

New Relic revamps pricing and packaging

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Introduction

New Relic has reimagined packaging and pricing for its products, aimed at both simplifying its product suite and attracting new customers. The vendor now makes three core offerings, with the Full-Stack Observability and Applied Intelligence products dependent on the underlying Telemetry Data Platform.

The 451 Take

New Relic has been trying to right the ship for a couple of years now, perceived to have slowed innovation and fallen behind younger competitors. Last year it had to reduce revenue growth expectations, blaming poor execution, and while in its most recent quarter it reported that revenue was up, it also reported that recurring subscription revenue was flat, indicating that customers didn't expand their usage of New Relic during the period. It has also faced some bad press recently over the handling of a relatively small layoff (around 20 people) and a leaked internal memo from the CEO. In an effort to execute a comeback, over the last couple of years it has brought in some new senior leaders and invested in new developments and a couple of small acquisitions. Its new approach to packaging and pricing is perhaps its most dramatic attempt yet, a bet that attractive pricing around data and an unusual usage model will resonate with users and both bring in new customers and expand usage. We think the pricing on its Telemetry Data Platform should draw in users but we have concerns that the per-seat pricing model for the observability suite, despite its benefits, may limit usage within customer organizations and make it difficult for customers to compare costs against competitors.

Products

The Telemetry Data Platform, a requirement for users of the other two offerings, is designed to ingest metrics, events, logs and traces from any source, including the New Relic agent, Prometheus, Logstash and others, into a unified data repository. With operations data volumes increasing dramatically for organizations deploying cloud-native technologies, New Relic aimed to price this product aggressively: \$0.25 per GB of ingest per month. It is also now offering a perpetual free tier

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of 100GB per month that also allows one user to access the observability product and some features of the AI layer. The pricing and the free tier should indeed be attractive to users, as should the support for open source, which is gaining momentum in the monitoring sector.

The second offering is called Full-Stack Observability and includes essentially all of the firm's former products, including APM, infrastructure monitoring, browser monitoring, distributed tracing and logging. This tier has the most dramatic change in terms of pricing: It is priced per seat. Essentially all metrics-centric monitoring providers today price based on size of the environment being monitored – i.e., per host or per container – and log vendors typically charge based on data volumes.

We think New Relic has sound arguments for why a per-seat model might be attractive to users, but we don't believe that's a guarantee of success with it. A notable upside to the per-seat model is that customers can feel free to deploy the company's monitoring everywhere. To save costs, businesses tend to prioritize applications and only apply APM in particular to the most important, using lighter-weight tools on some portion of the remaining apps. We have seen some creative approaches to dealing with limited monitoring budgets, such as buying a set of agents that are redeployed to applications after customers complain about performance problems, an approach that's not ideal.

In addition, we've heard complaints from users recently about sticker shock – some businesses are surprised by unexpectedly large monitoring bills. The per-seat model is designed to offer billing predictability. However, while customers get predictability with Full Stack Observability, the product relies on them also using the Telemetry Data Platform, which is priced based on data volumes. To alleviate surprises there, New Relic set the data platform prices very low. The vendor told us that it expects a typical bill will be 70% Full Stack Observability, 30% Telemetry Data Platform.

One notable shortcoming of the per-seat approach is that it limits who within an organization can deploy New Relic, at a time when most monitoring vendors are trying to encourage very broad use, even beyond the IT department. Anyone will be able to view dashboards, however. Plus, anyone could use Grafana in front of the Telemetry Data Platform to build dashboards, including using existing Grafana dashboards. By nature of being unusual, the pricing model makes it difficult for potential customers to compare the cost to a rival tool.

The third product is Applied Intelligence, the offering based on New Relic's acquisition of SignifAI that does anomaly detection and correlates issues. Pricing here is based on the number of events, alerts and anomalies, such that the more problems detected the more costly the deployment. We think Applied Intelligence is a tough sell mainly because most other firms wrap similar capabilities into their monitoring products.

Other important changes are that New Relic is planning to open-source its agents and support the Prometheus Query Language. We believe the Telemetry Data Platform could be a contender for business from Prometheus users who are struggling to scale. Many such users must add a back-end database, with Cortex and Thanos popular choices. But New Relic's Telemetry Data Platform becomes an option with its low cost and the fact that it's SaaS, freeing up engineers to work on application development rather than managing a back-end database for Prometheus.

Distributed tracing

In May, the vendor rolled out a new distributed tracing service. To accommodate for the growing volume of trace data emitted from complex applications, it is deploying collectors in cloud regions that analyze all traces, sending only those likely to be relevant back to New Relic's cloud service. By running the collector itself rather than requiring customers to do so, the company hopes to eliminate some operational burdens for customers. The product accepts traces collected by the popular open source tracing tools. New Relic still offers head-based sampling in its traditional APM product.



Competition

We have historically thought of Dynatrace, AppDynamics and New Relic as strong competitors, but the three have begun to settle into slightly different sweet spots. AppDynamics, now part of Cisco, is well suited to large enterprises that primarily use more traditional technologies and are just beginning to modernize. Dynatrace has become established as an enterprise tool, and New Relic has a reputation as best serving the midmarket. That, combined with its horizontal expansion, makes New Relic a contender for the same customer base as Datadog, which started out in infrastructure monitoring but now offers distributed tracing, logging, real-user monitoring, synthetics, network monitoring and more.

Other monitoring vendors have tried to position their back ends as appropriate centralized data repositories for all operations data in a similar way that New Relic is positioning its telemetry data offering. CA, now part of Broadcom, was one of the earliest we heard of to rebuild its back end for this purpose, way back in 2016. ScienceLogic has also been encouraging customers to use its SL1 platform as a central collection point for operations data, although it tends to focus on metrics more so than logs and distributed traces. InfluxDB can be deployed to combine all IT operations data, and is popular particularly in shops that appreciate open source software. And as New Relic chases current users of Prometheus and Grafana, it will likely encounter InfluxData. There are other players pursuing similar strategies, including Wavefront, Zenoss, Sumo Logic and more.

SWOT Analysis

Strengths	Weaknesses
New Relic has made a big splash with its unusual per-seat pricing model and as such has the potential to generate conversation and interest in its modernized platform.	While the vendor's approach to pricing and packaging is new in the market, much of its latest capabilities aren't groundbreaking. It faces strong competition from a capabilities perspective.
Opportunities	Threats
New Relic's embrace of open source technologies like Grafana and Prometheus comes at an opportune time, when open source is growing in popularity in monitoring. The company has a chance to attract customers who want to offload the sometimes-heavy overhead associated with managing open source monitoring software.	The firm's per-seat pricing model is somewhat risky. It's possible that customers and potential clients won't respond positively to it.

Source: 451 Research, LLC