

016

Consultancy in Spain 2016

The Industry in Figures

Next page





2016

Contents	2
Key figures	4
Consultancy in Spain in 2016	6
Acknowledgements	24
AEC members	25

Introduction



Elena Salgado

Chair of the Spanish Association of Consulting Firms (AEC)

As chair of the Spanish Association of Consultancy Firms, I am very pleased to present this report, containing a compilation and analysis of some of the key data for the Spanish consultancy industry. I hope it will help provide a better understanding of the role the industry plays in the Spanish economy and will meet the needs of anyone seeking aggregate data on the development of the industry in recent years.

2016 was an important year for Spanish consultancy firms. It was a chance to corroborate whether the increase in business of the previous two years was just a passing chimera or whether the figures did indeed confirm that a new phase of prosperity had begun for the industry. This report provides solid grounds for believing that we are seeing a new stage of growth in the industry, backed by domestic demand and in particular investment in consultancy services by the financial services sector.

It has to be said that current growth figures are not on a par with those of the last expansion phase prior to 2008. However, a number of factors lead one to think that this new growth period is built on more solid foundations. The growth in business has been essentially organic and is backed by an increase in domestic demand in a period of favourable growth forecasts for the Spanish economy. Moreover, the nominal growth in revenue of the last three years comes in a period of slight deflation, making it all the more meritorious. Finally, this expansion comes while the industry is still awaiting the forecast renewal of investment from one of its historically most important clients, the public sector.

In short, this report gives us grounds for optimism on the future of the consultancy industry, within a perspective of prudent caution on future developments.

Special mention should also be given to the industry's place as a source of qualified employment. The report offers a revealing comparison of staffing trends in consultancy and other knowledge-intensive industries. Spanish consultancy firms are an important source of high-quality employment in the Spanish economy. They recruit a higher percentage of people with third-level education and invest considerably more in training them than the Spanish average. In light of these figures, it only remains for me to encourage management staff in our industry to continue cultivating their main source of competitiveness and the resource on which their success is founded — the men and women who work at their firms, contributing their skills, creativity and motivation.

The report confirms the importance of IT-as-a-Service (ITaaS) services. Increasing numbers of companies wishing to rein in their operating costs are now outsourcing their services. Consultancy firms have recognised that demand and the results show that they are successfully catering to it to the full satisfaction of their clients.

At the same time, the figures for the year show the importance of partnership between Spanish consultancy firms and the financial services sector. Financial institutions are now the chief source of income for the industry and are likely to continue to retain that position in the future. Demand from this sector has proved less dependent on economic cycles and its contribution to increased turnover is unmatched by any other industry.

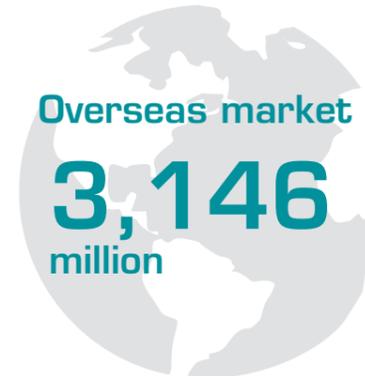
I sincerely hope that readers will find this report to be of interest. Its publication was made possible by the many consultancy firms who agreed to answer an exhaustive questionnaire on their business. I would like to thank all of them, on my own behalf and that of the institution I represent, the AEC, the Spanish Association of Consultancy Firms.

Key figures

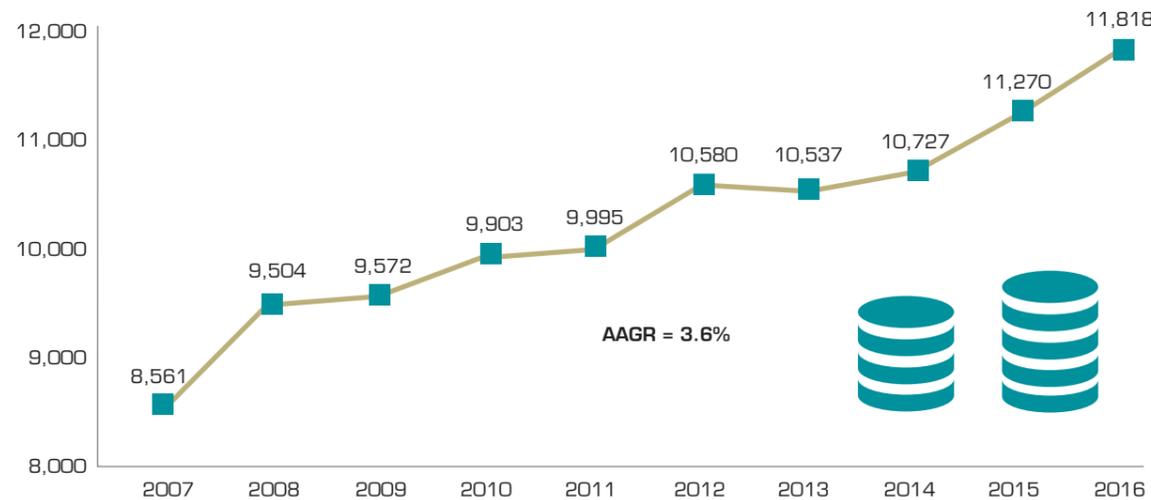
Income

€11,818
million in 2016

Growth:
4.9%



Trend 2007-2016 (million euro)



AAGR: accumulated annual growth rate.

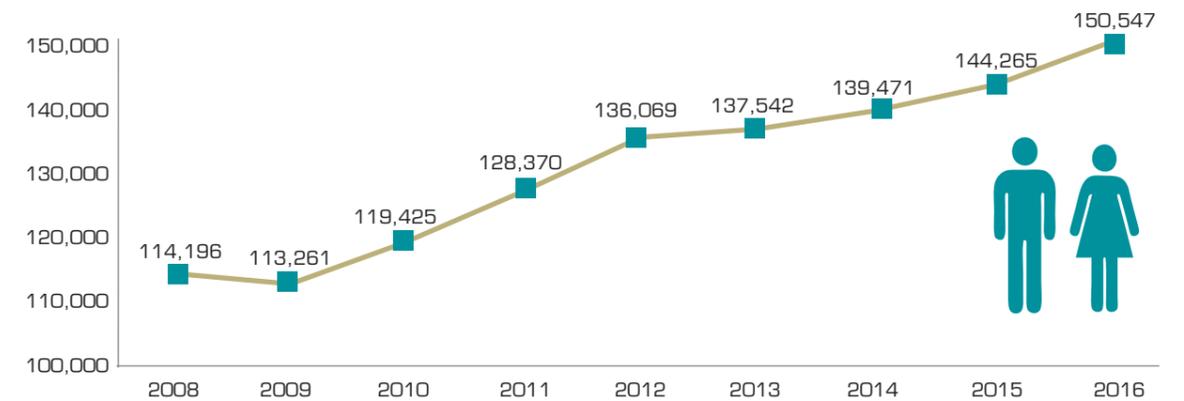
Source: AEC.

Employment

150,547
employees in 2016

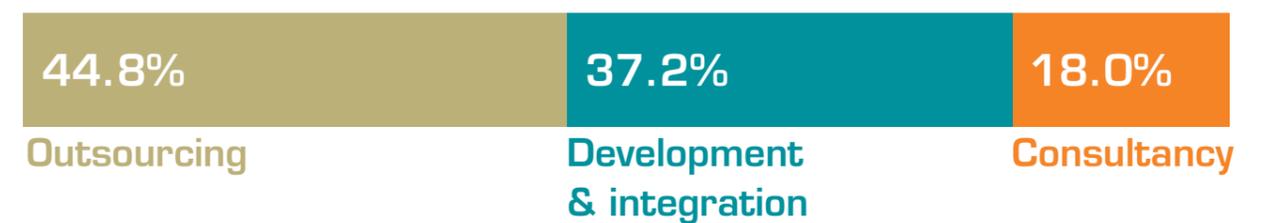
Increase:
4.4%

Trend 2008-2016 (number of employees)

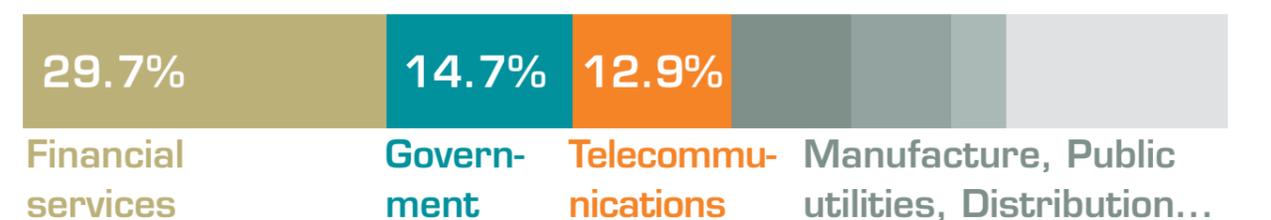


Distribution of income

By services



Main industries



Consultancy in Spain in 2016

Executive summary

Since 2004, the Spanish Association of Consultancy firms (*Asociación Española de Empresas de Consultoría* or AEC) has meticulously compiled data from Spanish firms in the industry to offer an annual snapshot of the most important features and trends in the industry. This report provides data for 2016 and comparisons with previous years. The figures confirm that the industry is structurally stable and is experiencing sustained growth.

The data used was obtained directly from the consultancy firms and official statistics from the Ministry of Employment and Social Security, the National Statistics Institute (INE) and Eurostat.

Some of the main conclusions are outlined below.

1

Sustained growth

Turnover in the industry rose by 4.9% in 2016, from €11,270m to €11,818m. Income was up for the third year running, following a minor fall in 2013.

2

Three key features

2016 saw the consolidation of a new period of expansion, different in certain key aspects to previous growth phases:

- a) Growth rates are more moderate than in the period immediately prior to the crisis.
- b) Unlike 2008 – 2013, the increase in turnover is based on the Spanish market (see Table 1).
- c) Productivity has risen slightly (see Table 7).

3

Consistent job creation

Net employment in the industry rose by 4.4% in the year, with over 150,000 people now employed. Spanish consultancy firms have consistently created net employment throughout the period from 2004 to 2016.

4

High-quality employment

Consultancy stands out as a source of high-quality employment even among knowledge-intensive industries, which have proved more crisis-resilient than other areas of the economy. Net job creation in the consultancy industry came to 4.4%, compared to 2% amongst knowledge-intensive businesses as a whole.

5

Recovery of consultancy services

In 2016, the largest increase in income came from consultancy services (16.7%). Demand for this type of service has been boosted by the need for companies to undertake digital transformation of their business. Income from consultancy services accounted for 18% of total industry turnover during the year.

6

Demand for services is led by the financial services sector

By sector, the largest demand comes from financial services, (accounting for 29.7% of sales); government (14.7%); and telecommunications (12.9%). Recent trends in this demand have varied: an increase in demand from financial institutions is one of the pillars of the growth in the industry's sales. In contrast, income from sales to government and telecom firms has fallen, in absolute and relative terms, since 2012.

Income of the consultancy industry

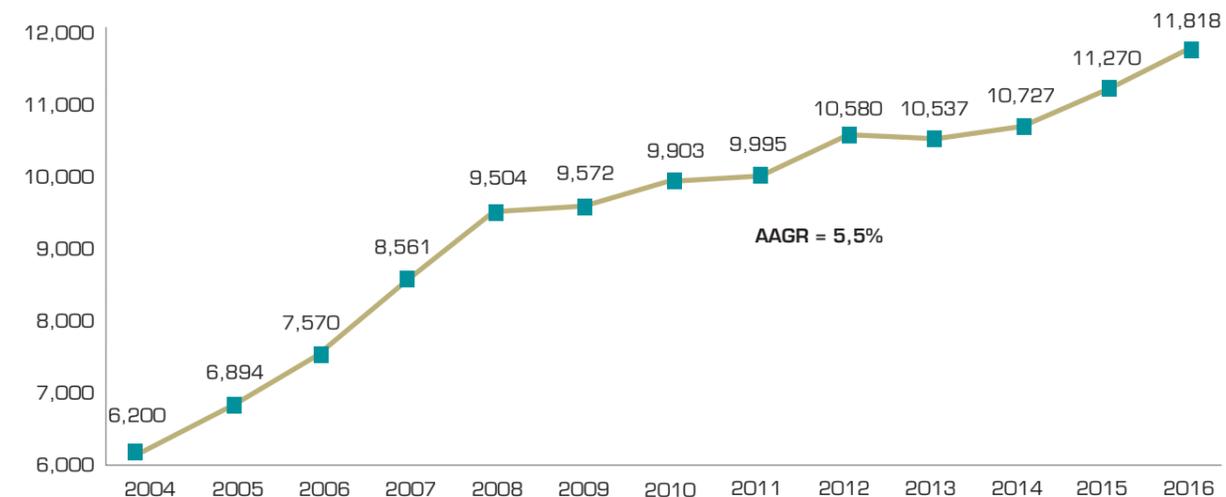
Sales on the domestic market up **6.5%** to **€8,672 million** in 2016

In 2016, Spanish consultancy firms earned €11,818 million from sales, 4.9% up on the previous year (5.2% if the price effect is discounted). This rise is in line with firms' forecasts a year ago, another sign that the industry is back on a track of sustained growth and structural stability. For the next year, consultancy firms forecast that this trend will continue, with a 5.5% increase in income from sales.

The year brought confirmation of three basic factors that had led to optimism on the immediate future:

1. Annual growth in sales has been consolidated at around 5%. This is ahead of the growth rate for the Spanish economy in general, though not as high as pre-crisis figures, which

Table 1. Total income from sales by Spanish consultancy firms and their overseas subsidiaries: 2004-2016 (million euros)

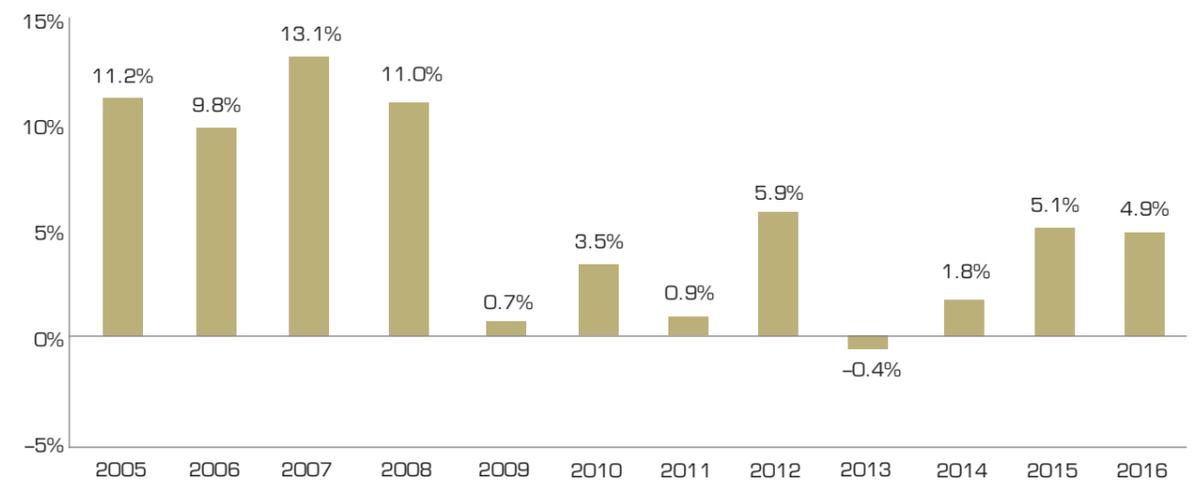


AAGR: accumulated annual growth rate.

Source: AEC.

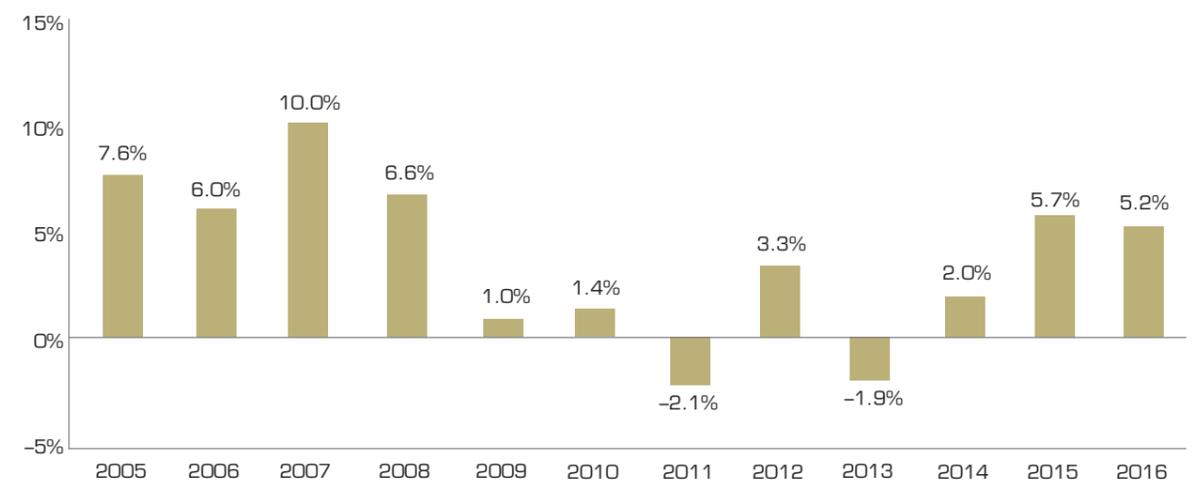
generally topped 10% (albeit in a scenario of much higher inflation). Compared with 2004–2008, the growth trend since 2014 seems more sustainable, especially given that the industry expects progressive recovery of demand from government. At the same time, growth in the industry over the last three years has taken place against a backdrop of price

Table 2. Total income from sales by Spanish consultancy firms and their overseas subsidiaries: 2004-2016 (variation)



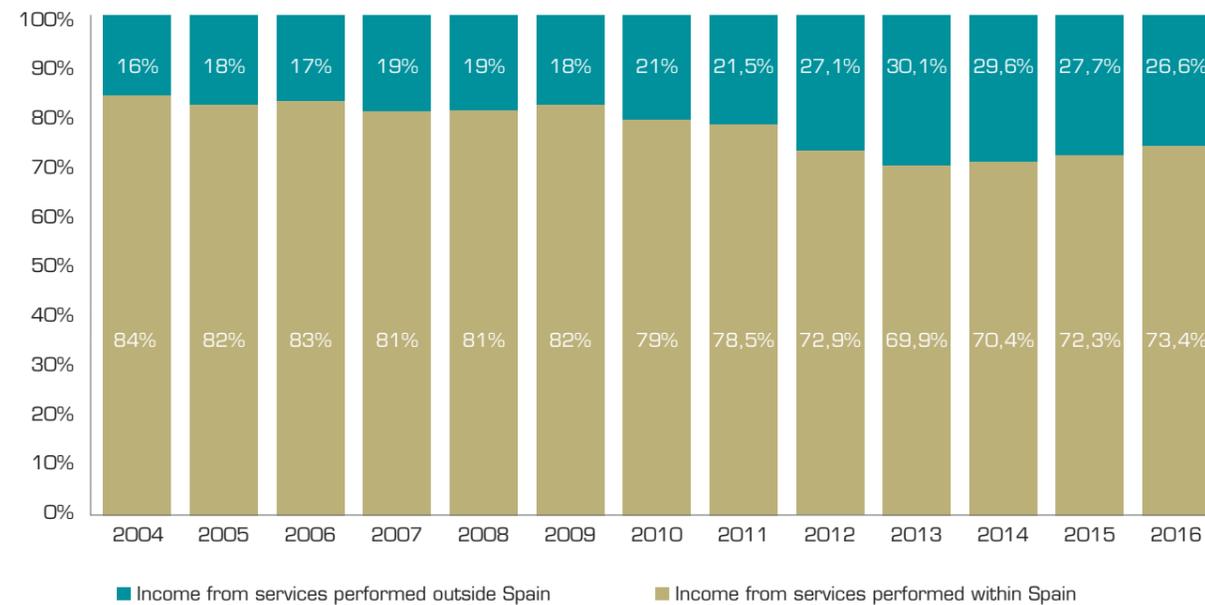
Source: AEC.

Table 3. Total income from sales by Spanish consultancy firms and their overseas subsidiaries, corrected for inflation (CPI): 2004-2016 (variation)



Sources: for industry turnover, AEC; for harmonised CPI, Eurostat.

Table 4. Breakdown of income of Spanish consultancy firms by geographical market: 2004-2016



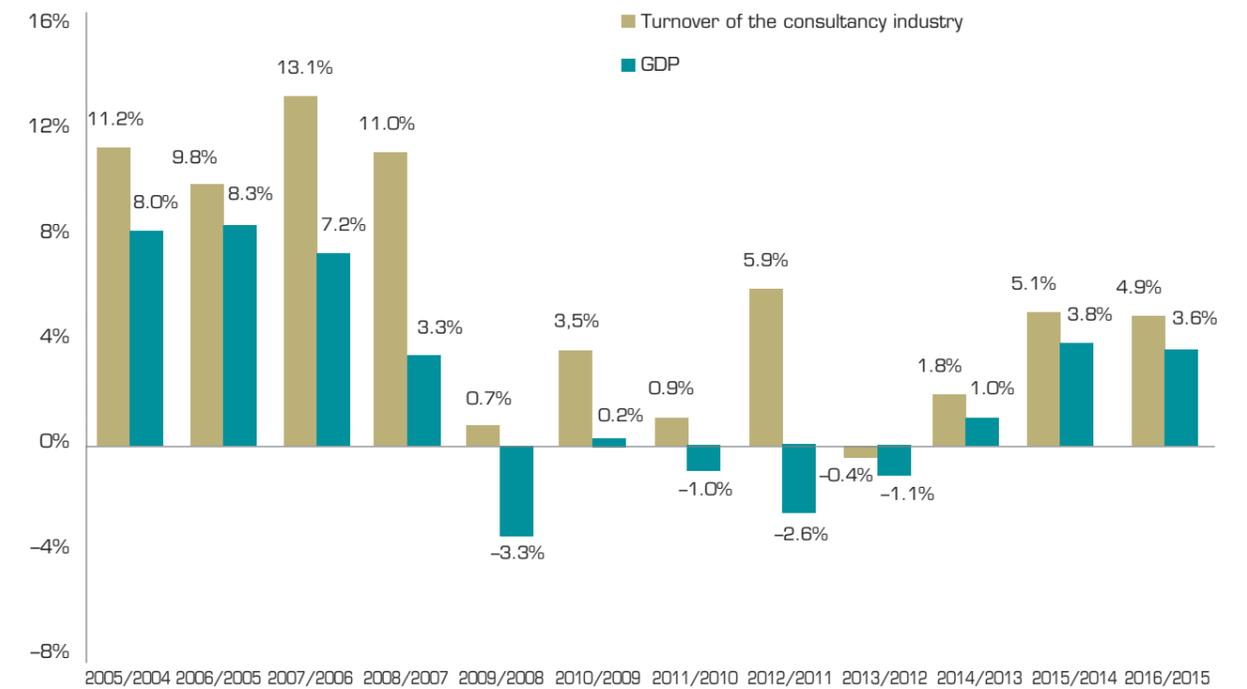
Source: AEC.

Sales on overseas market came to **€3,146 million, 26.6% of total income**

stability, whereas in 2004–2008 the nominal increase in income incorporated high inflation rates. The real-term sales increase in 2014–2016 is comparable —albeit lower— to 2004–2008.

- Growth during this new stage is based more on sales on the domestic market than on exports of services or sales by overseas subsidiaries of Spanish firms. For yet another year, sales on the Spanish market grew by 6.5% and accounted for a higher share of business (73.4% of the income of Spanish consultancy firms).

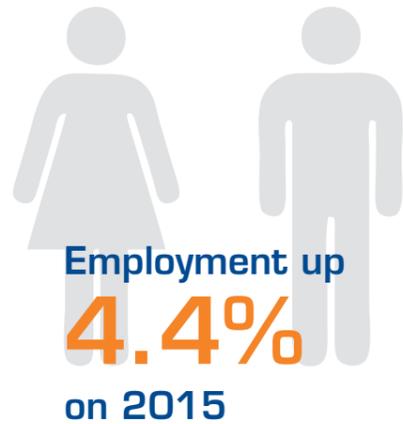
Table 5. Trends in turnover of the consultancy industry and GDP: 2004-2016 (annual growth)



Sources: industry turnover, AEC; GDP at market prices, INE (Spanish National Accounts, base 2010, and Spanish National Quarterly Accounts, base 2010).

- The industry is outperforming the Spanish economy as a whole, as it has since records began. The differences between growth in the industry and Spanish GDP are not as spectacular as in the years prior to the crisis (2004–2008), but they reflect the contribution of consultancy firms to the overall recovery of the Spanish economy. In the last two years, when GDP growth stood at around 3.5% (and in a context of price stability), income in the industry grew by around 5%.

Employment in the consultancy industry



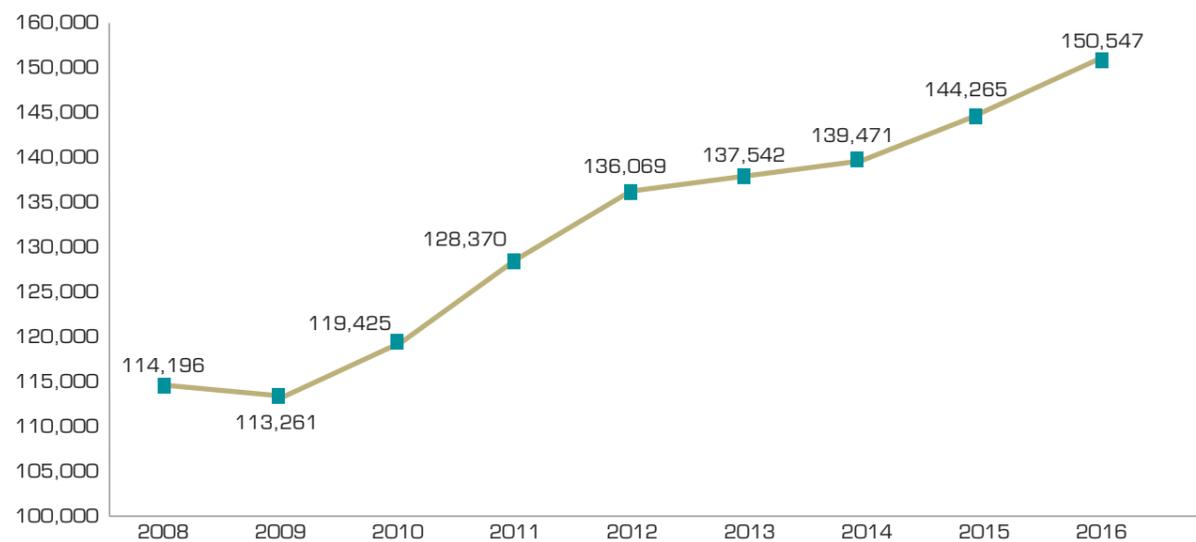
At the end of 2016, Spanish consultancy firms had 150,547 employees, up 6,282 (4.4%) on 2015. Despite the economic crisis, the number of people employed in Spanish consultancy firms has risen continuously since 2009. Even a shrinking of business in 2013 did not lead to net staff cuts.

Trends in employment in the industry since the start of the crisis in 2008 can be divided into two very separate stages. The period from 2008 to 2012 was marked by a significant increase in staff numbers, as some firms sought to compensate for a drop in domestic demand for their services by extending their overseas operations.

From 2013 on, the number of employees continued to grow, but at a more moderate pace. In 2013 and 2014, consultancy firms strove to maintain, and even slightly expand, their workforce, in an attempt to retain their human capital. In 2015 and 2016, on the other hand, staff numbers grew apace with—or even below—expansion in business. This explains the slight recovery in productivity figures, measured as turnover per employee.

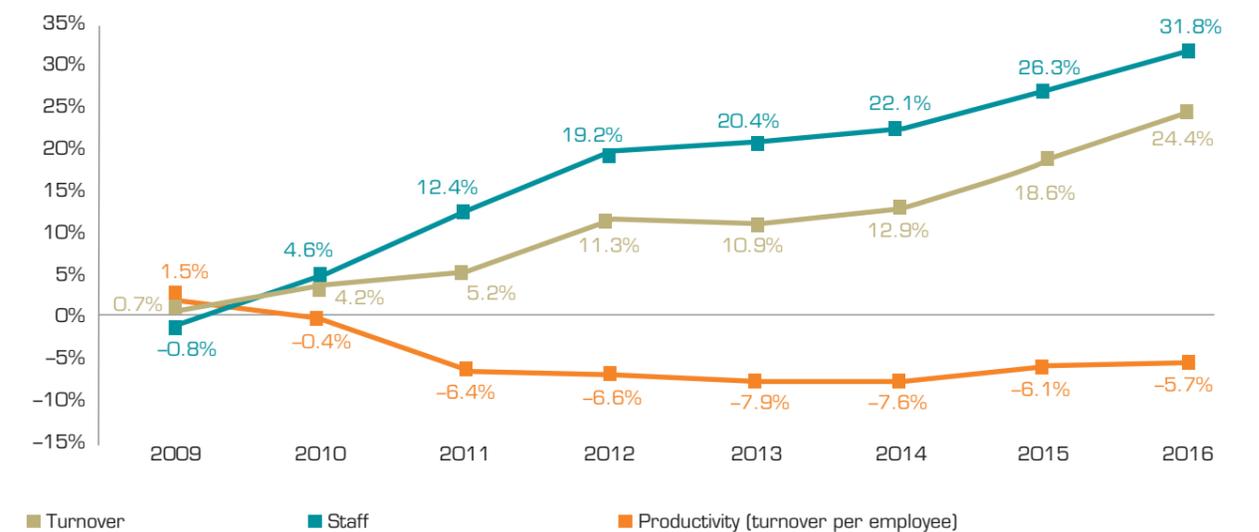
The same two distinct phases can be seen in a comparison of employment in consultancy and in the Spanish economy in general. Between 2008 and 2013, the Spanish economy lost 2.4 million jobs. In the consultancy industry, this period coincided with foreign acquisitions by some Spanish consultancy firms, allowing them to allay the potential effect on employment of a slowdown in sales of consultancy services in Spain. Indeed, during the period from 2009 to 2013 not only did the industry suffer no net job losses, but the total workforce grew by more than 24,000.

Table 6. Workforce of Spanish consultancy firms: 2008-2016



Source: AEC.

Table 7. Percentage variation in turnover, workforce and productivity (turnover per employee) in the consultancy industry as compared to 2008 figures



Source: AEC.



During the second phase, from 2014 on, the employment-generating capacity of the Spanish economy improved and consultancy continued to recruit new staff — with a total of 13,000 jobs created between 2013 and 2016. This represents a 9.5% increase compared to an 8.6% growth in the total number of salaried social security contributors.

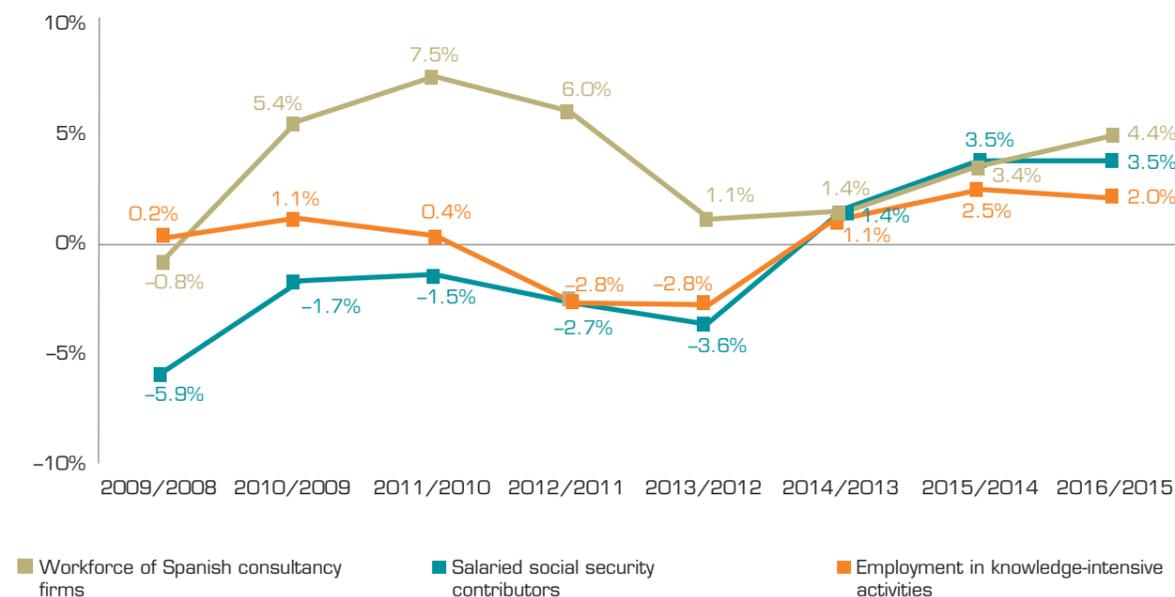
Nonetheless, the industry's capacity to generate qualified employment can be better appreciated within the context of knowledge-intensive sectors of the economy in general. Eurostat defines *knowledge-intensive activities* (KIAs) as those in which over 33% of employees have a third-level education. Amongst such businesses it includes telecommunications, air transport, research & development, manufacture of computer, electronic and optical products, programming, consultancy and other IT-related activities.

Knowledge-intensive activities generate greater added value and will therefore be essential in the medium to long-term future for improving the competitiveness of our economies. In Spain, employment in this area has proved less sensitive to the economic cycle; in other words, it has been more resilient to the crisis. Nonetheless, these industries as a whole suffered a drop in net employment in both 2012 and 2013, whereas employment in the consultancy industry increased. In net terms, from 2009 to 2016 employment in all knowledge-intensive activities increased annually by 0.2%, as compared to a 4.1% rise in consultancy.

The quality of the employment offered by the industry is reflected in the level of investment made by consultancy firms in upgrading their employees' knowledge and skills. In 2016, the industry invested around €48 million in staff training, an average of €319 euros per employee. This is a far higher figure than the Spanish average of €94 in 2015. Moreover, 68% of employees in the industry are honours graduates, a much higher proportion than in the Spanish economy as a whole.

Consultancy firms invest 3.4 times more in training their employees than the Spanish average

Table 8. Growth in workforce of Spanish consultancy firms, salaried employees in Spain and employment in knowledge-intensive activities in Spain: 2009-2016



Sources: workforce of Spanish consultancy firms, AEC; salaried social-security contributors in Spain, Annual Statistics of the Ministry for Employment and Social Security; employment in knowledge-intensive activities, Eurostat.

Table 9. Indicators of investment in HR training in the Spanish consultancy industry

	2011	2012	2013	2014	2015	2016
Expenditure on training by Spanish consultancy firms (million euros)	39	37	36	35	41	48
Expenditure on training per employee by Spanish consultancy firms (euros)	305	274	260	251	283	319
Expenditure on training per employee in Spain (euros)	111	102	101	100	94	N. A.
Training hours per employee in Spanish consultancy firms (hours per year)	30.5	31.8	30.2	29.0	30.5	30.9

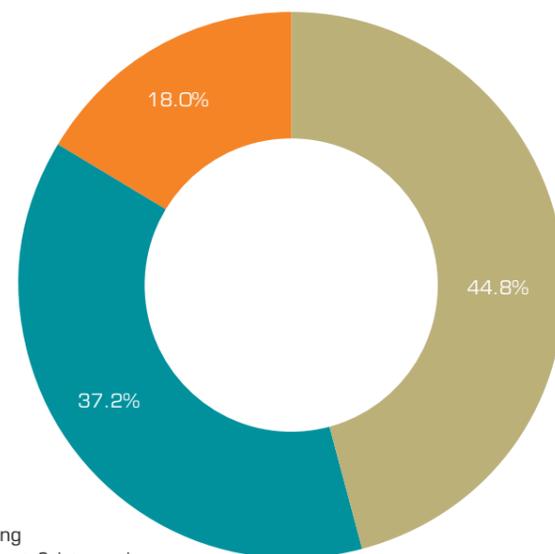
Sources: expenditure in training per employee in Spain, INE (Annual Survey of Labour Costs); other figures, AEC.

Distribution of income by service



The services provided by the consultancy firms can be divided into three categories: *IT as-a-Service* (ITaaS or outsourcing) services, development & integration and consultancy. Income rose in all three areas in 2016, although growth was greater in consultancy (16.7%), than in development & integration (3.2%) and ITaaS (2.2%).

Table 10. Distribution of industry income by service type (2016)

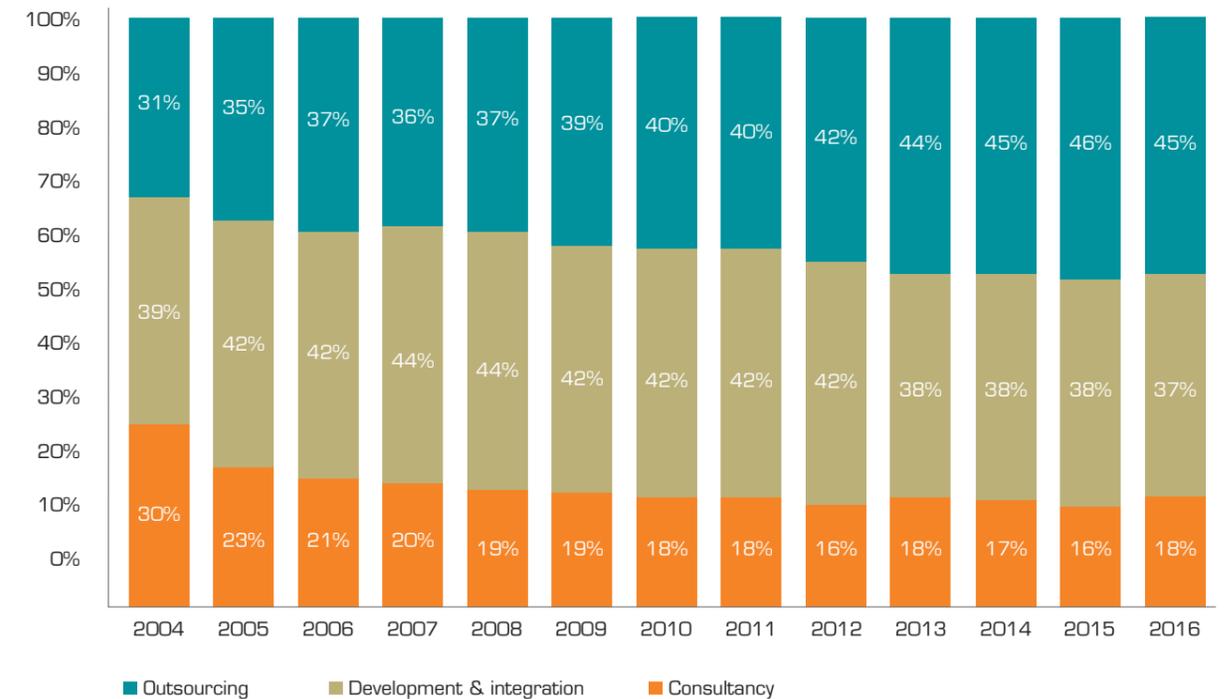


■ Outsourcing
■ Development & integration
■ Consultancy

Source: AEC.



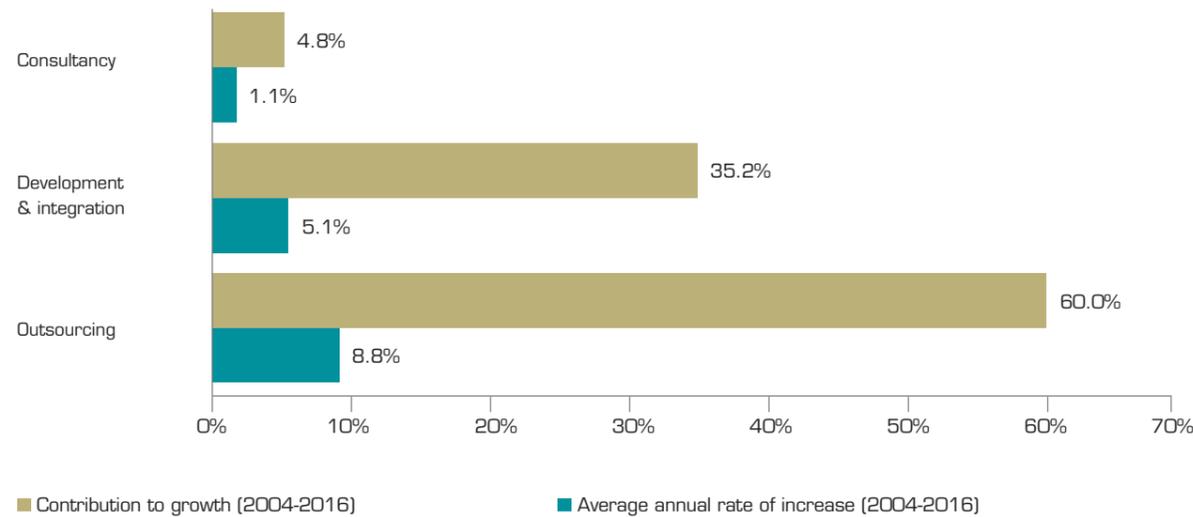
Table 11. Distribution of industry income by service type (2004-2016)



Source: AEC.

Demand for consultancy services was favoured by a major increase in the number of digital transformation projects in companies and organisations. Provision of ITaaS services, on the other hand, contributed least to the increase in turnover in the industry during the year, both in absolute and relative terms. Although these services have been the main source of income of Spanish consultancy firms since 2012, a certain slowdown in growth had already been seen in previous years. ITaaS accounts for 44.8% of all turnover, as compared to 37.2% from development & integration projects and 18% from consultancy services.

Table 12. Average annual growth and contribution by service type in the sector (2004-2016)



Source: AEC.

With hard figures on income from each type of service ranging over a reasonably long period, covering both crisis and expansion periods in the general economy and the industry, we have sufficient perspective to take stock of events. During the period from 2004 to 2016, income from IT-as -a-Service (outsourcing) grew faster than any other area, at an annual rate of 8.8%. Development & integration also performed very well, with growth running at 5.1% per year. Conventional consultancy services also expanded, but only at an average annual rate of 1.1% for the whole of the period. Nonetheless, growth is now picking up in this area.

Distribution of revenue by client sector

Consultancy firms provide services to a wide range of industries. However, the three sectors that provide most income are financial services, government and telecommunications.

Sales in these three sectors has accounted for over half of the industry's total income, in every one of the thirteen years for which information is available. However, their relative importance has varied slightly over time. Financial institutions were the leading source of revenue every year except 2009 and 2010. Their share in the industry's sales has increased continuously since 2011 and in 2016 they accounted for 30% of all income.

Principal sectors:

Financial services:

29.7%



Government:

14.7%

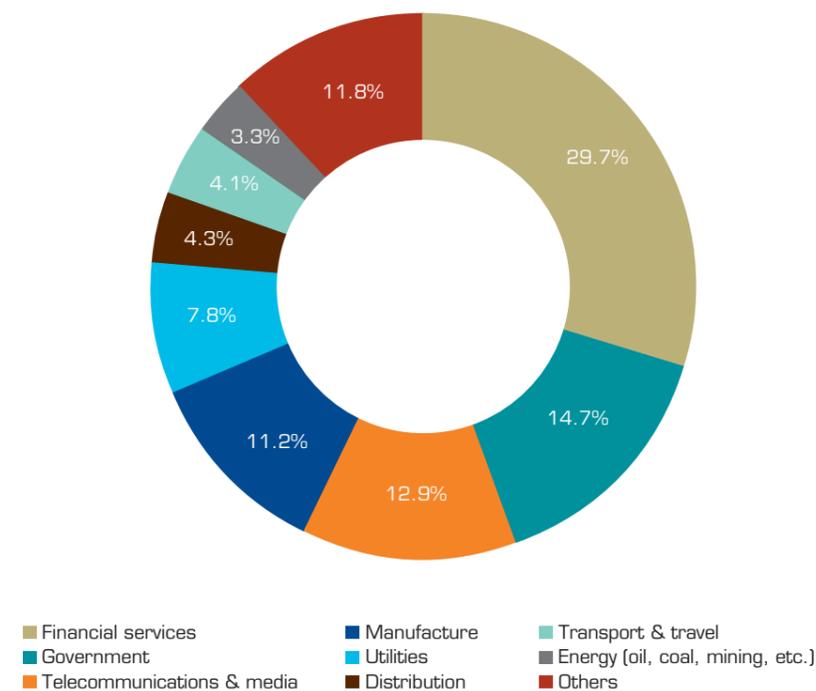


Telecommunications:

12.9%



Table 13. Distribution of industry revenue by sector (2016)

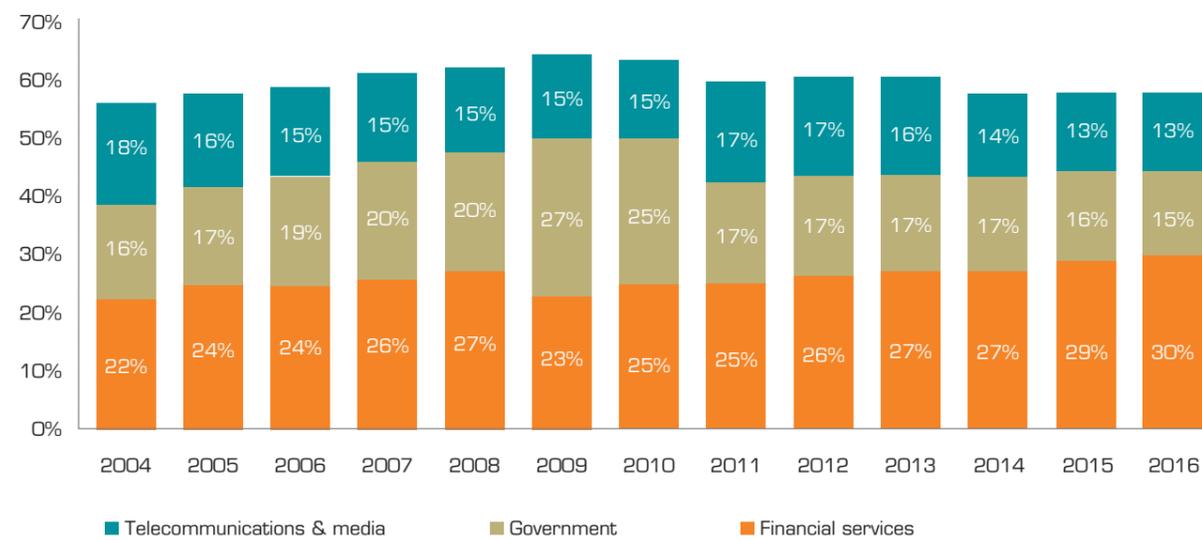


Source: AEC.

The trend in sales to government has been markedly different. Turnover in this area peaked in 2009. Since then, cutbacks affecting all tiers of government in the country have led to an important shrinkage in demand for consultancy services. In 2016, income from sales of services to government again fell slightly in absolute terms as did its share of overall income. Nonetheless, economic recovery and a progressive improvement in public accounts are expected to lead to a recovery in demand for consultancy services from this sector in coming years.

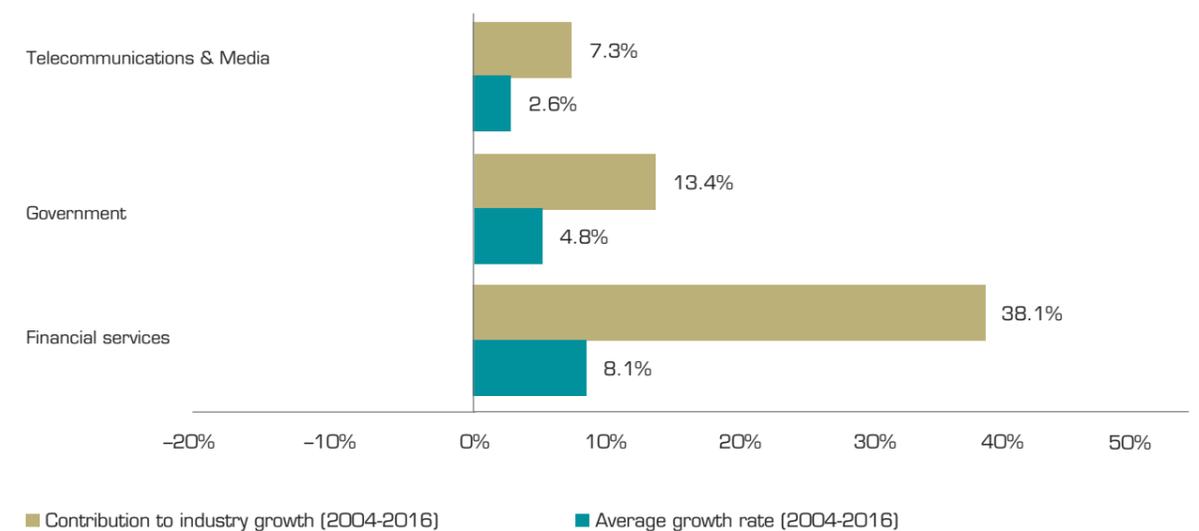
When assessing the current situation, it is always advisable to draw on the information available for a relatively long period of time. In the long view, the financial services sector can be seen not only as the most important and stable partner of Spanish consultancy firms, but also as the principal contributor to the prosperity of the industry during the period under analysis. Demand from this sector accounts for 38.1% of the increase in turnover in the consultancy industry in the last thirteen years. Even more significantly, despite a recent contraction, sales of services to government have been a substantial component of growth in the industry, accounting for 13.4% of the increase in sales between 2004 and 2016. Sales to telecom firms have made a somewhat more modest contribution, but they are nonetheless decisive: 7.3% of growth in turnover over the last thirteen years is due to demand from this sector.

Table 14. Comparative weight of the three largest sectors by demand for consultancy services (2004-2016)



Source: AEC.

Table 15. Average annual growth and contribution to growth in the industry of principal client sectors (2004-2016)



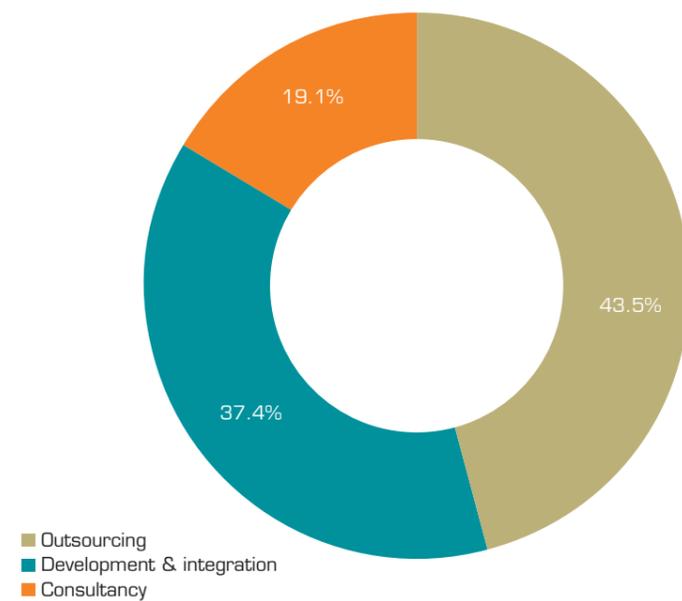
Source: AEC.

Financial services will continue to be the main contributor to growth in the industry

Sales forecasts for 2017

Consultancy firms themselves forecast a further increase (5.5%) in turnover in 2017, bringing it to €12,465 million. This forecast is in line with growth rates over the last two years. According to these forecasts, the internal make-up of turnover by type of service provided will not vary substantially. Nonetheless, consultancy services will probably continue to recover their share of the total, to account for 19.1%, whereas provision of IT-as-a-Service (outsourcing) services will fall one percentage point to 43.5%. If these predictions are borne out, the results would represent a continuation of the trends seen in the past year.

Table 16. Forecast distribution of income of the consultancy industry by type of service (2017)

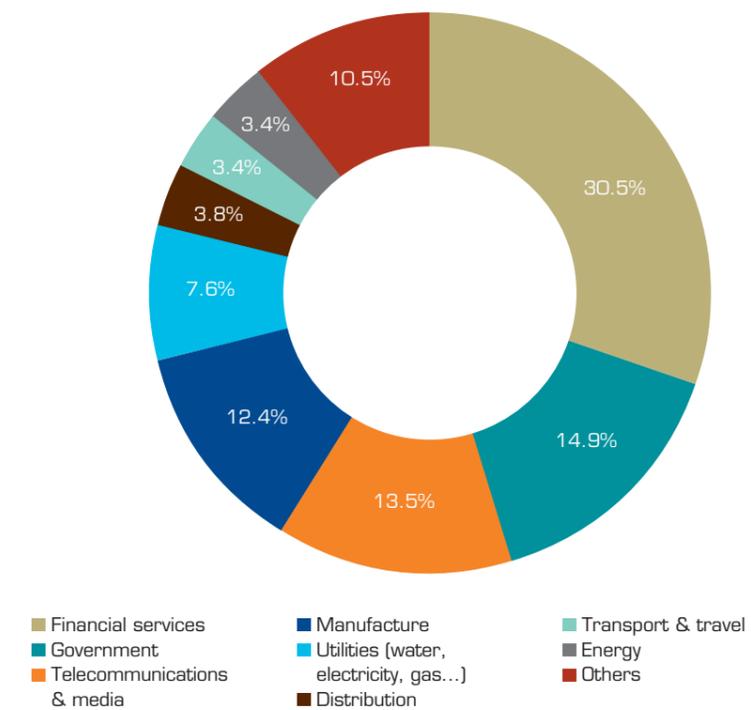


Source: AEC.

No dramatic change in distribution of sales by client sector is forecast for 2017. Sales to financial institutions and telecom firms are predicted to continue increasing both in absolute and relative terms. According to the forecasts, these two sectors will form the basis for most of the increase in the industry's turnover. In contrast, Spanish consultancy firms do not for the moment predict any significant recovery in revenue from services to government.

Forms predict 5.5% growth in 2017

Table 17. Forecast distribution of income of the consultancy industry by client sector (2017)



Source: AEC.

AEC members

Acknowledgements

The **AEC** would like to thank all the firms who contributed to this report by supplying data and opinions.

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