STRATEGIC BRIEF

Does a Small EMS Manufacturer Have a Realistic Chance in the Defence Market?

Yes, provided that the company's existing capabilities, customer requirements and commercial risks are aligned.

Dirk Kaussen | EMS Strategy Group | Rev.: 1.2 | 17. October 2026

Introduction

Rising defence expenditure in Germany and across Europe is creating new opportunities for companies in the electronics manufacturing sector. This also raises the question of whether small and medium-sized electronics manufacturing services (EMS) providers can establish themselves as suppliers to the defence industry.

The answer is yes, but opportunities are not equally accessible to every manufacturer. Technical expertise alone is not sufficient. Quality management, process reliability, documentation, information security, supply-chain control and financial resilience can all influence whether an EMS provider qualifies for a project.

There are no reliable statistics showing how likely an individual small EMS company is to win defence contracts. The following assessment therefore focuses on market conditions, typical requirements and the factors that can influence a company's prospects.

1. A Growing Market with Significant Barriers to Entry

Germany's increased defence spending is creating additional demand for military equipment, electronic systems and related components. The federal budget for 2026 provides for €82.7 billion in regular defence expenditure, supplemented by €25.5 billion from the special fund. For 2027, the draft budget envisages €109.7 billion in regular expenditure and €29.9 billion from the special fund. Procurement expenditure is also expected to account for a substantial share of the overall budget.

However, higher public spending does not automatically translate into orders for smaller electronics manufacturers. Contracts are often awarded to established defence contractors and systems suppliers, which then involve qualified subcontractors in their projects.

A survey conducted by the German Electrical and Digital Industry Association (ZVEI) in May 2025 illustrates the gap between market potential and actual participation. Of the 93 companies surveyed, approximately 18% reported that the defence and security sector already accounted for a share of their revenue. More than 60% were not active in the sector, while around one-third of the companies active in it generated only about 5% of their revenue there.

© EMS Strategy Group | emssg.com

The survey also identified regulatory requirements and complex procurement procedures as important barriers to entry.

For small EMS providers, the market is therefore not closed, but access depends on the type of product, the customer's requirements and the manufacturer's ability to meet the relevant standards.

2. What Requirements Must an EMS Provider Meet?

The requirements vary depending on the product, the customer, the intended application and the level of confidentiality involved. Not every defence contract requires the same certifications or security arrangements. Nevertheless, several areas are relevant to many potential suppliers.

Quality management and process reliability

Defence-related electronics may be subject to demanding requirements for product quality, manufacturing consistency, traceability and documentation. Customers need to be able to demonstrate that products have been manufactured according to defined specifications and that deviations can be identified, assessed and addressed.

An established quality management system is an important starting point. Depending on the project, customers may also require additional quality standards or specific contractual procedures. NATO quality assurance requirements, such as AQAP, may apply where stipulated by the contract.

For a smaller EMS provider, the decisive factor is not necessarily company size, but whether its processes are sufficiently mature and can be demonstrated reliably.

Security and the protection of confidential information

Some defence projects involve classified information or other sensitive technical data. Depending on the contract, this can require special security arrangements, including formal security clearance procedures for companies and personnel.

A *security clearance arrangement for classified information* means that a company must meet specific security requirements when handling classified information under certain contracts. Such arrangements are not required for every defence order.

In addition, projects may impose requirements for IT security and the handling of technical information. These can include controlled access rights, protection of design and manufacturing data, and rules governing data storage and transfer. The measures required depend on the project and the applicable contractual and legal requirements.

Export control and compliance

Defence-related products, components and technical information may be subject to export controls or other regulatory restrictions. The applicable rules depend on the product, its technical characteristics, destination and intended use.

An EMS provider must understand which obligations apply to its activities and ensure that the relevant procedures are followed. This may include checking whether products or technical information can be supplied to a particular customer or destination.

Compliance requirements should be clarified before a project begins, rather than treated as an administrative matter at the end of the process.

Components, supply chains and product lifecycle

Defence products may have long service lives. Customers can therefore require reliable component sourcing, traceability, change control and long-term availability planning.

Component obsolescence can become particularly important when electronic assemblies must remain available for many years. An EMS provider may need to support lifecycle monitoring, alternative component assessments and controlled changes to the bill of materials.

The extent of these requirements depends on the product and the contractual responsibilities assigned to the manufacturer.

Financing and project economics

Defence projects can involve lengthy qualification processes, extended procurement cycles and significant time between initial discussions and series production. This can create a financial burden for smaller suppliers.

A technically attractive project is therefore not automatically an economically viable order. The customer's financial position, agreed payment terms and the remuneration of any development work, where applicable, as well as manufacturing ramp-up costs, must also be considered.

An EMS provider should assess not only the expected revenue but also the resources required, the timing of payments and the financial exposure during the project.

3. Three Potential Routes into the Defence Market

Small EMS providers do not necessarily need to approach defence procurement authorities directly. Depending on their capabilities and target market, three routes may be worth considering.

Direct participation in public procurement

Companies can examine public tenders where the product, qualification requirements and commercial conditions match their capabilities.

However, direct participation can involve substantial administrative work, detailed technical documentation and specific eligibility requirements. For a small EMS provider without relevant experience, this route may be demanding.

Working as a subcontractor to established defence suppliers

For many small EMS manufacturers, cooperation with established systems suppliers or defence contractors may provide a more accessible route into the market.

These companies already have customer relationships and established procurement processes. They may require external manufacturing capacity for electronic assemblies or specialised production tasks.

The EMS provider must still meet the relevant quality, traceability, documentation and security requirements. Working as a subcontractor does not eliminate these obligations, but the scope of responsibility may differ from that of a direct contractor.

Cooperation with Defence-Tech and dual-use companies

A further possibility is cooperation with Defence-Tech companies and manufacturers of dual-use products. Dual-use technologies have both civilian and potential military applications.

These businesses may need external manufacturing support as their products move from development towards series production. An EMS provider with suitable technical capabilities and flexible production processes may be a potential partner.

However, the requirements can vary considerably between projects. A prototype assignment, a low-volume production order and a long-term supply contract can involve very different levels of qualification, documentation and financial commitment.

In all three routes, the commercial conditions matter. Responsibilities, payment terms, development costs where applicable, and the costs of preparing and ramping up production should be clarified before commitments are made.

4. How Realistic Are the Prospects for Different Types of EMS Providers?

The following assessment is qualitative. It is intended to help manufacturers evaluate their starting position, not to predict individual contract awards.

Company profile	General assessment
EMS provider with experience in regulated markets, robust processes and a solid financial position	Relatively favourable starting position
Established industrial EMS provider without defence references but with reliable production and documentation processes	Realistic opportunity, depending on the project
Technically capable manufacturer with weaknesses in serial production processes or documentation	Highly dependent on the specific contract and the ability to close the gaps
Manufacturer focused on standard or consumer products under strong price pressure, with limited resources for additional requirements	Unfavourable starting position for many demanding defence projects
Company with weak liquidity or high dependence on a single customer	Elevated commercial risk, particularly where qualification and payment cycles are long

The absence of previous defence contracts does not automatically exclude a company. Relevant experience in industrial electronics, regulated markets, traceable production or demanding customer environments may provide a useful foundation.

Conversely, a company with technically suitable production equipment may still struggle if its documentation, quality processes, information security or financial resources are inadequate.

The important question is therefore not simply whether a company is small or large, but whether it can meet the specific requirements of a project and carry its associated risks.

5. What Should Be Clarified Before Entering the Market?

Before investing time and money in defence-related business development, an EMS provider should examine several practical points.

- **Technical fit:** Does the company manufacture the relevant types of electronic assemblies and have the necessary production capabilities?
- **Quality and documentation:** Can manufacturing processes, inspection results, traceability and deviations be documented in a way that meets customer requirements?
- **Security and compliance:** Which requirements for classified information, IT security, export control and contractual compliance actually apply?
- **Supply chain and lifecycle:** Can components be sourced reliably, and can availability and changes be managed over the expected product lifecycle?
- **Capacity and resources:** Can the company support qualification, customer audits, production preparation and possible ramp-up activities without compromising existing business?
- **Commercial viability:** Are project responsibilities, payment terms, working capital requirements and the remuneration of additional work commercially acceptable?
- **Customer access:** Is there a realistic route to the market, either through direct procurement or through established suppliers and suitable technology companies?

These points help distinguish a genuine business opportunity from a project that may demand more resources and financial commitment than the expected return justifies.

Conclusion

Small EMS manufacturers can establish themselves in the defence market, but success depends on more than available production capacity or attractive manufacturing prices. Quality, process reliability, documentation, information security, supply-chain management and financial resilience are important factors in determining whether a company is suitable for a particular project.

For manufacturers with established industrial processes, the absence of previous defence contracts is not necessarily an insurmountable obstacle. Cooperation with established defence suppliers or Defence-Tech companies can provide a route into the market, provided that the company's capabilities match the relevant requirements.

At the same time, the market should not be approached on the assumption that rising defence budgets will automatically generate orders. Qualification can take time, requirements differ between projects, and the financial implications must be assessed carefully.

A realistic approach begins with an assessment of the company's existing capabilities, the gaps that would need to be closed and the commercial conditions under which a project could be viable. The objective is not to pursue every available opportunity, but to identify those projects where the technical requirements, operational capabilities and economic risks are compatible.

The EMS Strategy Group supports electronics manufacturers and OEMs in evaluating international manufacturing structures, identifying suitable EMS partners and assessing the operational and commercial implications of manufacturing decisions. Its role is independent and vendor-neutral; the final choice of partners and business arrangements remains with the customer.

Sources

[1] Deutscher Bundestag: *Deutlicher Anstieg bei den Verteidigungsausgaben*. September 2026.

[2] ZVEI: *Rahmenbedingungen zu unattraktiv – Elektro- und Digitalindustrie bleibt überwiegend noch auf Distanz zur deutschen Sicherheits- und Verteidigungsindustrie*. May 2025.

[3] Bundeswehr, Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support (BAAINBw): *AQAP – NATO Quality Assurance Requirements*.

[4] European Commission: *Study results: Access to equity financing for European defence SMEs*. 11 January 2024.

About the Author

Dirk Kaussen is Founder and Managing Director of EMS Strategy Group. With around 40 years of experience in the electronics industry — including founding and managing his own electronics manufacturing company in Germany — he brings deep expertise in manufacturing processes, EMS partner selection, supply chain stability, relocation projects, and risk management. His approach combines practical solutions with a direct connection to industrial reality.

About the EMS Strategy Group

EMS Strategy Group supports industrial enterprises in the strategic and operational advancement of their electronics manufacturing. Our core expertise lies in the strategic relocation of manufacturing volumes, the selection of qualified EMS partners, the establishment of new production capacities, and the expansion of existing manufacturing structures.

Furthermore, we design resilient supply chain frameworks, conduct comprehensive risk assessments, and guide dual-sourcing strategies, with operational support through to a successful series production ramp-up.

www.emssg.com | *LinkedIn: Dirk Kaussen*

Legal Notice / Disclaimer

The information, assessments, and recommendations contained in this Document have been prepared with the utmost care and to the best of our knowledge. They are provided solely for general informational purposes in a B2B context and do not constitute legal, tax, technical, or business advice tailored to any specific situation. The content of this document does not replace, and is not intended to replace, individual qualified professional counsel or economic feasibility studies.

Regulatory Proviso: As legal requirements, directives, standards, and their official application guidelines (particularly at the EU and international levels) evolve continuously, all information reflects the status at the time of preparation. It is strictly subject to later official publications or regulatory changes. Only the official legal texts and governmental publications remain legally binding.

Translation Notice: This document was translated from the original German version using machine translation systems. Although the translation has been reviewed, discrepancies, inaccuracies, or translation errors cannot be entirely ruled out. In the event of any ambiguity, conflict, or contradiction, the original German text shall remain solely authoritative.

Limitation of Warranty and Liability: While every reasonable effort has been made to ensure the accuracy of the information provided, EMS Strategy Group makes no representations or warranties, express or implied, regarding the accuracy, completeness, or timeliness of the content contained herein.

To the fullest extent permitted by applicable law, EMS Strategy Group shall not be liable for any direct, indirect, incidental, consequential, or other damages arising from the use of, reliance on, or practical implementation of any information, strategies, recommendations, or evaluation criteria contained in this Document.

Copyright and Distribution: This Document may be distributed and shared in its original, unmodified form, provided that full attribution and copyright ownership of EMS Strategy Group is maintained at all times.

Tax Advisory Disclaimer: Where this document refers to tax or tax-related matters, such references are made exclusively in the context of general strategic or economic considerations and do not constitute an individual tax assessment, tax advice or tax planning. EMS Strategy Group does not provide case-specific assistance in tax matters. The assessment of specific tax implications and the development or review of tax structures or tax planning measures should be carried out by a qualified tax adviser, auditor, lawyer or other professional legally authorized to provide such services.

www.emssg.com | LinkedIn: Dirk Kaussen

© 2026 EMS Strategy Group. All rights reserved. This document may be freely quoted, provided the source is acknowledged.