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Defense disrupted: New players, new pressures, new possibilities

International defense insight report

Preface

The global defense market faces rapid change, driven by evolving military requirements and shifting acquisition needs. As nations navigate an increasingly volatile geopolitical landscape, defense contractors face a critical imperative: swiftly adapt to remain competitive amid ongoing disruption.

Traditional defense contractors face a complex triple challenge today. First, software-driven technologies—like Artificial Intelligence (AI) and new types of drones—are rapidly reshaping both market expectations and defense capabilities. Second, the industry is being disrupted by new digital-native companies whose speed and technological expertise create serious competitive pressure. Third, alternative suppliers from emerging countries, such as Turkey and South Korea, are introducing advanced, cost-effective solutions that intensify global competition. These disruptions challenge the established defense market dynamics.

Further complicating matters are shifting political and trade relations between the United States and the rest of the world. The wave of new tariffs from the US and its changing approach toward allies and adversaries present an additional major disruption for defense companies, especially those in Asia Pacific and Europe. These shifts and accelerating deglobalization have already fueled a noticeable surge in European military spending, stronger efforts toward strategic autonomy and industrial sovereignty, as well as a "buy European" approach.

To understand and navigate these complex dynamics better, we engaged directly with defense industry executives through our second annual in-depth survey and interviews. Our research this year identified the key challenges both established suppliers and new market entrants face and surfaced strategic solutions for success amidst elevated uncertainty and changing conditions.

The bottom line? All companies need to partner in new alliances that mitigate weaknesses and pool strengths.

We find such strategic collaboration can help established contractors and new market entrants overcome the changing landscape as well as significant structural challenges they face. Established defense contractors remain tied to traditional, inflexible business models, limiting their ability to swiftly pivot and incorporate innovative technologies. New market entrants, while agile and innovative, often lack organizational depth and financial resources necessary to fully capitalize on market opportunities.

Our research underscores how effectively leveraging each other's strengths, like incumbents' established market presence and newcomers' innovative agility, can position the entire industry to better respond to shifting dynamics.

"The defense industry is facing unprecedented challenges, such as unmanned systems, AI, sixth-generation fighters, cybersecurity and space... technological cooperation is necessary and urgent to accelerate progress and ensure global security."[1]

Roberto Cingolani, CEO, Leonardo

"National defense, security and global standing are no longer defined exclusively by the number of rifles, tanks or physical resources in a country's arsenal, but...by its technological prowess and capabilities."[2]

Faisal Al Bannai, Chairman, EDGE Group

About the research

Launched in 2024, the Accenture International Defense Insight Report is an answer to the growing need for data-driven insight on changing dynamics in the defense environment globally. For this second annual report, Accenture combined analysis of primary and secondary research on ongoing disruption in the defense market and industry responses to changing market dynamics. We conducted primary research through a survey of 80 industry executives from both established suppliers and emerging market entrants from 19 countries in North America, Europe and growth markets, alongside interviews with current and former defense executives. We supplemented both methods with financial analysis of major defense companies, as well as analysis of the secondary sources including third party reports, data sets and trade media articles. This multi-method approach ensured a robust, nuanced exploration of the evolving dynamics impacting defense contractors worldwide, highlighting pathways for strategic collaboration and sustainable growth amid ongoing geopolitical and technological shifts.

We conducted interviews and the executive survey which were completed in March 2025; views are subject to considerable change as geopolitical conditions can rapidly evolve.

Authors

John Schmidt
Aerospace and Defense
Global Industry Lead
john.h.schmidt@accenture.com

John Schmidt leads Accenture's global Aerospace and Defense practice, guiding a team that delivers transformational solutions across commercial aerospace, defense, and space. With deep industry expertise, John has helped major OEMs and Tier 1 suppliers drive strategy, improve operations, and boost shareholder value. He is known for managing large global teams and delivering programs that cut costs and enhance performance. John's experience spans aerospace and defense, as well as sectors like consumer electronics and health sciences. Before rejoining Accenture in 2013, he held leadership roles at Capgemini Consulting and Underwriter Laboratories, among others. Based in Chicago, John serves on the Aerospace Industry Association's Board of Governors and is a frequent speaker on industry trends, AI, and the supply chain.

Patrice Barbier
Aerospace and Defense
Europe Industry Lead
patrice.barbier@accenture.com

Patrice Barbier is a Managing Director and leads Accenture's EMEA Aerospace and Defense practice. With more than 20 years of experience in civil and military aviation, and also on helicopters in the Aerospace and Defense industry, he has supported his clients mainly on their core value chain transformation agenda leveraging innovation, data, AI and technology. His industry experience spans across Engineering, Manufacturing, Program Lifecycle Management and Customer Services. In addition to this role, Patrice serves as a Director General Delegate at Accenture France Defense, a subsidiary established in January 2022 to provide consulting services in areas such as defense, aerospace, internal security, and national sovereignty for French Defense OEMs the Ministry of Defense

Contributors

David Max Korzen | Kamil Mazurek | Nicholas Neforas | Jeremy Riehl | Navdeep Saboo | Jeffrey Wheless

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Executive summary

The global defense industry is undergoing a major transformation. Military engagements are shifting from traditional mechanized combat and low-intensity conflicts to high-tech, high-intensity operations. This shift is reshaping defense requirements and procurement strategies.

Defense executives we surveyed acknowledge military requirement changes across regions, with almost 90% seeing at least moderate shifts in North America and Europe. Top requirement changes include a need for energy-efficient, agile and cost-effective software-driven platforms and greater emphasis on human oversight in lethal autonomous systems.

Defense procurement approaches are also evolving, with executives across all regions reporting noticeable changes—more than 80% noting at least moderate shifts in Europe and North America. Defense procurement agencies now seek compatibility and interoperability with existing systems as well as comprehensive product delivery with accompanying services. A new push for in-country defense acquisition reflects both the rising need to reduce risks from third-party sourcing and the growing emphasis decision-makers are placing on industrial sovereignty.

These shifts are unfolding against a backdrop of growing challenges to traditional market dynamics, driven by new technologies and new entrants from both innovative tech companies and emerging nations. Key new technologies reshaping the defense sector include AI-powered systems, unmanned platforms and space-based solutions. Digital-native companies are changing the market by offering scalable, cost-effective products, software and AI-driven, digitally integrated solutions with greater flexibility and modularity. At the same time, new entrants from countries like South Korea, Turkey, Poland and Brazil are gaining ground internationally by advancing niche technologies, benefiting from strong government support and localizing production.

This “triple challenge” and its related market impacts affect established defense suppliers and new market entrants differently. Established companies often struggle to attract top technology talent and rapidly integrate digital innovations, while new entrants face challenges with sustaining financing and navigating strict regulations that often favor incumbents. As a result, their strategies diverge: legacy companies tend to strictly follow procurement requirements set by defense agencies, whereas new entrants are more likely to proactively propose solutions for unmet needs and help shape product requirements themselves.

Adding to these complexities are growing deglobalization trends, tariff-led trade barriers, and a push for more sovereignty in defense solutions to reduce concerns like “kill switches” in foreign-made combat systems. Although somewhat insulated from these global economic shifts compared to some other sectors, defense companies must nevertheless respond with agility, particularly when their products rely heavily on foreign-sourced components.

To overcome these barriers, defense companies emphasize strengthening strategic partnerships as a top strategy. **Almost half of industry executives (49%) identified partnership building as essential for accessing necessary products and technologies.**

Our research points to two actions that both established suppliers and new market entrants agree are critical to successful partnerships: identifying and responding to unmet defense needs driven by cutting-edge innovation and rapidly scaling production to meet emerging requirements. Beyond these shared imperatives, incumbents must further invest in new technologies and modular innovation, while startups can gain traction by emphasizing interoperability, open architectures and tailored software solutions.

The takeaway is clear: Although established defense suppliers and new market entrants are different types of companies, operating in the market under different playbooks and addressing different challenges, they can mitigate weaknesses and capitalize on strengths through deliberate, strategic collaboration, supported by tailored actions uniquely suited to their distinctive goals.

Procurement at a crossroads: Meeting modern threats with smarter strategies

As geopolitical tensions mount, defense priorities are shifting fast. Gone are the days when heavyweight platforms like armored vehicles topped purchase lists. Take Australia, which scaled back its infantry fighting vehicle program to free up funds for other urgent capabilities.[3] Instead of buying a fleet of new armored vehicles, the Australian government reallocated resources to accelerate initiatives like long-range strike systems and cyber defenses, which better address the current threat landscape. These shifts point to a broader trend: as Reliability, Availability, Maintainability, Supportability and Testability (RAMST) requirements gain importance, militaries around the world are reassessing what they need most to counter modern, high-intensity threats. Defense contractors must adapt or risk losing relevance.

New threats create new priorities

Defense executives around the globe are observing a clear pivot in demand. Across the board, military customers are asking for new types of capabilities. According to defense executives, three themes dominate this shift: **multi-domain capabilities that connect land, air, sea, space and cyber; unmanned and autonomous systems that expand reach and reduce personnel risk; and sustainable operations that focus on energy efficiency reducing logistical tail of military operations.**

These priorities signal a move toward more autonomous, lighter, smarter, more energy-efficient and cyber-resilient armed forces. The focus is shifting from traditional operational domains and concepts to new ones centered on silicon-based technologies. Around the world, both nations and companies are adapting to this new reality. Singapore, for example, has reorganized its military to make unmanned systems a core part of its future fighting force. Spain plans to dedicate a third of its increased defense budget to building a "digital shield" through investments in new satellites, AI, 5G, cloud and quantum computing.[4] Companies are moving in the same direction. Leonardo, for instance, has placed multi-domain responsiveness at the heart of its new corporate strategy, aiming to build products that can operate jointly across all combat domains.[5] In short, priorities are changing to match a high-tech battlespace where agility and autonomy matter more than the sheer tonnage of armor.

> "The UK cannot hope to match our peer-adversaries tank for tank or ship for ship; It must seek continued superiority in the realm of technology and innovation."[6]
>
> James Lawson, Director, Helsing

> "Small scale software providers are building great capabilities and [defense is] very fixed and focused on buying from that SME or startup space."[7]
>
> Director, US defense company

Responding to an evolving battlefield

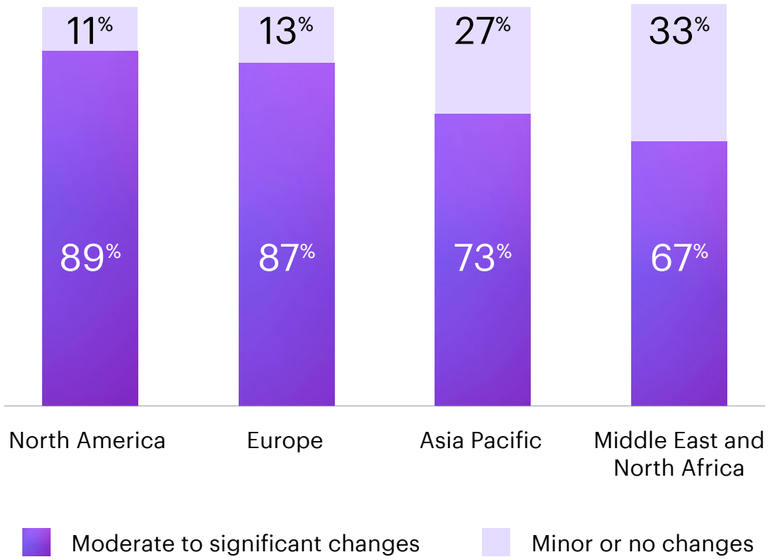
As demand shifts, so do defense capability needs. The fundamentals of military requirements are evolving to reflect practical and operational concerns. Executives see this change in all regions, with 89% of executives in North American and 87% in Europe reporting notable shifts in what their customers—national militaries—are seeking (Figure 1). Executives specifically point to three major requirement shifts.

Energy efficient systems: Armed forces are paying new attention to fuel economy and sustainability in their requirements. This could mean increased demand for next-generation platforms that are more fuel-efficient or military bases partially powered by renewables.

Human-in-the-loop on autonomous systems: Defense customers are insisting that no matter how advanced an autonomous system is, a human must be involved in any lethal decision. In practice, this means even high-tech drones or robotic tanks should have a human involved to review and approve critical actions.

Agility and cost-effectiveness over excellence: Militaries now prioritize systems that are scalable, flexible and affordable—even if that means using components from the commercial world that do not satisfy all requirements. Customers may now prefer a small fleet of agile, low-cost, "good enough" drones or vehicles over a few high-end but expensive platforms.

Figure 1: Perception of changes in defense requirements by industry executives.



Defense companies are already pivoting to meet these new requirements. Hensoldt, for example, is proactively engineering the "human-in-the-loop" principle into its AI-enabled systems, ensuring that AI enhances human decision-making but doesn't replace it.[8] Rheinmetall has announced investments in centers of excellence across Europe and Canada to develop autonomous mobility technology for land-based military applications. A central focus is the expanded PATH Autonomous Kit, which enables adaptable autonomy across a range of systems.[9]

Rethinking procurement strategies in response

New threats and requirements are also upending how militaries buy their equipment. Procurement—often seen as a sleepy bureaucratic domain—is getting a disruptive makeover on both sides of the Atlantic. In the United States, President Donald Trump signed an executive order directing the US Department of Defense (DoD) to modernize its defense acquisition system, aiming to cut red tape and spur innovation in the defense industrial base.[10] Europe, for its part, launched a "Readiness 2030" plan to streamline regulations and encourage more "made in Europe" solutions, so EU nations can buy local and strengthen their own sovereign industrial networks.[11] Given the mounting pressure to increase defense spending, we can expect procurement rules, particularly in Europe, to become more agile. Surveyed executives confirm a wide shift in approaches across all major regions with Europe and North America leading the way at 86% and 84%, respectively, seeing at least moderate changes (Figure 2).

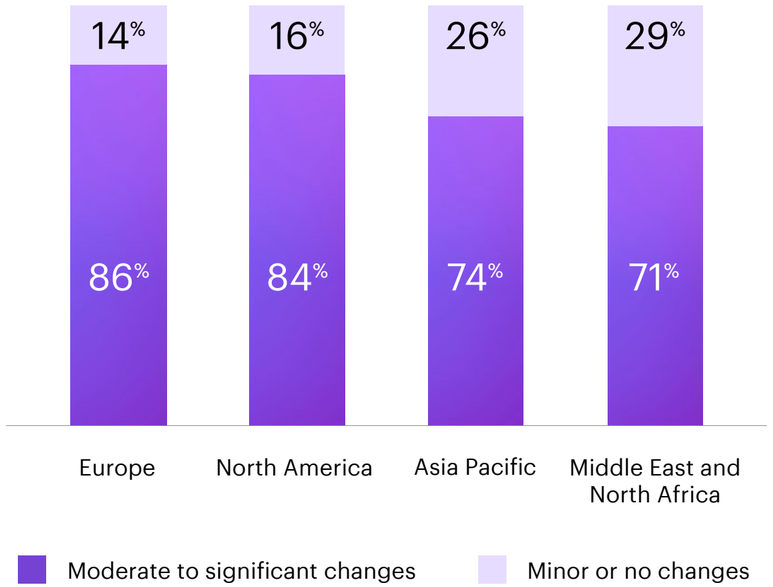
What do these high-level moves mean on the ground? Defense contractors are noticing a few key shifts in procurement approaches.

Interoperability is a must-have: Procurement agencies don't want standalone products anymore; they demand systems that can plug into a broader network. Any new jet, tank, or software must be compatible with allies' platforms and linked to joint training and logistics systems.

Equipment comes with services included: Defense buyers increasingly expect major systems to arrive as package deals with training, maintenance and even end-of-life decommissioning services bundled in. They don't just want the hardware; they want to know how to use it effectively and keep it running for decades.

Increased push for in-country military procurement: A growing number of governments are avoiding reliance on foreign components or foreign-controlled supply chains. The objective is not just industrial sovereignty, it's about minimizing the political and logistical risks associated with sourcing from other nations.

Figure 2: Perception of changes in defense procurement approaches by industry executives.



Some leading defense firms are already moving in this direction. They are forming joint ventures, signing licensing agreements and opening new plants abroad to meet localization demands. For example, Saab's delivery of RBS 70 NG air-defense systems to Lithuania includes training and tactical vehicle integration.[12]

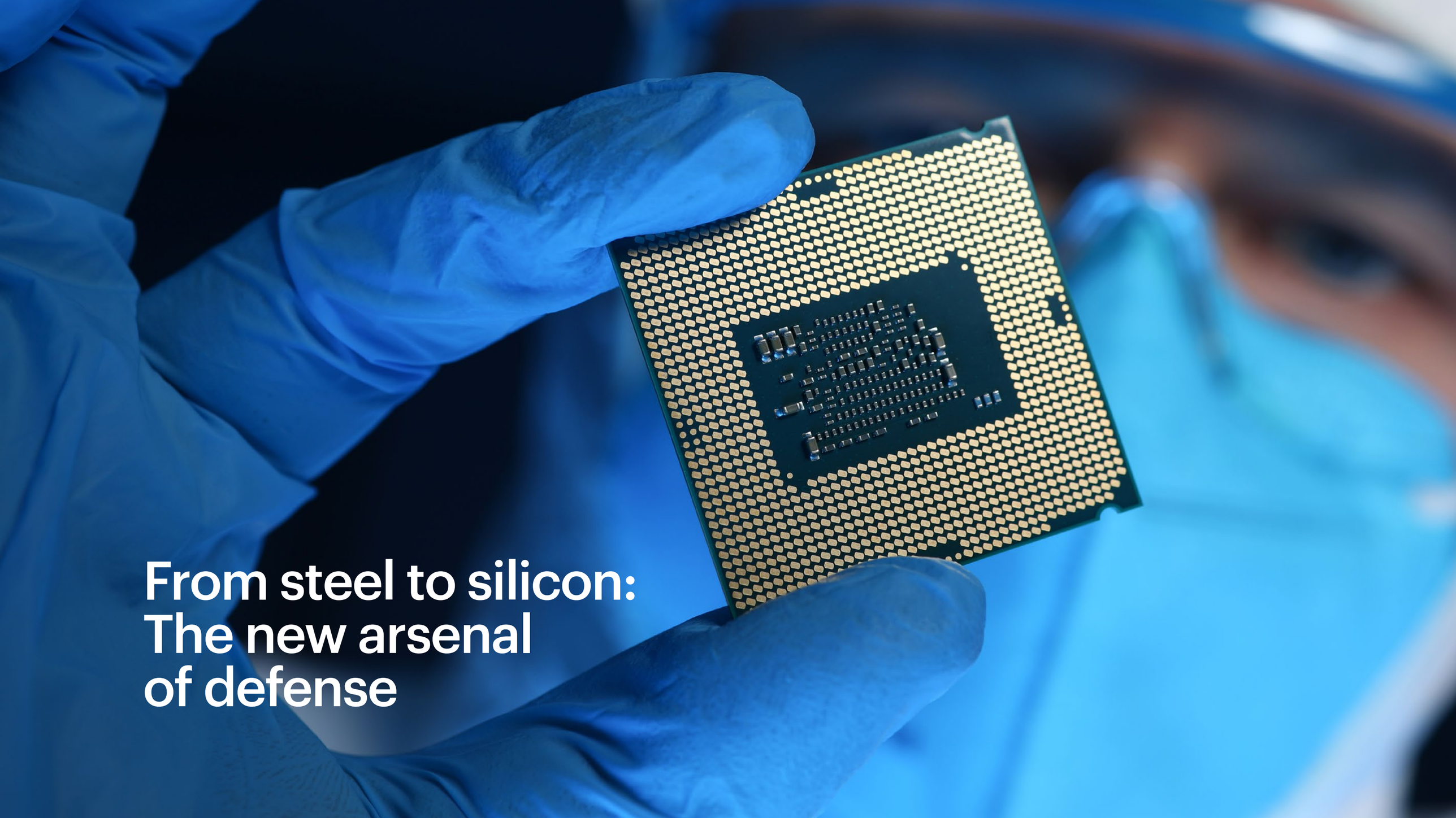
With European governments raising defense budgets but also indicating a more "buy European" approach, American and other foreign suppliers feel pressure to offer sweeteners like local production, technology transfers, or R&D investments. The EU's defense spending initiatives, such as the Security Action for Europe (SAFE), only reinforce this trend toward localized and cooperative armaments projects.[13]

The silver lining to current disruptions is the opportunity to build a more resilient and innovative defense posture. In Europe, rising defense budgets and a renewed urgency—driven by nearby conflicts and shifts in transatlantic alliances—could finally help break some of the old inefficiencies in military system development. While past EU initiatives like the Capability Development Plan and Permanent Structured Cooperation (PESCO) encouraged more collaboration, Europe still maintains multiple separate programs for infantry fighting vehicles, submarines and fighters, often duplicating efforts. Today, there is a strategic opportunity to invest more effectively by co-developing critical systems, reducing redundancy and maximizing the deterrence value of every euro spent on defense.

One thing is clear: The shift in threats—from conventional combat and low-intensity operations to grey-zone engagements and high-tech, high-intensity conflicts—demands an equally significant shift in how nations equip their forces. By embracing interoperability, agility, sustainability and partnership, defense leaders can invest wisely. The companies that thrive will be those that anticipate their customers' evolving needs and adapt proactively.

"There's a phenomenon of blocs being formed, especially in Europe. They want to procure arms within the region. In the past they just wanted to buy weapons, but now more than ever countries want to secure defense capabilities in their own countries."[14]

Jae-il Son, CEO, Hanwha Aerospace



From steel to silicon: The new arsenal of defense

As military customers demand new capabilities and procurement methods continue to evolve, established market dynamics are being challenged on three fronts: the rapid disruption caused by new technologies and software-driven products in the defense sector; the emergence of innovative market entrants that are native to the digital world; and the rise of newly competitive companies from emerging nations such as South Korea, Turkey, India and Poland.

These forces are collectively transforming defense from its historical foundation in heavy industrial "steel" into an arena increasingly dominated by "silicon"—the chips, software engineering and autonomous systems driving modern defense capability needs. For established defense firms, meeting this triple challenge requires a clear understanding of each trend and a strategy to adapt accordingly.

> "The deployment of AI in the defense sector is already a reality and is now taking on more of an operational than prospective characteristic for the industry."[16]
>
> Patrice Caine, CEO, Thales Group

Silicon-powered technologies are redefining defense

Executives cited AI, unmanned vehicles and systems (including loitering munitions and first-person-view drones) and advanced spaced-based capabilities as the top three silicon-driven technologies reshaping military requirements and, thus, market dynamics. Among these, AI is particularly important as the only technology noted by more than half of the executives surveyed (54%).

This shift toward software-centric, high-tech solutions is opening the door for companies outside the traditional defense sphere to contribute. Firms with deep expertise in software engineering and AI find a growing opportunity to support defense programs, even if they have not historically been suppliers to the military. One notable example is the partnership between defense tech startup Anduril Industries and OpenAI.[15] The two companies have formed a strategic alliance to develop and deploy advanced AI solutions for US national security missions.

Such cross-industry partnerships underscore how the defense sector is evolving beyond metallurgy and mechanics into the realm of data and algorithms. Defense is increasingly a contest of technological innovation—where mastery of code and AI can be as decisive as traditional industrial might.

Digital disruptors at the gate

Free from the burden of legacy systems, digital natives can be remarkably nimble in responding to shifting defense needs. Industry executives identified the top three factors behind these newcomers' success. **First, they put software engineering and AI at the core of their products, creating highly integrated digital solutions. Second, they design systems to be flexible and modular, allowing quick reconfiguration as threats and defense needs evolve. Finally, they prioritize cost-effective, scalable solutions that they can field faster and in greater numbers than traditional alternatives.**

Armed with these advantages, many small and medium-sized defense tech firms are expanding rapidly, often addressing evolving requirements faster than incumbents. A case in point is Sweden's Nordic Air Defense (NAD) work to develop a family of modular interceptors to counter the proliferation of small, low-cost drones on the battlefield. NAD's flagship interceptor, the Kreuger 100, prioritizes agility and low cost by using a software-driven flight control system and pulsed propulsion in place of expensive onboard sensors.[17]

The rise of new defense champions

Countries like South Korea, Turkey, Brazil, India and Poland have nurtured domestic defense firms that are now rapidly expanding their global presence. South Korea, for example, has recently climbed into the ranks of the top ten arms-exporting nations. Turkey is close behind after doubling its arms exports in the past several years.[18] Industry executives point to a few common ingredients behind these companies' success. These include an **ability to achieve rapid technological advances in specialized niches resulting in high quality products, strong political and financial backing from their home governments and a willingness to transfer technology and localize production to support growing demands for sovereign manufacturing.**

Executives from established defense suppliers also highlighted the ability of new entrants from emerging nations to deliver equipment on time and with good quality as one of their top strengths. This is a notable contrast to established companies, who are often associated with delivery delays and cost overruns.

Successes of companies from emerging nations are evident. For example, Turkey's Baykar, famed for its Bayraktar TB2 drones, acquired Italy's Piaggio Aerospace—gaining a foothold in European aerospace manufacturing.[19] South Korea's Hanwha Aerospace is similarly extending its reach by supplying advanced artillery to NATO allies; in 2024 it inked yet another European contract to deliver K9 self-propelled howitzers and support vehicles to Romania.[20] The rise of such companies is making the international defense market more multipolar. Innovation and market leadership are no longer monopolized by the traditional US and Western European primes but are shared with new entrants rising across the globe.

The adaptation gap: Why both incumbents and startups are struggling

Neither established defense suppliers nor the new market entrants are adapting fast enough to changing needs and markets. On one side, traditional defense giants dominate large, complex programs that meet defined standards, but often can't respond quickly to modern needs. On the other, agile startups bring fresh tech and fast cycles, often working on Proof of Concept (PoC) solutions, but struggle to scale. This divide is creating an "adaptation gap" that's slowing innovation across the industry.

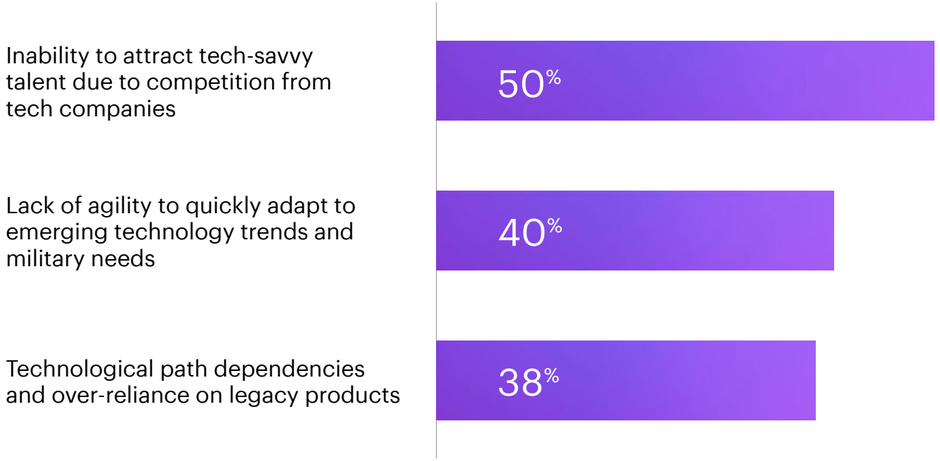
"We have a real labor shortage. We need skilled, or even highly skilled, workers in fields that have been neglected by the national education system for years."[21]

Jérôme Garnache-Creuillot,
CEO, Europlasma

Incumbents under strain: When strength becomes inertia

Major incumbent defense contractors command massive market positions and hold decades of experience. They are the go-to suppliers for complex fighter jets, naval vessels and armored vehicles. However, these very strengths come with inertia. Industry executives admit that traditional primes struggle to respond quickly to fast-changing requirements. Defense executives from incumbent firms cited three top barriers holding them back (Figure 3).

Figure 3: Top 3 barriers faced by established defense suppliers in swiftly adapting to the changing customer requirements.



% respondents rating each barrier as a top three barrier.

Difficulty attracting tech-savvy talent: These suppliers can't always offer the same cachet or compensation as civilian Big Tech firms, making it hard to bring in the AI, cloud and cybersecurity talent modern defense projects demand.

Lack of agility to quickly adapt to emerging needs: Large incumbent contractors are also built for reliability and scale, not speed. Their bureaucratic structures and multi-layered processes sap flexibility and make it hard to quickly adapt to emerging trends. This barrier is even more pronounced outside the US, especially in Europe, where differing and shifting national defense requirements create major obstacles to alignment.

Over-reliance on legacy products: Although most legacy products build revenue streams, they often come with path dependencies: ingrained supply chains, long-standing engineering approaches and internal cultures centered around sustaining those systems. This often leads to reluctance—or even inability—to move away from aging technology architectures, even when newer technologies could offer better outcomes.

Despite efforts from companies like Elbit Systems, engaged in seeking "hundreds, even thousands" of new employees to meet growing demand[22], the talent situation is difficult. Leonardo, for instance, is finding even its most intense recruitment drives are falling short, as it's now competing directly with global Big Tech for engineers and software experts.[23] But it's not only about major companies and lack of digital talent. Established lower-tier suppliers are also struggling to find a skilled workforce to meet skyrocketing demand.

New entrants: Fast, focused—and facing headwinds

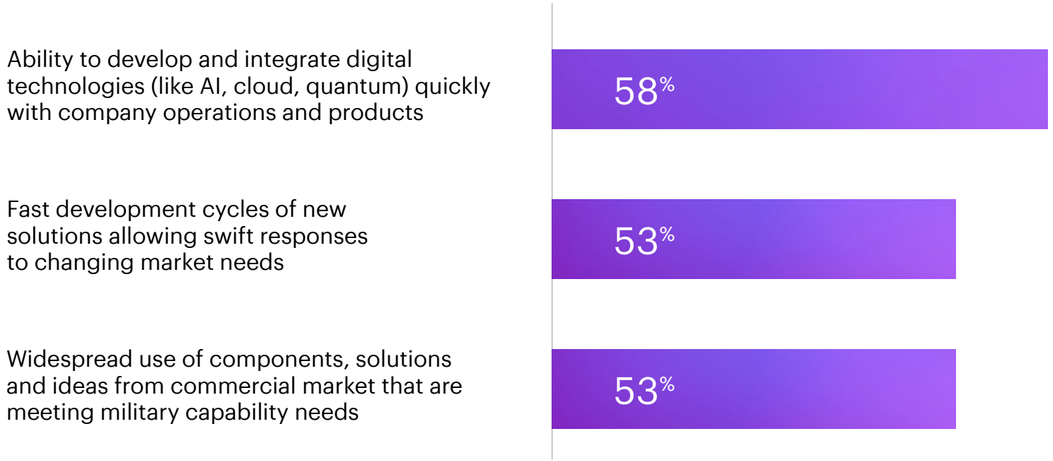
In contrast to the old guard, a new wave of defense tech startups and non-traditional entrants is bringing Silicon Valley-style agility into the fray. These newcomers—often founded by tech entrepreneurs or veterans frustrated with the status quo—pride themselves on moving fast and innovating on a shoestring. Defense startups tend to leverage off-the-shelf commercial technologies and software-centric approaches that allow rapid iteration. Executives highlight several key strengths that give new entrants an edge (Figure 4).

Digital DNA allows companies to develop and integrate digital technologies naturally. Core digital fluency, for example, facilitates integrating AI, cloud services and even emerging tech like quantum computing at speed to products. It also extends to internal processes—startups use modern agile development, continuous integration and rapid user feedback.

The ability to field new solutions fast, then refine them continuously, gives agile firms a chance to meet emergent demands that bigger contractors usually miss. This adaptability results in rapid innovation cycles that are measured in months, not years.

Newcomers also better **integrate components and ideas from the commercial technology world** to meet military needs. They can repurpose and ruggedize cloud computing, AI and advanced sensors developed for consumer or enterprise applications for defense. This dual-use strategy means a solution doesn't have to be invented from scratch.

Figure 4: Top 3 strengths of new market entrants impacting established defense suppliers' ability to gain market share.



% respondents rating each strength as a top three strength.

"The primes are designed to shift very exquisite assets on multidecade timelines in a long-term defense procurement cycle. The way you need to be building unmanned systems is the exact opposite."[24]

Ethan Thornton, Founder, Mach Industries

The results of this agility are already on display. Take Helsing, a European defense AI startup. In early 2025, Ukraine tapped Helsing to deliver 6,000 AI-guided "software-defined" drones. The company harnessed existing commercial drone hardware and its own AI software stack to create HX-2 loitering munitions, demonstrating how a small entrant can fill a capability gap faster and cheaper than any traditional program.[25]

Defense customers have taken notice of such speed. Military procurement authorities are increasingly adjusting rules to tap into new entrants' agility—enabling faster responses to shifting needs and, in some cases, tailoring solutions to the differing requirements of various armed forces. In Europe, for example, The European Commission launched the European Defence Innovation Scheme (EUDIS) to support European startups with business development and go-to-market strategies.[26]

On the other side of the Atlantic, the US Defense Innovation Unit (DIU) and Air Force launched a program in 2024 to bring in non-traditional vendors for a new generation of low-cost cruise missiles. Under the initiative, DIU picked four companies, including startups Anduril Industries and Zone 5 Technologies, to design and test affordable off-the-shelf cruise missiles within months.[27]

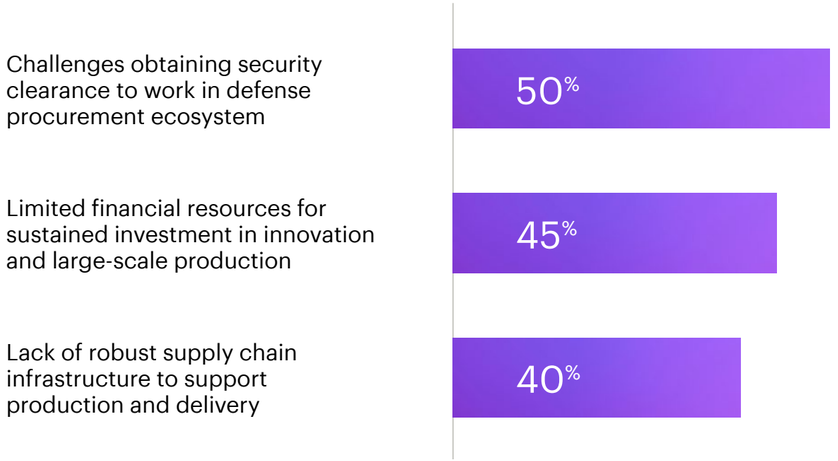
However, the startup route is no simple highway to success. For all their creativity and speed, new market entrants face formidable barriers as they try to scale from a promising prototype to a major program of record. Executives revealed the three top challenges on the other side of the adaptation gap (Figure 5).

Regulatory burdens: Many companies struggle to obtain the necessary security clearances, certifications and compliance requirements, such as CMMC (Cybersecurity Maturity Model Certification), zero trust architecture and other cybersecurity frameworks essential for working on classified or sensitive government programs. Although the US Department of Defense has acknowledged this bottleneck—with initiatives like DARPA's "Bridges" program designed to ease the process—it remains a significant obstacle.

Lack of sustained funding: Significant funding is what moves projects from prototype to production. This critical and risky phase often referred to as the "Valley of Death" is a major obstacle. Bridging this gap typically demands either substantial government contracts or major private investment, resources that many early-stage companies simply do not have.

Absence of a robust supply chain: While a startup might demonstrate a promising concept through a prototype or limited production run, it often falters when faced with the demands of delivering thousands of units on strict military timelines.

Figure 5: Top 3 barriers faced by new market entrants in swiftly adapting to the changing customer requirements.



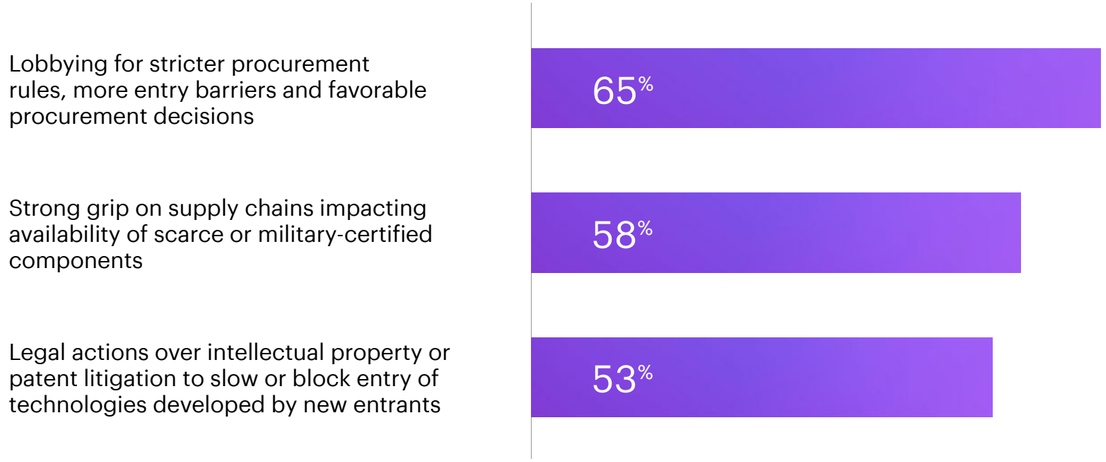
% respondents rating each barrier as a top three barrier.

Even though 2024 saw a record $3 billion in venture funding flow into defense tech startups, that cash was heavily concentrated in a few elite startups rather than spread across the field. Mega-rounds like Anduril's $1.5 billion Series F and Saronic's $175 million raise dominated the totals. Smaller startups often go unfunded, and even those with nine-figure valuations can't bankroll full-rate production of complex hardware for very long.[28]

Strategic friction: How incumbents maintain the advantage

Not surprisingly, established defense suppliers are not passively ceding ground to new entrants. They are using their influence and resources to protect market share and navigate competitive pressures. From advocacy in Washington and Brussels to strengthening relationships with key suppliers, new entrant executives we surveyed pointed to three top actions of incumbents that impact their ability to grow (Figure 6).

Figure 6: Top 3 strengths of established defense suppliers impacting new marker entrants' ability to gain market share.



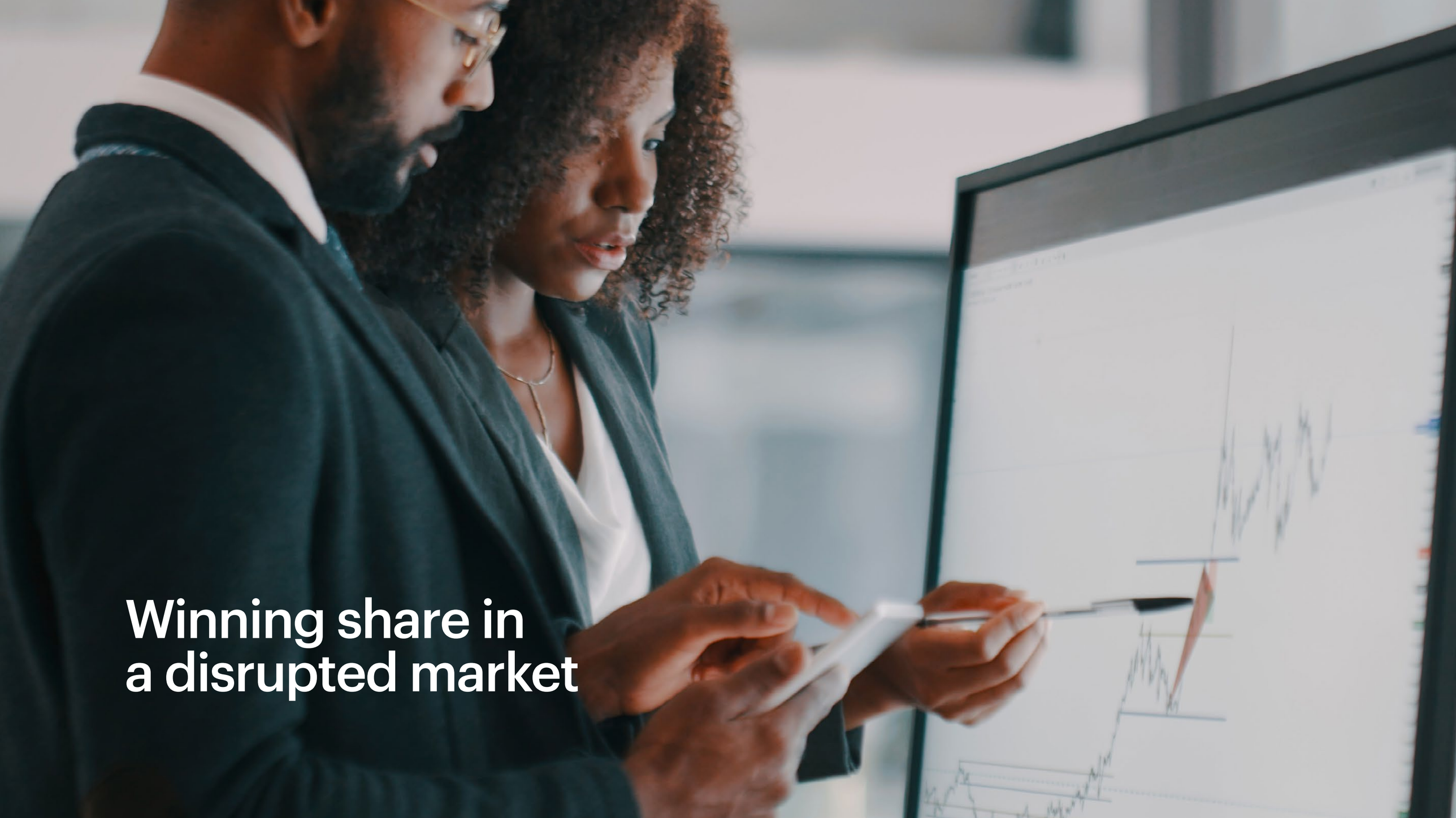
% respondents rating each strength as a top three strength.

Advocacy for stricter regulations: Through deep-rooted government connections, large firms help inform procurement policies in ways that reflect their capabilities. Newcomers frequently argue that these incumbents actively push for more stringent procurement rules and higher barriers to entry.

Dominance in supply chain: Beyond advocacy, established companies maintain tight control over critical parts of the defense supply chain, leveraging long-standing relationships and exclusive contracts with specialized suppliers of components like microelectronics and rocket motors. This supply chain dominance gives them another powerful lever against emerging competitors.

Legal and IP tactics: Finally, some incumbents turn to legal and intellectual property tactics—using patent litigation and IP challenges as tools to stifle competition and slow down innovative challengers.

Despite all the buzz about disruptive startups and changing requirements, the reality today is that the biggest defense programs still overwhelmingly flow to the traditional primes. For all their lack of agility, the legacy suppliers continue to win the "big iron" contracts—the complex, high-budget, generational projects that define the future force structure. These marquee programs such as Next Generation Air Dominance (NGAD) or B-21 in the US and Global Combat Air Program (GCAP), Future Combat Air System (FCAS) or Main Ground Combat System (MGCS) in Europe not only keep incumbents afloat, but they also entrench their dominance for decades to come, making it even harder for newcomers to break in.



Winning share in a disrupted market

As the world turns away from globalization, defense companies find themselves navigating a new era of friction. Tariffs and trade barriers are chipping away at international supply lines, and geopolitical tensions—especially between the US and China—loom large. Defense firms both old and new know they must adapt or risk losing ground. American contractors may take some solace in their largely national supply chains, which have shielded them from the worst of tariff troubles (certainly compared to, say, the globally entangled commercial aerospace sector). But even they are not immune: The F-35's global production model and Beijing's expanding blacklist of US companies as well as fresh export controls on critical minerals needed for advanced defense solutions are sobering reminders that no defense firm is fully insulated from a fracturing world economy.[29]

Partnerships: A lifeline in a fragmenting world

So how can defense companies, whether established suppliers or ambitious new market entrants, overcome these barriers and gain market share in this uncertain trade and geopolitical climate? The answer is to team up. **Nearly half (49%) of defense industry executives identified strengthening partnerships to access products and technologies as a top strategy for responding to market shifts.** The logic is simple: A trusted partner can bring what a company lacks, whether that's cutting-edge technology, production capacity, or entrée into a tough market.

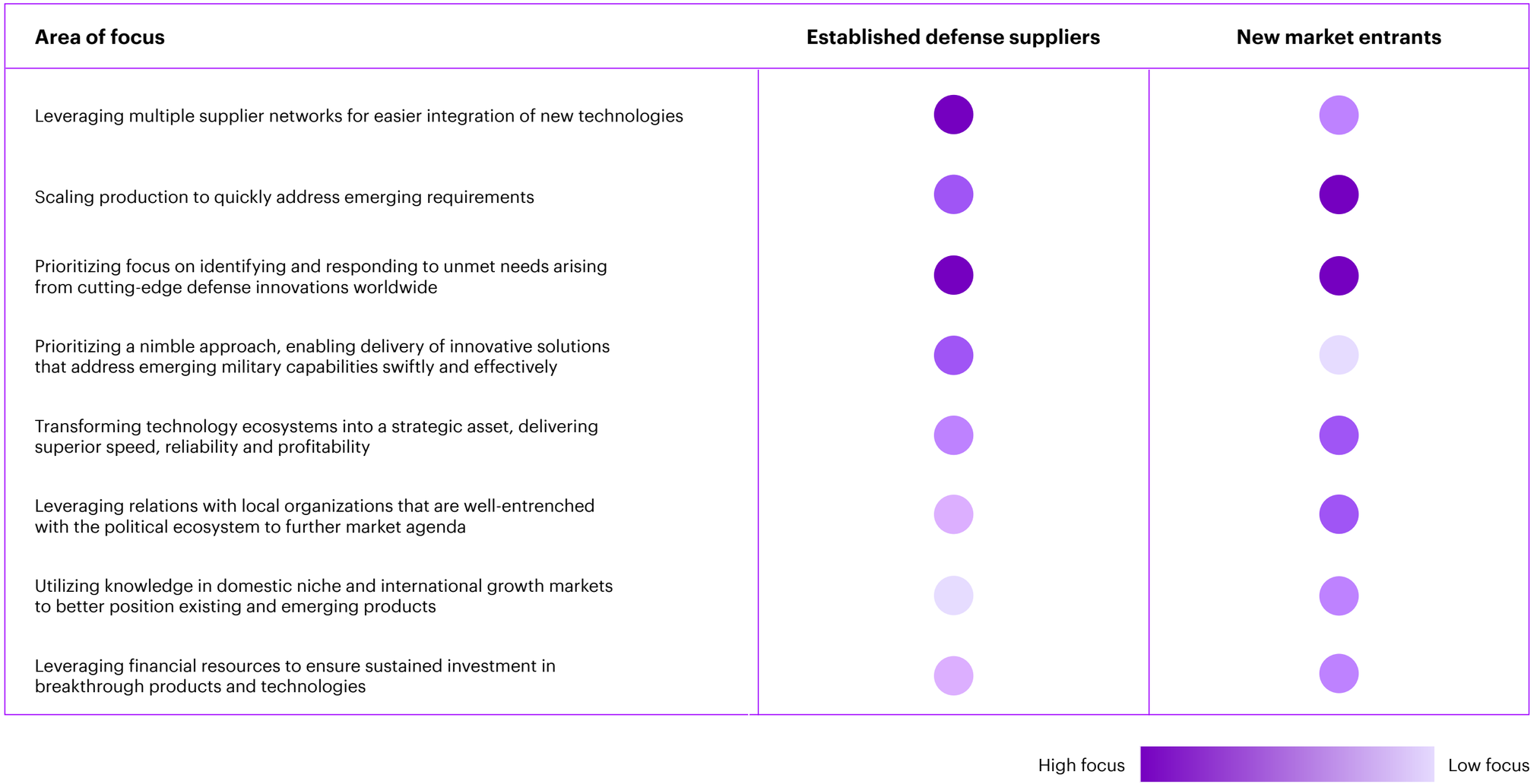
These alliances are essentially about mitigating weaknesses by pooling strengths, but the devil is in the details (Figure 7). Both types of companies need to form partnerships that help them spot and respond to emerging needs that would be tough for any one firm to identify or fulfill on its own. For instance, Turkish drone manufacturer Baykar teamed up with Leonardo to utilize industrial synergies of both companies in the unmanned domain to develop and manufacture new products that can be offered to customers worldwide.[30]

Established companies and new entrants must also seek partnerships that allow them to scale production quickly to meet surging demand. French aerospace and defense conglomerate Safran recently did just that by signing on with Bharat Electronics Limited (BEL) to co-produce a HAMMER precision-guided air-to-ground system locally. By joining forces, the companies marry Safran's product know-how with BEL's manufacturing base, ensuring that products can be built faster and at scale for a key market.[31]

It's no surprise that defense firms broadly agree on the value of such moves. Identifying unmet needs and ramping up production rank among the top reasons to partner, according to the executives we surveyed. But beyond these common goals, the ideal partnership strategy can look a bit different depending on the type of company involved.

> "No one company—or even one industry—can operate alone to meet today's global defense and security needs."[32]
>
> James Taiclet, CEO of Lockheed Martin

Figure 7: Defense companies focus on gains from collaboration.



Building better alliances: How to collaborate at speed and scale

Based on our survey and conversations with executives, we find established defense contractors seeing the greatest partnership success are those that leverage supplier networks to support integrating novel technologies into existing platforms, as well as those that prioritize a nimble approach. The latter is especially critical, as true agility is often preserved only through well-designed partnerships, while direct acquisition and integration of smaller firms can quickly erode it. Lockheed Martin, for instance, has been expanding its network of partnerships across Europe, enabling it to tap into regional innovation and more seamlessly incorporate local advancements into its global defense systems.[33] This helps the company stay competitive and accelerate innovation. Successful partnerships for incumbents also prioritize collaborations that add a nimble approach, allowing incumbents to develop and deliver new capabilities more quickly and effectively than they could on their own. A prime example is Leonardo's cooperative agreement with the UAE-based EDGE Group to co-develop advanced military technologies and bring them to international markets.[34]

Our survey and interviews also tell us that new market entrants are the most successful in partnerships that focus on adding credibility and access. These companies must leverage their technological ecosystems' strengths for faster, more reliable delivery and find local partners that are politically entrenched in challenging markets to help further their agendas. Anduril Industries, for example, recently teamed up with Microsoft to boost the US Army's augmented-reality headset program. Through the collaboration, Anduril can plug its defense AI and autonomous systems expertise into Microsoft's cloud and hardware strengths, speeding up delivery of a complex new product.[35] Embraer, a Brazilian aerospace and defense company, signed an accord with The Netherlands Industries for Defence and Security (NIDV) to expand its foothold and jointly develop upgrades for Embraer's transport aircraft. In doing so, this outsider to the European defense scene gained a local foothold and built trust with potential customers.[36]

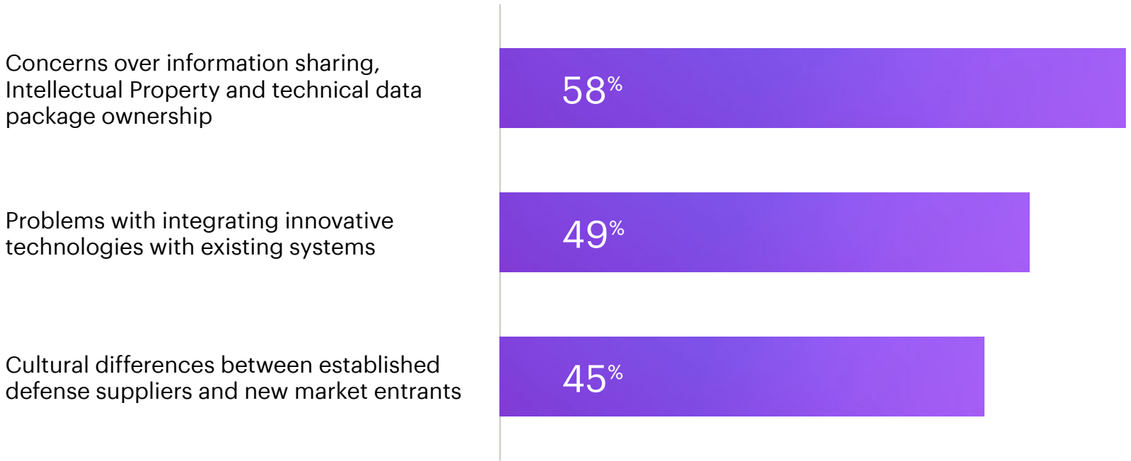
Obstacles on the collaboration path

If teaming up is such a game-changer, why isn't everyone doing it? In practice, forging meaningful partnerships in the defense world is hard. Another half of industry executives, while acknowledging collaboration's benefits, remain wary of going all-in. The reasons boil down to a few familiar hurdles noted by executives (Figure 8).

One major concern in defense collaborations is control over sensitive information and intellectual property. Defense technologies are built on closely guarded secrets, and companies often fear that sharing data with a partner could erode their competitive edge or compromise national security. **Compounding this is the technical challenge of integrating new technologies with existing military systems**—adding a cutting-edge software or AI capability to a decades-old platform can be akin to fitting a jet engine onto a biplane: theoretically feasible, but fraught with complexity. Even when trust is established and technology aligns, **a cultural rift often persists between traditional defense contractors and fast-moving tech firms.** The buttoned-up, by-the-book ethos of legacy suppliers can clash with the agile, risk-taking mindset of startups, turning collaboration into a culture shock for both sides.

> "Several European companies approached us to work on a collaborative drone project, but we turned down all of them because we see these partnerships as a means to access our technology with no clear benefit to our side."[37]
>
> CEO, European UAV manufacturer

Figure 8: Top 3 barriers for meaningful collaborations between established defense suppliers and new market entrants.



% respondents rating each barrier as a top three barrier.

The upshot is that building trust is just as crucial as solving technical issues. Major companies acknowledge these challenges and engage with initiatives to bridge the gaps. In the US, for example, defense suppliers participate in the Department of Defense's Mentor-Protégé Program, which pairs small businesses with more established companies. The larger firms provide guidance to help the smaller ones build capabilities for working with the DoD, while also fostering trust to support long-term business relationships.[38]

In the end, there's a telling split in mindset between the established companies and the upstarts of the defense industry. The long-time suppliers—who increasingly feel the pressure of disruptive innovation—view collaboration as a necessary defense mechanism, a way to shore up their weaknesses in an era of rapid change. The new entrants, the disruptors shaking up the status quo, often don't feel that same urgency to partner; brimming with confidence in their own tech and agility, they may see less need to compromise or share credit.

Yet as deglobalization and technological upheaval redefine the market, both camps will find that the right alliances are key to not just surviving, but thriving, in the defense industry's next chapter. To fully realize the benefits of these partnerships, both established incumbents and new entrants need to sharpen their focus in the distinct ways explored below to meet customer needs and enhance their market positions.

Where incumbents must double down

Although collaboration is crucial, it is not enough on its own. To stay competitive, established defense suppliers must invest in emerging technologies and skills, secure the supply chain and accelerate speed to market.

This begins with ramping up investment in emerging technologies such as AI, robotics, quantum computing and unmanned systems, while also attracting and retaining the specialized talent—like software engineers and data scientists—needed to harness these capabilities effectively. At the same time, firms must rigorously audit and restructure their supply chains to ensure their products are free from components sourced from adversarial or politically sensitive nations. This often involves replacing vulnerable electronics or sub-systems that could pose security risks or create geopolitical friction. Finally, accelerating the pace of product delivery to market is critical. By adopting faster prototyping methods, digital engineering and modular design approaches, companies can significantly reduce cycle times and bring new technologies to market more rapidly.

Many established suppliers are already moving in this direction. Lockheed Martin, for instance, has been harnessing AI and machine learning across its programs to revolutionize defense technologies and gain an edge in autonomy and decision-support tools.[39]

Dozens of established defense contractors are already pouring resources into advanced tech and internal transformation. The urgency is reflected in the numbers. **Since 2022, more than half of the acquisitions made by major defense companies have focused on just three areas: AI, cyber defense and machine-to-machine communications.** Incumbents understand that they must stake a claim in the digital and autonomous revolution quickly, while also strengthening their operations and products against a rising tide of cyber-attacks. For example, Safran's acquisition of French AI company Preligens underscores how a legacy aerospace manufacturer is retooling itself with AI capabilities that improve analytics solutions for high-resolution imagery and motion signals.[40]

> "We can no longer afford to have these 10–15-year super-heavy programs that aim sky-high for a set of requirements that will be extremely difficult to fulfill."[41]
>
> Michael Schoellhorn,
> CEO of Airbus Defence and Space

How challengers can break through

New market entrants are often born in disruptive tech, already ahead of the curve in fields like AI, autonomous "swarming" drone systems, quantum computing and other disruptive products. Their agility and fresh thinking give them an inherent advantage in introducing cutting-edge solutions. However, to translate their tech savvy into sustained success, new entrants must double down on a few key strategies.

To gain traction in the defense market, newer entrants should focus on designing systems with interoperability and open architecture in mind. By building products that adhere to open standards and modular designs, they can ensure compatibility with legacy platforms and allied equipment—an increasingly critical requirement for modern militaries. At the same time, these companies can carve out a competitive edge by targeting unmet or emerging needs with software-centric solutions. Whether it's AI-driven analytics, agile command-and-control applications, or advanced cyber defenses, software innovations offer powerful ways to enhance traditional hardware and address gaps that incumbents may overlook. Additionally, the ability to customize products for local or regional requirements can be a key differentiator. Unlike larger defense primes that often offer standardized, global solutions, more agile suppliers can stand out by tailoring systems to specific operational environments, budgets, or regulatory conditions. Utilizing these approaches can help new entrants win big orders despite competition from established suppliers.

Turkish Aerospace Industries' (TAI) Hurjet aircraft for example, successfully broke into a European market. Spain's selection of TAI's Hurjet as its next advanced jet trainer—over offerings from more traditional suppliers—underscores how a newcomer can prevail by delivering exactly what the customer needs, with cost-effectiveness and adaptability built in.[42] Or take Syntrycs, an Israeli startup that secured a multi-million-dollar contract to spearhead a national defense project in Latin America by providing a bespoke counter-drone solution. It beat established competitors by addressing a pressing security need—protecting critical sites from illicit drones—with a nimble combination of software and hardware.[43]

An open architecture approach supports not only end customers, but it also allows new market entrants to improve products made by established defense suppliers. The Swedish tech firm MilDef has become a provider of rugged network and cybersecurity equipment for BAE Systems' CV90 infantry fighting vehicles. Thanks to an open systems approach, MilDef's hardware will be integrated as part of an advanced cybersecurity solution on the CV90, improving an established platform with an advanced cybersecurity solution.[44]

By capitalizing on these approaches, new entrants can continue to punch above their weight. They have already proven they can leverage disruptive technologies to compete; now it's about ensuring their innovations fit seamlessly into the broader defense ecosystem and directly address the customers' pains. When they do so, even relatively young companies can secure big wins and play pivotal roles in defense modernization efforts around the world.

> "I'm not doing this because I want to build a $50 million company. I'm doing this because I want to build a $50 billion company that will fundamentally change the way that national security procurement works in the United States."[45]
>
> Palmer Luckey, Founder, Anduril Industries

Forging the future of defense

The international defense market is at a critical juncture, marked by rapidly evolving geopolitical landscapes and technological advancements that are reshaping industry dynamics. Established defense suppliers and new market entrants alike face the dual imperative of adapting swiftly and collaborating strategically to leverage their respective strengths. Collaboration is particularly crucial as it allows legacy firms with extensive market presence to integrate groundbreaking technologies. It helps agile new entrants access resources and scale operations effectively. Through strategic partnerships, defense companies can accelerate innovation, enhance operational capabilities and address changing customer requirements.

In addition to collaboration, embracing new digital capabilities, prioritizing interoperability and committing to scalable, agile solutions will be essential to navigate this period of transformation. Companies that proactively address these evolving demands, align closely with shifting procurement priorities and invest strategically in advanced technologies will secure their positions in an increasingly competitive market.

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