initially, although the cost at first seemed prohibitive. Dynatrace also lowered its pricing in the meantime. Software vendors also grow their sales within a company because they are constantly adding new features to their packages that companies find compelling. This company looked at different tools a few years ago and found that there were only a few differences between Dynatrace and New Relic. The main difference was that New Relic did not perform root cause analysis as well as Dynatrace but there was no price difference. He does not consider logging, for which he uses ELK, an important area of growth. Real-time monitoring however, for which he uses Dynatrace, is an important area and continues to develop. This company currently uses Dynatrace mostly on premise but hopes to be about 70% on cloud in five years.

Background

- "We use Dynatrace as our main performance monitoring tool. Along with it, we also use other monitoring tools such as BMC Patrol Agent for server monitoring. It's not performance specific but in a way they overlap. We also use ELK as a product and within that we use metrics that we're trying to integrate with Dynatrace. In ELK, we have a lot of freedom to implement our own needs."
- "We have been using Dynatrace for about seven years."
- "We do log monitoring and analytics in ELK. We don't use Dynatrace for logging. I don't think log monitoring is going to grow for us in the coming years. We do logging in a lot of different areas and it's Insights that are important in that area."
- "Real-time monitoring is very important for us and it will be growing in importance. Once your company reaches a certain size, you need to have real-time monitoring to see what's going on and see where there are problems, such as delays. Even more important, it's useful to see where there isn't a problem yet, to see problems that are coming. You can warn customers upfront that even though you have the functionality, it's not working right now. That goes a long way towards good customer relations. The opposite is not warning them and when they encounter problems, you can lose them as customers."
- "We mostly do our real-time monitoring with Dynatrace. The other systems, however, also have real-time monitoring functionalities."

- "In the future, real-time monitoring will become even more important. We will be adding another layer, auto remediation, on top of real-time metrics. Auto remediation takes it further so you're not just warning about a problem but fixing it. Dynatrace has that functionality in a limited way but they need to develop it further."

Observability Pricing and Product Changes

- "One of the major trends is auto remediation It means acting immediately on issues. I think Dynatrace will be expanding this in coming years."
- "We are also working on aligning the development pipeline with operations. There remains a separation and we need to integrate them more. There are very useful products for that. We are currently trying keptn, which integrates well with both the development pipeline and operations."
- "I've heard of [New Relic's new product] but haven't seen it yet. They will be coming to give me a demonstration."
- "IT is important to all companies today and COVID has made it even more important. COVID has also made cost even more important than before. The coronavirus has made it more important to watch the pricing of the tools that we use."
- "Even more important, though, than pricing is what the product is offering."
- "That means we wouldn't switch over from Dynatrace to New Relic just for the price. If the new functionalities of New Relic One are disruptive and amazing, we are willing to take a look to see if it's comparable or better. If it's the same, we would compare prices. If the product is better, price would not have the biggest impact. If New Relic can solve our use cases for a lower price, then we would be happy to migrate."
- "Functionality is what is most important."
- "We compared various performance monitoring tools a couple of years ago. At that time, New Relic and Dynatrace were not that far apart. The difference was in smaller details. New Relic did not have root cause analysis [RCA]. Dynatrace guides you to the root cause when you have issues or even multiple issues. That was important for us. Another difference was in sampling."

Observability Value

- "In terms of pricing, Dynatrace is quite expensive. When we compared various products, Dynatrace and New Relic were at the same level."
- "It's hard to calculate [ROI]. The time it takes to solve an incident, and the time gained in not having to do it should be important in that calculation. Knowledge about the application is also important. It gives you insights on where you can improve. That's also hard to calculate. We don't have clear numbers of cost vs. gains, but cost numbers are clear, and we estimate the gains. However, the gains from the insights from the applications are not really calculable."

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Application manager at a European bank, Dynatrace customer

Observability Onsite vs. Cloud

- "Currently we are still working on premise with our APM solution – Dynatrace, BMC, and ELK are all on premise. We are looking to migrate to cloud but it's not easy because of financial regulations about data. Our preferred option would be cloud but we're not there yet."
- "In five years, we hope that our APM usage will be on cloud for a large part, I'm guessing about 70%, of our systems."

Observability Sales Growth

- "The hardest part for the vendors is getting into a company. In our case, about seven years ago, we knew we had a problem and we couldn't find it. We looked at different options and we were happy when Dynatrace was able to give us the insights we needed. The price was, however, too high to implement their solution company-wide. Since then, Dynatrace lowered their price. At the same time, we could see that they were able to solve problems. We opted to use them for our customer-facing applications. Currently, we are using Dynatrace for five times more servers than initially. The reason is because they repeatedly demonstrate they can solve problems. Departments see it happening at other departments. [Dynatrace] doesn't have to sell it inside the company anymore. It sells itself. I think it's the same for New Relic."
- "At the same time, all the tools, including Dynatrace, New Relic, ELK, and BMC are adding new functionalities with each release. They don't charge for the new functionalities. They are so compelling that companies are happy to use them and add more servers to their monitoring. They don't have to sell anything. Using them gives you peace of mind. That's how they grow."

Competition

- Did not discuss.

3) IT executive at a tourism company, Dynatrace user

Ultimately, New Relic's success with its new product and pricing will come down to the level of service it provides. This is also how it will have to increase its sales. He does not consider it disruptive because it resembles offerings by AWS, which are also based on data. The old way of pricing can become exorbitant to customers as IT becomes increasingly more scalable. Quality of service will differentiate companies like New Relic and Dynatrace from open source software that can be used instead, but which requires more in-house work. The major trend in APM is providing more capabilities in microservices and moving away from deep analysis to more of a landscape type of monitoring. ROI is mostly determined by looking at the outages avoided vs. the speed of diagnoses with the tool. The company's current APM usage is 50/50 cloud/on-prem but they expect to be just about fully on cloud five years from now.

Background

- "We use Dynatrace primarily. We've been using it for over five years."
- "I've used some open source software in the past like Prometheus. It's a really a solid tool. It's an example of a good open source product."
- "We use CloudWatch for logging. They provide extensive logging capabilities. It has everything we need. I think Dynatrace has a good logging tool, but we are good with CloudWatch."

Observability Pricing and Product Changes

- "The major trend in APM and observability is providing more and more capabilities in microservices. When I first started using APM, it was mostly monolithic. There was a large demand for deep analysis in APM. Now the industry standard of how you deploy and build applications has moved rapidly towards microservices and SaaS in cloud infrastructure. The product line has changed for this new requirement. There's a lot of open source software that fills those requirements and for example AWS provides SaaS services that provide some monitoring capabilities. It's a major change."
- "This means the trend is for a more competitive environment for APM tools, and that is making them modernize rapidly. An example is dynamics in Dynatrace which provides a capability for microservice deployments which are no longer calling for low-level analysis but rather landscape analysis. They're looking at which services are up and which are down."
- "All the other trends follow in those steps. Tools now are looking more at the landscape, monitoring hundreds of microservices. It's about moving services from low level to high level. That is driving change."
- "I haven't followed New Relic's new product. [Based on the description you read], I can see where they're coming from. It's a challenging time for licensing software. The old model doesn't work well anymore when you have scalable environments. It's no longer relevant and can be exorbitant for the customer. New Relic's model sounds similar to AWS, where it's all about the data transactions. Depending on how much data you purchase, you end up in different tiers and that's what you're charged for."
- "I don't think New Relic's new pricing is that disruptive. AWS has been disruptive but now the whole way of pricing infrastructure and services is changing. Before you had to buy it and then it would depreciate. This kind of pricing falls in line with an established trend."
- "As far as Dynatrace, I feel their pricing is reasonable for the product that you get."

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>
> *IT executive at a tourism company, Dynatrace user*

Observability Value

- "For ROI, we mostly look at the cost of outages. There is also the duration of diagnosis. You realize that when you have a tool, you are quickly able to diagnose the issue compared to when you don't have a tool, and how much less staff you need for it."

Observability Onsite vs. Cloud
- "Our APM and observability usage is 50/50 on premise/cloud."
- "It has evolved tremendously compared to five years ago."
- "Our goal is to continue moving to cloud. Five years from now I expect that we will be mostly on cloud."

Observability Sales Growth
- "Sales growth for New Relic [and other vendors], at the end of the day, comes down to the quality of service they provide."
- "It's no longer the case that if you get a customer that it guarantees they won't move on. It's all taking place in the cloud and it's not like purchasing a piece of equipment. This is especially so for more agile organizations. A lean procurement process could start looking at alternative open source software or choose software that they can adapt to what they need. That's why it comes down to offering a high-quality experience, sleek, agile, and providing a lot of value."

Competition
- "Providing quality service is also where New Relic and Dynatrace can differentiate vs. open source services that require more in-house work and development."

4) Vice president of information technology for a large cruise line using both New Relic and Dynatrace

Pricing alone in the observability industry is relatively irrelevant. The observability space is growing and will continue to grow at the current rate into the foreseeable future. With the proliferation of mobile devices and AI, every industry can capitalize on real-time problem resolution. Choosing the right solutions and the right vendor is a pain-staking process because every company and every salesperson brings a unique value to the table. This industry is very dynamic and changing rapidly. Until this industry becomes commoditized, if ever, value is realized only on a case by case basis.

Background
- "Real-time processing is essential to the success of observability. Incorporating AI gives the staff advanced warning ensuring minimal downtime and operational cost."

Observability Pricing and Product Changes
- "I do not believe that pricing changes by New Relic or Dynatrace will impact the industry because we evaluate vendors on their ability to solve specific business problems."
- "I do not focus on the pricing details when evaluating observability vendors. It comes down to the specific problems they solve. If it was a commoditized industry, I would pay more attention to pricing details."

Observability Value
- "A large cruise line can lose up to $15,000 for every minute of down time. With real-time monitoring, observability applications limit our downtime, resulting in substantial ROI."

Observability Onsite vs. Cloud
- "I prefer onsite monitoring. Cloud to cloud makes more sense if the application is in the cloud. It also depends on what you're monitoring."
- "The big three cruise lines run 50% of their production environment on premise versus in the cloud. We ran 100% on premise five years ago and I expect it to be 80% to 90% in the cloud five years from now."

Observability Sales Growth
- "With the proliferation of mobile apps and the IoT, I expect observability to continue its strong growth in the foreseeable future."
- "If our workload increases from 10,000 transactions per hour to 20,000 per hour, observability consumption increases proportionately."

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>
> *Vice president of information technology for a large cruise line using both New Relic and Dynatrace*

Competition
- "We use New Relic and Dynatrace. Each serves a niche in our production environment, Dynatrace for infrastructure, and New Relic for applications. Although we used New Relic to spy on infrastructure, I would not say one is better than the other. They each bring something of value to the table."

5) Technology executive who recently left a technology/entertainment company using New Relic

New Relic's new pricing model could be disruptive enough to help it reach wider adoption and gain share from vendors like Datadog and even Dynatrace. This executive says New Relic is an excellent product, but its classic pricing model was not adapted to companies like his with many servers. For some management tasks, his company used Datadog which was less costly. Under the old model, spend on New Relic would not increase in line with workload increase because the licensing agreement was based on the number of servers that were observed, not on workload. ROI is easy to attain. A decrease in the number of tickets is one way to measure it. His company's use of New Relic's observability solution was on cloud from the beginning. The logging space would be an important focus for New Relic.

Background

- "We used New Relic. But New Relic can be cost prohibitive, so we also used Datadog for performance management for some of our venues."
- "We selected New Relic a little less than six years ago because they were the predominant player in the space at that time. We had limited resources in terms of people, so we needed something that was easy and turnkey. New Relic fit that bill."
- "We recently started phasing in log management with a more homegrown solution through AWS. Log management has become more and more important as the company grows. It's important to look at the logs for troubleshooting for software bugs. New Relic's logging capabilities weren't as robust as we needed. Also, we wanted to capture unstructured data that wasn't part of New Relic data."
- "We used New Relic for monitoring venues in real time, with dashboards in the home office to view potential issues. The Applications Team was also using it as a research tool to troubleshoot areas of the application that were underperforming. And management did a weekly review of the trend data to make sure we weren't slowly creeping into bad performance. Over time, our databases needed more care and feeding. New Relic helped us identify that."
- "We got a lot of value out of what we invested in New Relic."
- "New Relic talked to us about their new product as they were developing it, but I left before they rolled it out."
- "With Datadog, we had to do a lot of development work to get it to work, plus managing and maintaining it. If New Relic comes down in pricing and becomes more affordable for wider use, that would be a good thing for New Relic."
- "People would definitely use them more. Talking to others, pricing was the main objection I would hear about New Relic. New Relic is the Cadillac of APM solutions and with that comes the Cadillac price. My impression was that their new solution offers a little less in terms of features but is easier on pricing."
- "I was not there for the analysis about how it would affect our bill. We would want our New Relic spend to come down and not increase incrementally. A major part would be to examine how using New Relic in the venues where we use Datadog would affect the cost. If we decided to switch to New Relic, that could have been an incremental increase of our New Relic spend vs. our Datadog spend."

> From what I've heard, the new product and the new pricing model could be disruptive. The pricing especially is appealing. We had a lot of servers and systems, and we were paying a lot. The cost was an issue to add other platforms. We were hoping to reduce that cost and still get some of that same functionality. That would be a game changer.
>
> *Technology executive who recently left a technology/entertainment company using New Relic*

Observability Pricing and Product Changes

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- "New Relic seems to be on top of the trends with application development. As we started to move into AWS, they were also getting into AWS."
- "The main trend for us was pulling all the data into a single dashboard."
- "The key for us was the single dashboard for observability and having all the data in one place."
- "New Relic has an infrastructure tool that we were also using, but we had a lot of Windows boxes and New Relic wasn't as robust in the Windows environment, so they were using other tools for the Windows environment."

Observability Value

- "Pricing was an issue with New Relic's old traditional licensing. We went through big negotiations with them a little over two years ago to get more of an all-you-can-eat type of licensing. That helped but they were still very expensive. There wasn't a lot of flexibility. As multi-unit operators, we don't run many transactions through each server but because it was server-based pricing, it was very expensive. The licensing didn't fit our business model well. It wasn't easy to get that budget approved for us."
- "Datadog is not as expensive but it is not as out-of-the box as New Relic. You have to invest more development time and focus on more resources for hosting it."
- "ROI for us was tremendous because we were in a growth mode and bringing in New Relic allowed us to focus on software and prepare to open multiple venues. We couldn't have gotten our huge level of growth and kept the help desk the same without a tool like New Relic to help us observe and keep track of what was going on and improve the quality of the software."
- "One of the [ROI] measurements is the number of tickets to the help desk for software issues. It started dropping even as we were adding new venues. It meant more uptime."

Observability Onsite vs. Cloud

- "We have both cloud and on premise."
- "Our New Relic observability solution was all on cloud."
- "We started with them on cloud. It was one of New Relic's selling points. We never had an on-prem New Relic installation."

Observability Sales Growth

- "[If our workload grows by 10%], our observability spend would not increase, per our licensing contract. The contract was not based on workload but on servers observed."

Competition

- "I do think the new product configuration will get them into more conversations. I think they can get into more markets and steal market share from vendors like Datadog, and even Dynatrace. They can also take from homegrown solutions."
- "New Relic's biggest weakness is in the logging space, so they really need to focus on that."

6) IT architect for a telematics company using New Relic

New Relic's new pricing model will drive more revenue growth for them with this customer because the new more data-centric approach will make it more appealing to use New Relic for new functionalities, such as logging. This compares to previously having to purchase each individual product they wanted to use separately. However, in this time of COVID and budget restrictions, spending will still have to be evaluated so increases will not be significant. The company currently uses a free version of ELK for logging. The company has been told that the new pricing model will possibly lower its current bill or at least not change it. One of the most important trends at the moment is the monitoring of managed services in the cloud. The company is currently about 60% on premise and expects to be fully on cloud in five years. Five years ago, it was over 90% on premise.

Background

- "I brought in New Relic about one and a half years ago for their APM. It replaced open source services from Prometheus, Datadog, AppDynamics – various products that had been brought in to do infrastructure-related monitoring but weren't helping us with application performance monitoring."
- "For logging, we use a free version of ELK, not the paid Elasticsearch version."
- "Real-time processing of IoT data is something very important to us and it will continue to be important. We use New Relic for that."

Observability Pricing and Product Changes

- "The most important trend for us is the cloud. We are moving out of our data centers and into the cloud. So, we need to have more visibility on using application performance or infrastructure monitoring for cloud-based infrastructure, like some of the managed services in the cloud. We run Kubernetes, a container orchestration service. There's a managed version that runs in AWS. There's also managed versions of stream processing like Kafka Stream. We are also looking to move some of our things over to Lambda serverless functions running in the cloud in containers

managed by AWS. We would want to get good monitoring on all those things, related to costing. AWS has a trusted advisor where you can look at cost, billing, and set budgets."

- "New Relic does some monitoring of managed services in the cloud as well. We're not using those functionalities, though."
- "With New Relic, we originally purchased a license for infrastructure and APM. Since then, they've switched over to New Relic One. In the old system, we had to buy a certain number of compute units for each product we purchased. Since the switch, somebody else at the company has taken over the pricing negotiations."
- "New Relic has told me their new direction was to move to a data-centric platform with a new pricing. The rep said the pricing for us would stay the same or possibly become less."
- "New Relic's new product is a bit unique and disruptive. They're branching out to ingest all of the data. They help you easily correlate all the data together from different sources. It pulls it all in and then works to make sense of it."

Observability Value

- "Pricing is not that complex. The hardest part is trying to figure out how much you need. You're signing a deal for the number of compute units you're going to use. Because we were building new systems, it was difficult to figure out what we needed. New Relic's new pricing is supposed to simplify that but I haven't seen enough details about it to be sure."
- "We use these tools to track down issues and root cause analysis for an issue. Without the tools, after an issue is reported to our Support department, it goes to the Operations department, and then to the Engineering team. They have to request logs and access to certain environments. We keep track of all of those things in our system. ROI would then be based on looking at tiers of issues –the number of high, medium, and low severity issues, how many people and how long it took to resolve the issue vs. how quickly we were able to solve the problem with the tool. The tool is also valuable if we find the problem before the customer told us about the issue. If we see something slowing down in the system, we can react to it before something happens and the customer has to call support."

Observability Onsite vs. Cloud

- "We are about 60% on premise and 40% on cloud."
- "Five years ago, we were over 90% on premise."
- "Five years from now, we want to be completely out of our data centers."

Observability Sales Growth

- "Originally, we bought the APM solution. We also got Infrastructure Monitoring and Monitoring for Mobile-based and Web-based applications. We also got Insights. These are all separate products. We were using something else for centralized logging but now they have a solution for that. New Relic's plan is to build their platform to ingest as much data from web-based or mobile-based applications, logs, or cloud infrastructure into their platform, and help you line it up, correlate it, and run reports."
- "With the new model, we will definitely end up using them more. Especially if we go with their solution for ingesting the log. [The New Relic rep] said they were not thinking about individual products anymore. It's very likely that we'll end up using New Relic more."
- "However, we still have a budget we have to respect. For example, if we wanted to move our logging over, we would still have to estimate whether it blows our monitoring budget out of the water. That, too, will dictate what we can use. In other words, we have to figure out what we would use and fit it in within our budget. If it doesn't fit, we won't do it. With the pandemic, like many other companies we have tightened our budgets [so any increase wouldn't be dramatic]."

New Relic's new product is a bit unique and disruptive. They're branching out to ingest all of the data. They help you easily correlate all the data together from different sources. It pulls it all in and then works to make sense of it.

IT architect for a telematics company using New Relic

Competition

- "I used to work with Dynatrace at another job. It was primarily for application performance monitoring. At the time, the licensing was quite costly to run in our production environment. We couldn't justify doing it so we had an instance that we would move around onto different machines within an environment and get a sample size. We had to manually move it to different environments. That was about six years so I'm sure Dynatrace has changed, too, since then."

Secondary Sources

These three secondary sources focused on new industry partnerships for Dynatrace and New Relic and a review of New Relic One.

Aug. 26 The AI Journal article

Dynatrace's software intelligence platform now supports all services Amazon Web Services.

- "Software intelligence provider Dynatrace today announced in a company press release the extension of its software intelligence platform to support all services from Amazon Web Services (AWS). This will enable the software intelligence provider to publish metrics to Amazon CloudWatch, a fully managed AWS service that provides monitoring and observability of AWS resources and applications on AWS and on-premises environments."
- "The software intelligence provider explained that by combining Amazon CloudWatch metrics with the data already captured by its Dynatrace® platform will provide its customers with richer context and more precise answers for their dynamic AWS and hybrid-cloud environments. The goal behind the extension to its software intelligence platform is to help its customers drive faster cloud adoption and accelerate its digital transformation."
- "Digital transformation initiatives have become increasingly popular since the outbreak of COVID-19 with companies quickly switching to remote working and consumers moving over to an increasingly digital economy."
- "The software intelligence provider claims that with these enhancements it will be able to automatically identify and collect metrics from the 95 AWS services currently supported by Amazon CloudWatch. This will supposedly enrich Dynatrace's AI-powered answers with the latest services at hand to use from AWS, including Amazon MSK, Amazon Route 53, Amazon Sagemaker, Amazon Neptune, and Amazon MQ."

Aug. 10 APM digest article

Grafana Labs a popular open source dashboarding platform and New Relic partner to promote better cross-functionality for their joint customers.

- "New Relic and Grafana Labs, a popular open source dashboarding platform, announced an ongoing partnership to drive advanced open instrumentation and visibility for developers and software teams."
- "The companies delivered new integrations designed to empower engineering teams to solve problems even faster."
- "Available now, Prometheus users can use the Prometheus remote write capability to send metric data directly to New Relic's Telemetry Data Platform with a single configuration change. Additionally, Grafana open source users can now add the Telemetry Data Platform as a Grafana data source using Grafana's native Prometheus data source. This enables teams to enjoy New Relic's up-to 13 months of retention for their Prometheus metrics while continuing to use their existing Grafana dashboards and alerts. With New Relic's new PromQL-style syntax, Prometheus users no longer need to learn a new query language."
- "Additionally, Grafana Enterprise customers using Grafana's New Relic data source plugin will enjoy updates designed to support New Relic's latest NRQL capabilities. The plugin enables users to query any data stored in the Telemetry Data Platform using New Relic's native query language to build dashboards in Grafana Enterprise. As part of the collaboration, paid New Relic customers will enjoy a free trial of Grafana Enterprise for 30 days."
- "New Relic and Grafana Labs have committed to driving better cross-functionality between the two companies, so joint customers can benefit from using New Relic and Grafana together."

Aug. 6 Forbes article

A review of New Relic One by senior contributor Janakiram MSV indicates that New Relic has moved beyond APM and is now a modern observability platform that will impact the overall observability market.

- "New Relic, a company that is synonymous with application performance monitoring (APM), has undergone a complete transformation to become an end-to-end observability platform company. "
- "Branded as New Relic One, the new platform brings all of the existing offerings under one roof. This consolidation helps current and new customers of New Relic with simplified user experience, a predictable pricing model and a streamlined workflow to connect and monitor their entities."
- "A lot has changed since the inception of New Relic's SaaS-based APM offering originally launched in 2013."

- "New Relic One takes a unique approach for modern observability by making it simple for developers and operators to integrate their infrastructure and applications."
- "At the bottom of the New Relic One stack is a reliable, scalable and distributed time-series database capable of ingesting and storing metrics, events, logs, and traces. This telemetry layer, which acts as the single source of truth, becomes the foundation for the observability platform. Customers can bring any kind of data into this flexible data lake. New Relic One supports OpenTelemetry specifications and SDKs to ingest data into the platform. New Relic is also one of the top contributors to the OpenTelemetry project."
- "The middle layer of the stack provides end-to-end observability by combining and contextualizing the data ingested into the telemetry layer. From monitoring the digital experience of customers using mobile to a process running in one of the virtual machines, New Relic One provides full-stack observability cutting across all the layers of modern infrastructure and application environments."
- "The topmost layer of New Relic One brings an algorithmic approach to dealing with the data through AIOps. By applying sophisticated machine learning algorithms, SREs can focus on what matters the most to their users. The applied intelligence layer reduces alert fatigue by separating the signal from noise. It can automatically detect anomalies in data by identifying outliers, which dramatically reduces the time while performing root cause analysis."
- "Apart from the simplification of the stack, New Relic has embraced open source tools and technologies. Customers using open source monitoring and logging tools such as Prometheus, Grafana, and Fluentd can easily integrate with New Relic One telemetry platform."
- "In terms of pricing, New Relic has moved away from charging per host to a per-user model. It also offers a generous free tier where users can ingest up to 100GB of telemetry data per month. The AIOps offering is extended to the free tier where the first 100 million transactions and 1,000 incident intelligence events are free every month."
- "New Relic One is an ambitious move that will have an impact on New Relic as well as the overall observability ecosystem."

Additional research by Eva Cahen, Emily Carr and Shane Podolsky.