

2003

Forrester Research Annual Report

smart decisions

HELPING BUSINESS THRIVE ON TECHNOLOGY CHANGE

→ **Forrester** is an independent technology research company that provides pragmatic and forward-thinking advice about technology's impact on business.

Business, marketing, and IT professionals worldwide collaborate with Forrester to align their technology investments with their business goals. Established in 1983, Forrester is headquartered in Cambridge, Mass.

Financial Highlights (in thousands, except client companies and per share data)

Year Ended December 31,	2001	2002	2003
Revenues	\$ 159,120	\$ 96,936	\$ 125,999
Operating income (loss)	\$ 20,617	\$ (1,143)	\$ 1,578
Net income	\$ 18,117	\$ 589	\$ 2,191
Basic net income per common share	\$ 0.80	\$ 0.03	\$ 0.10
Diluted net income per common share	\$ 0.76	\$ 0.02	\$ 0.10

December 31,	2001	2002	2003
Stockholders' equity	\$ 220,398	\$ 213,868	\$ 208,322
Deferred revenue	\$ 59,930	\$ 42,123	\$ 68,630
Agreement value ⁽¹⁾	\$ 116,169	\$ 78,134	\$ 126,285
Client companies ⁽²⁾	1,542	1,125	1,812

(1) Agreement value, as measured by Forrester, represents the total revenues recognizable from all core research and advisory service contracts in force at a given time, without regard to how much revenue has already been recognized.

(2) Client companies represents the total number of companies with which Forrester conducts business at a given point in time. Forrester may provide multiple services to more than one business unit of the client company.



George F. Colony, Chairman of the Board
and Chief Executive Officer

george f. colony

Dear fellow shareholders,

Forrester has always been about smart decisions. I founded the company more than 20 years ago to help large companies through the complex and difficult technology decisions they make every day. These choices require the right information, long- and short-term perspective, knowledge of best practices, and the vision to ensure that technology investments are aligned with business needs. As a company, we continually strive to help our clients with all elements of the decision process — to guarantee that technology strategy and execution yield the highest possible return.

2003 was an exciting year because Forrester made changes that have improved our ability to help clients make smart decisions. Here's what happened.

Forrester + Giga

In February 2003, Forrester acquired Giga Information Group, a high-quality provider of research and consulting for information technology professionals. Two imperatives drove the deal: 1) It deepened Forrester's coverage of IT, and 2) it widened our coverage to include practical guidance on IT issues.

Since the mid-1990s, Forrester has created research for three constituencies within large corporations — IT, marketing, and business executives who need technology to implement their strategies. By 2002, Forrester had become focused primarily on how technology would help marketing and business. The acquisition of Giga sharpened our coverage of IT by adding broad and deep research into information technology issues.

Forrester has always helped clients with long-term technology planning. Giga's strength was in providing practical help with today's decisions. Bringing the companies together made sense — Forrester helped you plan; Giga helped you act. As a combined company, we can now give our clients guidance across the life span of technology decisions — from conception to execution.

Strategically, the deal worked. The real clincher was the nearly 800 distinctive clients that each company brought with it. This represented a marvelous opportunity to deliver new value to nearly 1,600 clients — to cross-sell Giga and Forrester research to new groups of companies. The combination of Giga and Forrester opened up the potential for us to increase our customer base, as well as our market coverage and profile.

While a deal may work on paper, the chemistry and cultural fit determine final success. Giga came to us with a well-respected staff of committed employees who possess both experience and wisdom. From analysts to editors, Events coordinators to account managers, they share Forrester's sharp focus on the client. They possess a passion for helping our customers achieve their goals.

There is still work to be done. But our common belief in client service, unwavering ethics, objectivity, fairness, and quality are a sustaining, solid foundation for our ultimate common success.

WholeView 2™ Research

As 2003 progressed, we structurally integrated Forrester and Giga, combining our sales, research, and corporate staffs. The last element to come together was the research product. Through the first three quarters of 2003, the company produced and sold two separate research suites — Giga Advisory and Forrester WholeView. In the summer we designed a unified research product that featured the best of both companies — WholeView 2 Research.

Before I describe WholeView 2, a quick observation about large corporations and their evolving approach to technology. Up until the early 1990s, technology was the sole province of the IT staff. But then came the Internet, which forged a new connection between companies and their customers. The IT staff still has a critical role to play, but it must now strongly collaborate with the marketing and business side. Corporations that nail this new organizational imperative (FedEx, British Petroleum, and General Motors come to mind) are often the companies that derive the highest return and greatest customer satisfaction from their technology expenditures.

WholeView 2, which incorporates Giga's practical advice for IT and Forrester's planning directions for marketing and business, enables this collaboration. Making smart choices across the three disciplines of IT, marketing, and business is challenging — WholeView 2 is designed to be a catalyst for these complex decisions.

A final note on WholeView 2 Research. Over time we have discovered that clients who have engaged person-to-person with Forrester — completed Inquiries with analysts, attended an Event, retained us for a Consulting project — are most likely to renew their contract. In other words, those clients who simply read our research miss the full value of what we offer. With that in mind, we built WholeView 2 to engender engagement between Forrester and the client. A WholeView 2 Member not only receives our research but also has access to analysts through daily ForrTel™ conference calls, a Forum, and Unlimited Inquiry. This design strengthens the connection between the client and Forrester, driving higher client satisfaction and renewal rates.

Forrester Oval Program™

In last year's annual report, I talked about how the research industry is going through a fundamental change. The business in the '80s and '90s was driven by a push model, where Forrester and its competitors would create research and push it out to clients. With the coming of the Web and search technologies like Google, consumers of research have often come to expect specialized answers to their particular problems or specific challenges. In a sense, research customers now want to *pull* to themselves the research that is most relevant and most germane to their problems.

Forrester has responded by introducing several pull products. In 2003 we launched the Forrester Oval Program — our business of building title-specific boards of executives that we serve with specialized research, best practices, and private peer-to-peer meetings. In 2003 we debuted five boards: The CIO

executive team



1. Daniel Mahoney, Senior Vice President, Research; **Gail S. Mann, Esq.**, Chief Legal Officer and Secretary; **Tahar Bouhafs**, Managing Director, Forrester Asia, MEA, Latin America. **2. Warren Hadley**, Chief Financial Officer and Treasurer; **Neil Bradford**, President, Forrester North America. **3. Richard C. Belanger**, Chief Technology Officer; **Brian E. Kardon**, Chief Strategy and Marketing Officer; **Timothy M. Riley**, Chief People Officer. **4. Robert W. Davidson**, President, Forrester Europe.

Group, the Analyst Relations & Marketing Council, the Application Development Council, the Enterprise Architecture Council, and the Security & Risk Management Council. These senior boards, with total membership of 290 by year-end 2003, are collaborative networks for executives at \$1 billion-plus companies. Members direct research agendas, attend triannual board meetings, and access Forrester's databases of best practices and benchmarking data.

With the advent of the Oval Program, Forrester is transitioning to become a push + pull research company — able to deliver syndicated push research to tens of thousands of users and specialized pull research to confidential, collaborating boards of executives. Cross-sell opportunities between these two sets of clients represent a primary source of potential growth. With Oval, Forrester can directly serve CIOs and other high-level executives in large companies while cross-selling push research to personnel at other levels in the organization. Oval represented approximately 2% of Forrester's business in 2003, and we expect this number to increase significantly in the next several years.

Geographic Reach

Technology remains a primary driver in the world economy. Developed countries see technology as a vital segment of their GDP. And developing nations are feverishly working to build their technology infrastructures and indigenous technology businesses. That's why Forrester continues to internationalize — we want to be ready to help \$1 billion-plus companies and governments in all regions of the world as they increase their technology profiles.

Forrester now has four research centers in Europe, which work closely with the four research centers in the US. As of December 31, 2003, sales offices in Japan and Australia were augmented by independent sales representatives in 14 additional countries. India was our fastest-growing region in 2003, and I expect that our business will remain strong there as the offshore outsourcing trend intensifies. At year-end 2003, 29% of Forrester's business was outside of the US. Our long-term goal is to derive 50% of our business from outside of the US.

2004

As Forrester heads into 2004, the company looks very different than it did just one year ago. To help clients with a broader spectrum of decisions, Forrester now goes to market with four product families: Research, Data, Consulting, and Community.

As I have discussed above, WholeView 2 Research covers a wide range of technology issues, from computing systems to security. Additionally, our research suite analyzes the use of technology in nine vertical markets — including healthcare, retail, and financial services. The focus of Forrester's research continues to be helping clients at the intersection of business and technology.

The second product set is our business of selling data detailing the behavior and attitudes of consumers and businesses. In 2003, this business expanded to include:

- Business Technographics® Data & Services, providing customized mapping of the buying patterns and spending plans of large North American and European companies.
- Custom Consumer Research, generating specific cuts of our consumer data for individual client engagements.

We will continue to add resources and new products to grow our Data business in 2004.

The third product group is Consulting, which we offer in three flavors: strategic programs, project consulting, and advisory consulting. Strategic programs include large, longer-term consulting projects. This is a small part of our business — less than 3% — but an important service for a select number of clients. Project consulting includes help for our clients based on proprietary consulting methodologies. These include Total Economic Impact (TEI)™, which analyzes the long-term costs and return on major technology investments, and Web Site Reviews, which help our clients increase the efficacy and usability of their Web sites. The third and dominant form of Consulting offered by Forrester is advisory consulting. These are one- or two-day engagements performed by Forrester analysts to help clients apply Forrester's research. Advisory consulting comprises approximately 80% of our Consulting activities.

Community is the fourth product family. Community includes the Forrester Oval Program, delineated above; Boot Camps; and our Events business. Events continue to be an important means of networking our clients and driving intimacy between clients and Forrester. We expect to host eight Forums worldwide in 2004.

A Personal Note

I often get two questions from investors and employees: "What will drive the tech industry to grow again?" and "What is Forrester's long-term opportunity?"

To get at the question about tech's growth, you have to parse the answer into two elements: tech change and tech buying. During the recession, tech change has not attenuated. The academics at MIT, Caltech, and Stanford and researchers at the Watson Research Center, HP Labs, and Microsoft Research have slowed neither their research nor their patent activity in the past three years. Indeed, I would point to five areas where change and progress have been raging: 1) Web services (a standard language between the computer systems of different companies); 2) Extended Internet (how the physical world connects to the digital world — led by radio frequency identification [RFID]); 3) Organic IT (a third-

generation data center architecture that will share IT resources efficiently, automate IT tasks, and deliver greater business flexibility); 4) offshore outsourcing; and 5) the movement toward open source systems like Linux.

So why, with all of this change, has the tech market been so quiet? The simple answer is downward pressure on spending. Forrester has researched tech spending of \$1 billion-plus companies for years. As a rule, large corporations do not increase technology budgets if GDP growth is less than 4%. In other words, technology spending parallels economic growth; it does not presage systemic growth in the economy.

So what will get tech growing again? Two factors: 1) technology change (and we've got that), and 2) an improving worldwide economic picture, resulting in increased technology budgets.

What about Forrester's long-term growth? What are the prospects there? In the long term, our growth will be driven by a fundamental imbalance. In 2004, approximately \$2 trillion will be spent on technology worldwide. But the organizations that will be spending this money plan to spend very little on research. How do we turn this challenge into opportunity?

As I think back to why I got into this business in the first place, it really was about minimizing the waste at large companies and maximizing their efficiency in the use of technology. Clearly, our work toward this ambitious goal is far from complete. Forrester has 14% of the approximately 4,700 \$1 billion-plus companies as clients. We are less than 20% penetrated in our target market. And less than 25% of all \$1 billion-plus companies buy research of any kind to optimize their technology purchases and plans. Clearly, Forrester's opportunity is still burning brightly. In simple words, much of the world remains only semiliterate in the difficult language of technology — we still have many left to teach.

As Forrester moves into its 21st year (wow — it's gone fast, and every minute has been a blast!), the company has never been better prepared to help large corporations get technology right. From adding Giga, to widening our product line to include Data and Consulting, to entering the boards business with Oval, to extending our international reach to locales like India, to the creation of fantastic research, Forrester is helping companies improve the quality of their decisions across geographies, organizations, and a wide range of problems.

Guided by our seven values of Client, Communication, Consistency, Creativity, Quality, Quickness, and Service, the amazing staff of Forresterites has never been better prepared to help our clients reach high-IQ, smart decisions. For all of us, this challenge has never been more fun, more compelling, or more engaging.

Thank you for your support in 2003. I look forward to seeing you in 2004. Please contact me directly at gcolony@forrester.com if you have any questions or would like to exchange ideas.

All the best,



George F. Colony
Chairman of the Board and Chief Executive Officer
Forrester Research, Inc.

Business as usual no longer exists.

New, unexpected competitors emerge. Technology advancements blur geographic boundaries — a pricing decision in Boston can instantaneously alter product development in Bangalore and distribution in Brussels. The rewards of value have moved to the agile and innovative. Fast adjustment to change is imperative.

Change calls for decisions — and today's decisions cannot afford to ignore time or economic restrictions. The right decisions about the right technologies and trends are what drive business forward.

For more than 20 years, Forrester has helped the world's leading organizations thrive on technology change. Our unparalleled objectivity, methodological rigor, and deep insight give our clients the clarity and certainty to make swift, smart decisions.

smart
decisions

fast direction

Who: Vice president of IT finance,
large US institution.

Challenge: The client wanted to cut costs by outsourcing a large portion of its IT work to an Indian vendor. At the time, 35% of the IT staff were contractors, and the organization had little experience managing IT service vendors, no experience with IT sourcing, and immature internal IT processes.

Program: Throughout the course of this engagement, Forrester helped the client:

- Determine current and future skills needs.
- Develop skills to manage the offshore program and external vendors.
- Identify which applications to outsource and how to stage them.
- Design a strategy to retain and motivate critical employees through the transition.
- Improve business analysis and communication processes for collaboration with the client's vendor.
- Build an organizational structure for an outsourced relationship.
- Create a request for proposal (RFP) and select vendors.

Smart Decision: With Forrester's help, the client initiated a major offshore outsourcing program in a remarkable five months — a time savings of at least one year from its original goal.

cost-effective analysis

Who: Steering committee, large retail bank.

Challenge: The client asked Forrester to study the standardization of desktop computing across all divisions of its organization. At the time, each business unit was individually managed and had achieved various levels of standardization. Would enterprisewide desktop standardization reduce IT costs and meet business requirements?

Program: Forrester met with the steering committee and interviewed key stakeholders in each business unit. From these conversations, our analysts created scenarios and facilitated economic analysis and risk adjustment using Forrester's Total Economic Impact (TEI) methodology. TEI balances cost with three other equally significant factors — benefits, flexibility, and risk — to comprehensively determine the value of IT. We then provided an audit and analysis report that included a focus on the business users' needs, the plausibility of proposed scenarios, economic analysis, risk adjustments, and support for the initiative.

Smart Decision: Desktop standardization at all business units would result in an estimated annual savings of \$13 million.

Who: Senior manager of IT architecture,
North American energy utility company.

Challenge: The client needed to identify and control its runaway infrastructure costs. The company was underutilizing its existing infrastructure, driving the IT-related hardware budget unrealistically and unnecessarily high while not showing improvements in efficiency or investment return.

Program: Forrester analysts assessed the alignment of the client's business strategy with its IT goals, as well as its current architecture. The analysis revealed that the company was in a prime position to take advantage of Forrester's Organic IT approach for sharing IT resources efficiently, automating IT tasks, and delivering greater business flexibility. Analyst teams then systematically introduced the principles of Organic IT to various functional groups within the organization, demonstrating significant short- and long-term cost savings when properly applied.

strategic guidance

Smart Decision: The client's architecture team identified more than \$48 million in potential savings throughout the organization by adopting Organic IT.



thrive on change

Helping business thrive on technology change

is Forrester's purpose. Our clients are continuously looking for the most efficient ways to take advantage of their current investments — and new ones. We stay ahead of shifts in the market and technology innovation to keep our clients' strategies in line with their business needs. From one change to the next, we help them drive smart decisions throughout their organizations and to the bottom line.

company information

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Brian E. Kardon
Chief Strategy and Marketing
Officer

Daniel Mahoney
Senior Vice President, Research

Gail S. Mann, Esq.
Chief Legal Officer and Secretary

Timothy M. Riley
Chief People Officer

Annual Meeting

Forrester's annual meeting of
stockholders will be held at 10 a.m.
EDT on May 11, 2004, at the offices
of Ropes & Gray, One International
Place, Boston, Mass.

Investor Relations

Requests for financial information
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Stock Listing And Trading Symbol

Forrester's common stock is listed
on the Nasdaq National Market
System under the trading symbol
"FORR." The approximate number
of stockholders of record as of
March 8, 2004, was 52.

The following table represents the
ranges of high and low sale prices
of Forrester's common stock for
the fiscal years ended December 31,
2002, and December 31, 2003.

	2002		2003	
	High	Low	High	Low
Q1	\$20.94	\$15.52	\$17.40	\$11.61
Q2	\$20.55	\$17.30	\$16.65	\$13.85
Q3	\$19.40	\$13.45	\$17.29	\$13.33
Q4	\$16.39	\$11.48	\$19.97	\$14.14

Dividends

Forrester did not declare or pay
any cash dividends during the fiscal
years ended December 31, 2002,
and December 31, 2003. Forrester
anticipates that future earnings,
if any, will be retained for the
development of its business, and
Forrester does not anticipate paying
any cash dividends on its common
stock in the foreseeable future.

Form 10-K

A copy of Forrester's annual report
on Form 10-K (excluding exhibits)
can be obtained without charge by
writing or telephoning Forrester's
Investor Relations department at its
Cambridge headquarters.

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