

REPORT REPRINT

In monitoring, the platform approach is leading the market

NANCY GOHRING, YULITZA PERAZA

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We analyzed the revenue of SaaS vendors in the application and infrastructure performance sector and found that a small number of platform vendors generate about half the revenue of the entire sector.

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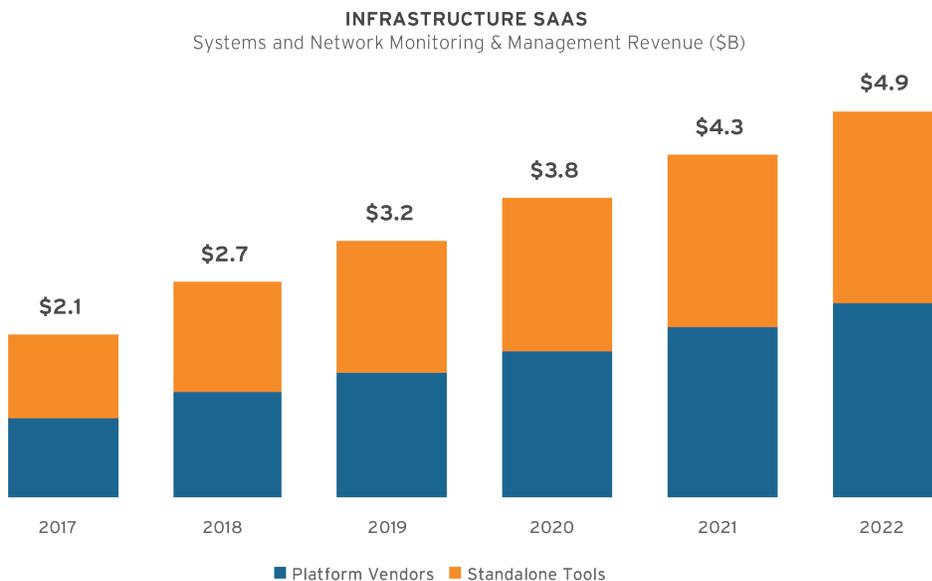
In monitoring circles, the platform vs. stand-alone tools debate is as old as the hills. On the one hand, platforms reduce some overhead by allowing businesses to interface with (and pay) just one vendor. Users also have the potential to more easily correlate and analyze data from a range of sources, which should help teams more quickly discover the root cause of problems. On the other hand, stand-alone tools, which often fall into the category of best-in-breed, tend to do one thing, and do it well. They may offer a broader set of features and capabilities targeted at just the one use case. However, they come with downsides related to management of yet another tool, including the potential for added work involved with integrating with other tools.

THE 451 TAKE

We commonly hear from businesses struggling with the platform vs. stand-alone tool decision. They must weigh the downsides that may come from choosing a platform that doesn't offer all the features they want against the headaches of overhead related to adding another tool. We believe that the platform vendors are more often winning this debate - our analysis indicates that a small number of platform vendors are attracting half the revenue of the sector. We don't expect stand-alone tools to disappear altogether, but we think that a combination of trends will drive M&A and further technology developments that favor the platform approach.

We set out to discover if either platforms or stand-alone tools vendors are currently winning out, and whether one or the other is likely to dominate in the future. While we discovered that (now and into the near future) the two segments are relatively equal in terms of revenue, digging deeper into the results demonstrates a preference for the platform approach. According to our analysis, in 2017 SaaS monitoring platform providers generated 48% of revenue in the segment, with unintegrated tools accounting for 52%. By 2022, we expect the platform providers to catch up, with both segments taking an equal share of revenue.

FIGURE 1: THE RISE OF PLATFORMS

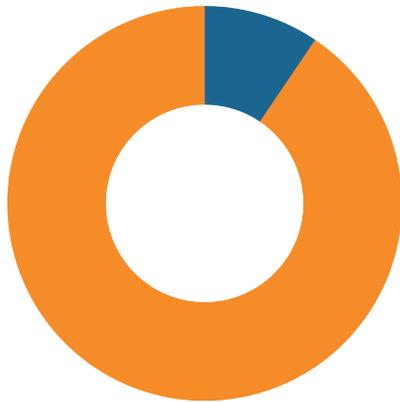


Source: 451 Market Monitor & Forecast, Cloud Computing as a Service

What's remarkable about the results, however, is the number of vendors in each category. Only nine are included among the platform players, with 86 offering stand-alone tools. In other words, in 2017 nine vendors generated 48% of revenue, with 86 combined generating 52%.

FIGURE 2: OUTSIZED MARKET SHARE

NUMBER OF SAAS MONITORING VENDORS



■ Platform Vendors ■ Standalone Tools

2017 MARKET SHARE



■ Platform Vendors ■ Standalone Tools

Source: 451 Market Monitor & Forecast, Cloud Computing as a Service

Generally, we know that some of the platform vendors count customers in the thousands or tens of thousands, with many stand-alone tools vendors serving hundreds of customers. Rather than a difference in cost of service accounting for the revenue difference between the categories, we think that that sheer number of customers tips the scales toward the platform vendors.

We think this analysis is an indication that the market values the platform approach. Current market trends are generating this strong interest in platform approaches. Those drivers include:

- Demand for correlated data. Teams are looking for tools that can easily correlate across data sets and run sophisticated analytics that can help speed the time it takes to identify the root cause of a problem. While they may be able to integrate various stand-alone tools to run such correlations, they may find that buying a pre-integrated set of capabilities from a single vendor is easier, and in some cases may deliver better insight.
- Interest in improving collaboration. The growing complexity in application and infrastructure environments is putting pressure on individuals with different types of expertise to work better together in order to quickly solve performance problems. One problem we commonly hear about when different groups within IT use different monitoring tools is that those siloed tools prohibit good collaboration across groups. A platform that offers a variety of uses cases may better allow teams to collaborate, since they are all viewing the same data set from the same tool.

THE LONG TERM

We don't expect demand for best-of-breed tools to wither completely, but we do expect those tools to account for a decreasing portion of the overall market over the long term. Some best-in-breed tools will continue to serve targeted constituents long into the future. For instance, monitoring tools that specialize in delivering insight into big-data deployments will serve businesses with particularly mission-critical workloads that depend on their big-data environments. That said, we see a number of logical combinations that are likely to drive M&A of the kind that should move more vendors from the stand-alone column to the platform column. Those areas include:

- APM and performance testing. We're seeing more interest in integrating APM and performance testing tools, both to better inform the design of performance testing and to help monitor tests themselves. M&A that combines these two functions makes sense. CA's acquisition of BlazeMeter supports this trend.
- APM and network performance monitoring. NPM vendors are increasingly positioning their products as useful in an APM context. However, NPM tools don't deliver the code-level insight that APM products offer. We think the combination of APM and NPM could offer a solid range of insight that meets the needs of customers looking for the benefits of a platform approach. Cisco's acquisition of AppDynamics has some potential to deliver on this vision.
- Serverless monitoring and infrastructure monitoring or APM. There are a handful of startups that have emerged to meet the monitoring needs of users of function-as-a-service providers like AWS Lambda. Since we expect that most users of FaaS won't exclusively use such services, they will want their monitoring tools to offer insight into their full distributed workloads. We expect that either the startups in this space will add capabilities for monitoring other types of cloud workloads or established monitoring vendors may acquire some of the startups in the serverless space.

A DEFINITION OF TERMS

A word on how we defined the categories: We included companies in the platform category if they offer three or more types of services that are well integrated. For instance, a platform provider might offer APM, infrastructure monitoring and log analytics. However, each of those capabilities must be tightly integrated, such that, for instance, a dashboard displaying infrastructure performance also displays related logs. We did not include vendors in this category if, in that same scenario, they only offer a link to a log analytics dashboard, from which the user must search for relevant logs.

If we had drawn the line at two well-integrated services, the scales (in terms of number of vendors, as well as revenue) would have tipped more significantly toward the platform category.

Note that we studied the SaaS businesses of these vendors, excluding revenue related to sales of on-premises software. We define SaaS as multi-tenant offerings, excluding hosted offerings, regardless of whether the vendor calls those hosted offerings SaaS.

Finally, we looked at SaaS revenue overall, without insight into how much of that revenue is attributed to customers that are using multiple services. For some vendors included in the platform category, the bulk of their SaaS revenue may be from customers using just one or two of their offerings. However, we think it's notable that vendors that generate such a significant portion of the overall revenue in this segment have expanded horizontally to deliver platform services.