



## Market Insight Report Reprint

# Splunk zeros in on DevOps teams and cloud-native applications with Observability Cloud

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The company has moved its Observability Cloud service into general availability, bringing together recent offerings and building on top of OpenTelemetry-based data collection. By bundling these services and offering streamlined pricing, Splunk aims to build its base with more DevOps and SRE teams.

451 Research

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## Introduction

Splunk is a vendor in transition as it tightens its embrace of the cloud and brings its broad portfolio of services together into a cohesive observability platform that can meet a wide array of needs and be more competitive on pricing. Its recent announcements speak to all these points, summed up in the general availability launch of Splunk Observability Cloud, which includes the GA of its Real User Monitoring (RUM) and Log Observer services, as well as several bundled pricing tiers to simplify purchasing for customers. However, the release of Splunk Observability Cloud is as much about uniting different personas as it is about uniting often-siloed tooling.

### THE 451 TAKE

Splunk Observability Cloud aims to entice DevOps and site reliability engineering (SRE) teams that are responsible for increasingly complex applications spanning hybrid cloud infrastructure, and it is doing so by uniting core services in a cohesive manner within a single UI and integrating metric, trace and log data that enables users to move easily between different tools as they maintain wide-ranging visibility of their IT landscape. The inclusion of Log Observer helps broaden the appeal to users with more hands-on involvement with application development. The emphasis on open source and cloud native evidenced by making OpenTelemetry a foundational element of Splunk Observability Cloud also speaks to the notion that, although nearly all vendors in this space want to be the single platform their customers unite their data in, data can come from any number of sources and onboarding it should be as easy as possible – even if it means embracing vendor-agnostic open standards. The commitment to OpenTelemetry from a high-profile vendor like Splunk may also be seen as a point of validation and speed wider adoption as a standard. Competitors consistently attack Splunk on cost, and some newer challengers in the market are driving a message of cost-conscious log management, but the vendor is tuned in to this and has made an effort to make the pricing of Observability Cloud more digestible.

## Context

Founded in 2003, Splunk continues to be a massive presence in the observability and monitoring space with over 6,000 employees and 91 Fortune 100 customers. According to S&P Global Market Intelligence, Splunk's Q4 overall revenue for FY2021 (ending January 31, 2021) was down 5% year over year at \$2.23bn, but its Q1 FY2022 total revenue was \$502m, up 16% compared with Q1 FY2021. The vendor did see growth in its cloud business, with cloud annual recurring revenue reaching \$877m, up 83% YoY. Additionally, the company is still seeing growth in large accounts, and now has 537 customers at \$1m-plus ARR.

Splunk is making progress as it chases growth for its cloud platform, but it will need to balance its drive to grow its cloud business with its weighty on-premises installed base. The company must also grapple with Tim Tully stepping down as CTO after taking the role in mid-2017 (Tully left to join Menlo Ventures). Customers and investors alike will be watching to see how Splunk handles the vacant CTO spot as it pushes to improve cloud revenue and finalize the integration of its past acquisitions into a cohesive platform. These acquisitions form the basis of many of the services that can be consumed via the Splunk Observability Cloud, namely Infrastructure Monitoring (SignalFx), APM (Omnition and SignalFx), Synthetic Monitoring (Rigor) and On-Call (VictorOps). Newer acquisitions such as FlowMill and TruSTAR will likely similarly form the basis for additional add-on capabilities in the future.

## Splunk Observability Cloud

The Splunk Observability Cloud is a SaaS offering aimed at being a comprehensive and full-fidelity, no-sampling view into a customer's entire stack within a single UI that can work for DevOps and SRE teams as well as ITops. The platform, announced in 2020 and recently made GA, unites the key pieces of the Splunk portfolio, including Infrastructure Monitoring, APM, RUM, Synthetic Monitoring, Log Observer and On-Call. Splunk Observability Cloud also embraces an open approach to standardizing data collection by natively integrating OpenTelemetry. Splunk is no stranger to OpenTelemetry – in 2019 it acquired startup Omnicore, which contributed to both OpenCensus and OpenTelemetry. As part of the Observability Cloud launch, the vendor has doubled down on OpenTelemetry with the data collection of the platform based entirely on the usage of the vendor-neutral APIs and SDKs of the open source project. This brings forth a more vendor-agnostic approach as more customers look for an alternative to proprietary agents, which can be associated with vendor lock-in. This will seem a bold move to some, given that OpenTelemetry is an evolving project and still has to prove itself in the market – the project is currently still in the sandbox stage within the Cloud Native Computing Foundation. However, more companies have been adopting OpenTelemetry, and current expectations are that it will advance to the incubating stage this year.

Splunk has also defined several bundles to simplify the pricing and consumption model for customers. Observability Cloud Standard and Plus editions offer the enterprise versions of Infrastructure Monitoring, APM and Log Observer at host-based pricing of \$95 and \$110, respectively, per host per month. RUM is available only in the Observability Cloud Plus edition. Splunk On-Call and Synthetic Monitoring are available as add-ons for any of the bundles. The vendor has also devised a more cost-effective bundle (priced at \$65 per host per month) that includes the standard editions of Infrastructure Monitoring, APM and Log Observer.

## Splunk Log Observer and Splunk RUM

In October 2020, Splunk announced its RUM and Log Observer betas. Now with the general availability of Observability Cloud, these two services are also generally available. Based on Rigor, which Splunk acquired in 2020, the Synthetics service is also generally available. With RUM and Synthetics out of beta, the observability platform now has key pieces for tracking and performing root-cause analysis (RCA) on events that are impacting the end users of Splunk's customers. Splunk says that its no-sampling approach is a boon in RUM as it provides full-fidelity tracing with which to help correlate the dependencies and underlying issues that are impacting end users across transactions. Currently, Splunk RUM is for web use, and mobile is not yet supported.

Log Observer is notable because it is a strategic item in the Splunk toolbox, designed to meet the needs of modern application development teams including developers, DevOps engineers and SRE teams. Splunk pitches Log Observer as a low- to no-code experience that does not require query language skills to streamline troubleshooting. The effort required to onboard data has also been reduced via a wizard-based workflow for connecting relevant log sources.

As newer observability platforms ramp up the emphasis on usability and UI, Log Observer will be an important element of the Splunk platform to watch as the vendor spans more personas within organizations that have their own needs and expectations to be met. Although it is a part of the Observability Cloud, customers need not consume the entire portfolio of services to get Log Observer, and the vendor says it has priced it competitively as it goes after personas (such as developers) that are less likely to have hands-on experience with the larger Splunk platform.

As organizations move more operational responsibilities to DevOps and developer teams, there is growing interest in equipping these teams with tools to lessen the overhead of these responsibilities, to enable more time to be focused on new app and feature development. In 451 Research's Voice of the Enterprise: Digital Pulse, Vendor Evaluations study, 24% of organizations said application developers were involved in or influencing vendor selections. We can expect that developers will have more sway when it comes to selecting tooling, and there is opportunity for vendors that can provide tools that cater to developer workflows.

## Competition

As the trend toward observability continues, the competitors in this space are brought closer into each other's orbit. However, breaking down the pieces of the Splunk Portfolio, the infrastructure monitoring part of the platform could see competition from DataDog, Elastic, ScienceLogic, SolarWinds, Sumo Logic, VMware and Zenoss, as well as cloud providers AWS, Azure and GCP, while the APM service would see competition from Cisco (AppDynamics), Dynatrace, IBM (Instana) and New Relic. Many of the aforementioned companies also provide RUM and synthetic monitoring products.

There are also several companies that target the spectrum of personas between SREs and DevOps teams, such as Honeycomb and Observe. In competition with Log Observer, LogDNA is one vendor targeting the log analytics needs of developers, and LightRun brings logging into the integrated development environment. Newer entrants such as ChaosSearch and EraDB aim to provide cost-effective logging platforms. ServiceNow may not be an immediate threat when it comes to observability, and historically would be integrated with platforms like Splunk's, but with the acquisition of LightStep there is the expectation that, in time, ServiceNow will be chasing some of the same market opportunities. PagerDuty and ServiceNow also offer capabilities that would be comparable to the On-Call portion of the Splunk platform.

## SWOT Analysis

<p><b>STRENGTHS</b></p> <p>Splunk continues to have a strong brand and huge market presence, especially with large enterprise customers, and its portfolio is positioned to cater to a growing roster of users.</p>	<p><b>WEAKNESSES</b></p> <p>Although a momentary setback, the departure of Splunk's CTO will leave stakeholders wondering what's in plan for the next stage of Splunk's vision.</p>
<p><b>OPPORTUNITIES</b></p> <p>Tapping into developer and DevOps teams will be a growing opportunity – not just to provide tools to help these teams perform RCA and troubleshoot applications, but also to equip them with insight like application performance metrics, which organizations use to establish the value of their DevOps implementations and processes.</p>	<p><b>THREATS</b></p> <p>Many small vendors aim to carve out market share on the basis of presenting cheaper logging platforms than Splunk. Although it has simplified pricing, the no-sampling, save-everything approach of the platform will continue to fuel an array of competition looking to differentiate primarily on cost.</p>

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