G2 CAPITAL ADVISORS

Before It's Too Late: A Leadership Guide to Business Crisis

Part I

Recognizing the Signals Before Crisis Takes Hold

Most companies do not enter a crisis with a bang. The slide is gradual. Revenue softens, customers hesitate, margins compress, or competitors gain ground one quarter at a time.

At first, management has reasonable explanations: a temporarily weak market, distraction from major initiatives, competitor initiatives that aren't sustainable, or customers needing more time to appreciate the value proposition. Sometimes those explanations are correct. Markets do dip, and customers do pause. But distinguishing a temporary headwind from a systemic shift is critical because the one asset no company can afford to lose is time.

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His career spans CEO leadership, board service, and interim executive and chief restructuring officer roles, with extensive experience guiding companies through operational turnarounds, financial restructurings, and periods of significant organizational change.

For boards, sponsors, lenders, and executive teams, the question is not whether the business is under pressure. The question is whether that pressure reflects a bigger change in strategy, product relevance, customer behavior, competitive positioning, or operating discipline. The leadership challenge is to recognize that distinction early, communicate honestly, and respond with enough urgency to stabilize the business before options narrow.

In this series, we examine the changes that can push a business toward crisis and the leadership responses that often make matters worse.

Something is not Right, but What Changed?

Change is inevitable, and it does not always produce poor results. Many successful companies intentionally disrupt themselves to stay ahead, preferring to control change rather than let change control them. Recognizing when change occurs outside the company's influence and understanding how it affects the business is critical.

Change Type 1: Is it a Market Dip or a Market Shift?

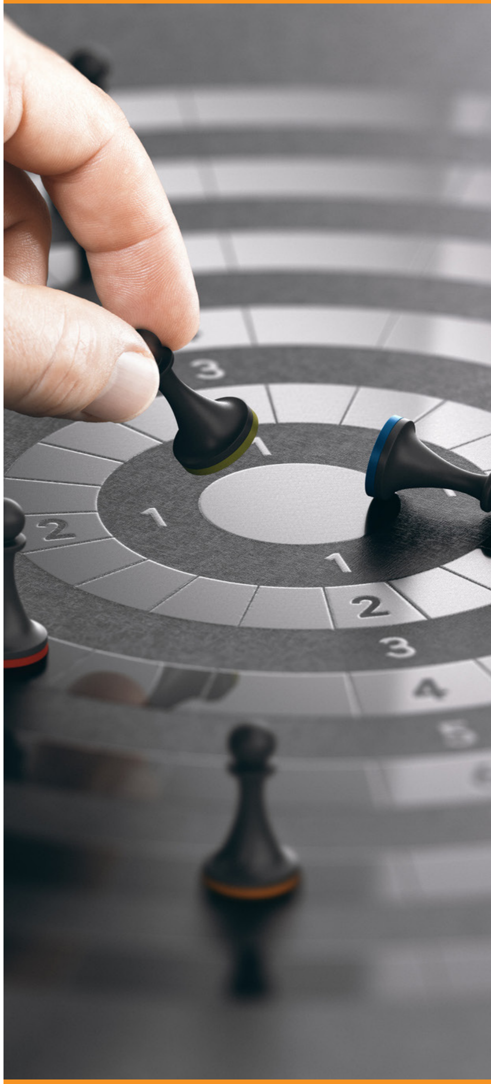
The economy and market sectors constantly ebb and flow. Often, they do not change in synch. A market dip is unsettling, but the signs are relatively consistent across history. Demand may slow, but customer needs remain intact if subdued. Competitive dynamics remain recognizable. In general, the company's core proposition still resonates through the downturn.

Market shifts are different. Customers are not just delaying decisions; they are redefining what they value. Competitors are not simply discounting; they are changing the basis of competition. Sales channels, expectations, technology, or economics are shifting in ways that have weakened the company's market position.

One bad period is not a trend, but trends should concern leadership. Executives should be wary of explanations that rely solely on time. "The market will normalize" or "we just need one more quarter of data" may sound reasonable, but they are not strategies. They surrender agency. Blockbuster was the 800-pound gorilla in movie video rentals until they weren't. The decline didn't happen overnight. The Netflix model was a gradual yet accelerating shift in customer expectations toward a more convenient video-delivery-by-mail model.

Leaders should pressure-test for a market dip versus a shift using win-loss data, customer interviews, repeat business trends, competitor actions, market intelligence, and an evaluation of the sales pipeline. Rely on facts—not intuition or a wait-and-see approach—to understand the situation.

When performance begins to deteriorate, waiting is rarely the answer. Strong companies do not overreact to a single bad quarter, but they do pay close attention to trends that may signal a fundamental shift.



Change Type 2: Is Your Organization Built for What's Next?

Many crises don't erupt out of nowhere. They accumulate quietly, like the waterpark bucket filling drop by drop until it suddenly flips to the squeals of childish delight. Companies ride years of strong performance, breeding confidence that the next acquisition or expansion will be just as smooth. But beneath the surface, leadership bandwidth is already stretched, processes are straining, and the organization's excess capacity is nearly tapped out.

The moment a major initiative arrives, all that hidden load shifts. What looked like a healthy, growing business suddenly tips past its balance point, emptying the entire bucket at once. The damage shows up in the financials long after the initiating event.

Sprint acquired Nextel in 2005. Prior to that acquisition, Sprint was performing well with a solid network position, past innovation successes and strong stock performance the year before. However, Sprint was facing increasing pressures from AT&T and Verizon. Sprint felt that the Nextel acquisition was a strong strategic step. The reality was that Sprint's team was already stretched defending their current technology position against a growing global consensus around a new standard. Adding Nextel with a third technology position was the bridge too far. Things initially looked good but by 2008, Sprint wrote down nearly $30 billion and eventually merged into T-Mobile.

Leaders should always ask if their business is ready for the next big opportunity. Failing to continuously grow skills, team depth and business capabilities will lead to the tipping point.

Change Type 3: Has the Competitive Environment Changed?

Competitive change is often missed because leaders focus on known rivals. At the same time, leaders and teams can also get complacent about existing rivals innovating. In either case, a new competitor or a suddenly innovative existing competitor yields the same result – lost market share.

General Aviation aircraft for nearly a century had relied on two engine manufacturers. One was known for excelling at six-cylinder engines, and the other at four-cylinder engines with a subspecialty in aerobatic engines. Neither had innovated nor changed the technology in decades. Continental Aerospace recognized that OEM and pilot desires were changing to reflect gains in engine technology in other markets that would improve fuel economy while making the pilot's life easier. While its competitor was sure that their lead in four-cylinder engines for training and entry-level aircraft was fully moated, Continental listened to customer desires. They acquired diesel engine technology and developed a clone of their competitors' market-leading four-cylinder engine. Market share gains at the OEM and Aftermarket segments quickly followed.

While many think customers, consumers, and OEM's, are loyal to a fault, they are, in reality, a fickle bunch. Especially today, customers are ready to adopt innovation or follow the latest social media trend without a care for past patterns. Customers will look at "NEW," whether it is a new model, product, delivery path, experience, transparency, or price. Ask yourself if they are winning not because they are better at the old game, but because they are playing a different game.

Change Type 4: Did We Lose the Secret Sauce?

Every successful business has a secret sauce. This could be a unique product, sales method, client base, operating model, culture, or operating rhythm that makes the company valuable to its customers. In decline or crisis, leadership must ask whether the advantage still exists in practice, not merely memory.

The secret sauce can be diluted by time, growth, cost pressures, leadership turnover, or bureaucracy. Financial sponsors may unintentionally weaken the very business model they valued by optimizing for metrics or expectations that lead management away from the factors that drove their success. The secret sauce might still appear in management reports, but customers no longer feel it.

Recently, G2 helped two companies that had lost significant market share in direct-to-consumer e-commerce. In both cases, the companies had high-margin success with revenues well north of $100 million and growing at a double-digit CAGR. In one case, this was accomplished by tailoring sales scripts to well-defined customer types. The other was focused on a specific demographic and on providing them with exactly what they wanted, over and over. Also, in both cases, new ownership deviated from these proven models, resulting in immediate and sustained declines in revenue and margins.

This is one of the hardest conversations for executives because of the identity challenge. Leaders are required to distinguish the brand story from the customer reality. If the company's differentiated advantage has eroded, the appropriate response is not nostalgia. It is reconstruction.

Don't Wait, Read the Tea Leaves.

When performance begins to deteriorate, waiting is rarely the answer. Strong companies do not overreact to a single bad quarter, but they do pay close attention to trends that may signal a fundamental shift.

Change is often visible long before it becomes a crisis. The companies that navigate disruption successfully are those that recognize the early signals and act before their options narrow. Read the tea leaves. Early detection and decisive action are critical to preventing a downturn from becoming a full-blown crisis.

But recognizing a crisis is only the first step. Once you've determined the business is facing a real crisis, what comes next?

In our next installment, we'll examine the leadership response and the critical decisions that define the first 30 days.

About G2 Capital Advisors

G2 Capital Advisors provides M&A, capital markets, and restructuring advisory services to the middle market. We offer integrated, multi-product, and sector-focused services by pairing highly experienced C-level executives with specialist investment bankers. We aspire to be our clients' trusted advisors of choice, including corporations and institutional investors.

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