

Scaling Europe's defense industry: An interview with Micael Johansson

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The defense landscape in Europe is evolving fast, with active conflicts and novel hybrid threats affecting countries' critical infrastructure and economies. Innovation will be a key enabler for Europe's defense industrial base as the region seeks ways to scale the defense industry, drive more capabilities, and better collaborate to ensure its industrial competitiveness.

Having joined Saab in 1985, and having recently been elected as president and chairman of the Aerospace, Security and Defense Industries Association of Europe (ASD), Micael Johansson is well placed to offer an expert opinion derived from 40 years' experience in the defense industry. In this interview, he talks with Hugues Lavandier, senior partner in McKinsey's Paris office and coleader of McKinsey's global Aerospace & Defense Practice, and Hannes Erntell, senior partner in the Stockholm office, who advises companies in the tech sector. They discuss the importance of creating a resilient defense ecosystem in Europe, emphasizing the need to scale industrial base capacity to face new threats.

McKinsey: Several reports have highlighted that Europe's aerospace and defense industry lags peers in terms of competitiveness, for example, the United States. In your opinion, how can we ensure the competitiveness of Europe's defense ecosystem?

Micael Johansson: I think we do have a competitive defense industry in Europe, with many companies offering a broad range of technologically advanced and innovative products. That said, there is an opportunity to further strengthen a single market perspective across Europe, as many nations currently focus on supporting their own national defense

industries to meet specific requirements.

In the United States, because of significant defense spending and previous consolidation, the defense industry has scale, which is a huge benefit. Scale matters, and we need to achieve that in Europe. Going forward, European countries will likely need to collaborate to achieve scale in flagship projects. These could be, for example, integrated air and missile defense systems, unmanned combat aircraft, or security of supply for different ammunition types.

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We need to realize that we have to scale our defense industries to become more competitive. Additionally, it is good to have competition within Europe itself—a level playing field—to create edge and competitiveness. In essence, the basic foundation is good. We have global, innovative companies with great capabilities. We can succeed, but we need scale.

McKinsey: If we look at 2024, it was a strong year for Saab, and your order backlog continues to grow. Typically, such a situation strains manufacturing and supply chain operations. What are Saab's biggest challenges here currently?

Micael Johansson: Our major investments have been connected to our advanced weapons systems and sensors. However, this must involve a fully-fledged ecosystem with a strong supply chain network to ensure we have access to critical components and that our suppliers and subsuppliers have access to the required material; otherwise, it won't work.

Our challenges are mainly connected to creating an ecosystem around the production capacity we need to provide. We have been quite successful so far. Compared to before the war in Ukraine, by the end of 2024, we quadrupled output when it came to defense products across various

production lines.

To ensure a secure supply of defense products, we are considering whether we can obtain items like nitrocellulose from within Europe, instead of relying on foreign production. We must consider these things when thinking about the resiliency of our supply chains.

Fortunately, we have taken a regionalized approach to our supply chains, as well as major steps to create redundancy. We're building a facility in India, which will be our first production facility for the Carl-Gustaf outside of Sweden. This supports our global growth as well as our expansion in India. We're building another facility in Grayling, Michigan, to ensure we have the capacity that is needed to be a player with a local presence in the United States.

McKinsey: What is your strategy to ramp up operations to be prepared for growth in the future, both with regard to your presence in Europe and internationally?

Micael Johansson: One of our most important strategies now focuses on redundancy. We can't have all our capacity in Sweden. We need it in other places as well, such as India and the United States, as I mentioned. We have also recently invested in facilities in Finland, Germany, and the United Kingdom to support the sensor side of our business. This is not only about supply chain resilience but also the security of our business and where we can find a good ecosystem of suppliers with a legacy of competence—and, of course, whether the suppliers are accustomed to what we do. There is a handful of countries that we can look at to be major customers and production locations.

McKinsey: Innovation is a strategic focus for Saab. Today, you leverage both in-house developments and collaborative investments in [defense start-ups](#).¹ How do you see the relative strengths of start-ups versus industry leaders such as Saab? What conditions need to be in place to work together in an effective way?

Micael Johansson: A benefit from the start-up perspective is that they begin with a blank sheet of paper. If you talk about software-defined systems going forward, it's much more difficult to transform an organization into that kind of system when you are used to building platforms. You need the platforms, but the big difference is to start by thinking about what capability you can give the customer. Of course, we are already continually looking at new ways of working with software development and using AI in more comprehensive ways. Start-ups have the advantage of starting from scratch from a software-defined perspective using different AI models, but they sometimes run into challenges when it comes to creating full-size capability in the large platforms.

It makes sense to connect the two. The relationship is reciprocal: We learn from start-ups and they learn from us when it comes to understanding large platforms. For us, the challenge is when we create our own innovation hubs and they become almost like start-ups—how do you bridge those into your normal business organization without destroying the innovation capabilities? I am convinced that most legacy companies are transforming themselves to being much more software-defined going forward.

While we are working with start-ups to add value to what we do, our strategy is not to acquire and integrate them, but rather to work with them and leverage each other. The benefit for them is that we can help with challenges such as addressing more conservative customers. We come from the other perspective, and we have to start thinking in a different way about software-defined platforms. I think legacy companies are all doing this as we speak.

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McKinsey: R&D speed is a critical factor in driving innovation. In particular, the war in Ukraine has seen rapid product iterations on both sides, for instance, in drones. There is a debate about whether this constitutes a paradigm shift in the type of equipment to procure or develop. Has this changed your approach, your thinking on R&D, and on bringing innovation to market?

Micael Johansson: To some extent, absolutely. For example, with drones, quantity can also be a quality. It gives you a new perspective on what you can do with commercial technology and software-defined systems. You don't have to think so much about the logistics setup in supporting equipment; it doesn't matter if you lose a few from a reliability perspective, because you have so many. Faster testing and certification processes could also enable getting things into operation quickly. But loitering munitions, drones, and that type of technology—if you can produce them in quantity, they're a problem for the aggressor.

It has changed our thinking about autonomous systems, and how quickly we can go from ideas to operations. A recent example is a project we set up with the Swedish army, where we went from idea to launching a swarming drone program for sub-25-kilogram uncrewed aircraft systems in just over a year. This meant that we worked in a completely different way, involving them more in the usage of the system, rather than thinking how we could support and repair it in a proper way. As a result, we were able to develop a new solution faster than ever before. For these types of systems, you have to be prepared to take a risk when you're in a war—that's a difference to the commercial airspace sector.

McKinsey: We have already spoken about the war in Ukraine, but threats are progressively appearing outside of the battlefield. Especially in Europe, infrastructure security is a big concern, with infrastructure attacks and disruptions becoming more frequent. How can countries best protect themselves against such new hybrid threats, and where do you see Saab's role in this?

Micael Johansson: Hybrid warfare puts a new perspective on things. You

have to be able to monitor and have resilient and secure systems around the infrastructure. Our role in this? Look, for example, at the critical subsea infrastructure: If you have autonomous underwater vehicles and sensor capability, you can add a lot in terms of monitoring. The same applies to other critical infrastructure, such as power plants, where you need sensor capability and connectivity to make sure you can counteract physical aggression. With regard to cyber, our main priority is protecting our own systems. Saab doesn't operate offensive cyber systems today. We support our customers by offering operational centers, which enable clients to monitor their own systems.

Overall, I think defense and protection against hybrid warfare is an area that will become even more important. There is significant market potential, but a big question is: Who is the customer and where does the responsibility lie for protecting this infrastructure, which is often located offshore? Are we prepared to go from a national to an international perspective? This will require real cooperation between private players, public players, and militaries.