How Steve Hillard and his team Made 1 + 1 = 3

by John Slater & Jorge Maceyras

H3 Manufacturing Group combined two companies with distinct operating systems, customer bases, and corporate cultures into a leader in precision manufacturing in just three years

Illinois-based H3 Manufacturing Group, LLC owns two former legacy companies: HL Precision Manufacturing, based downstate in Champaign and Fisher, and Hi-Grade Welding & Manufacturing, based in the Chicago suburb of Schaumburg. In 2019, advised by FOCUS Investment Banking, the two companies were combined under a single parent company, H3 Manufacturing Group, led by Chairman & CEO Steve Hillard, (Steve was HL Precision's CEO and sole owner prior to H3). Partnering with Steve since 2019 in the formation of H3 are Aldine Capital Partners and Capital for Business (the prior majority owner of Hi-Grade). Steve's daughter Corrinne is the company's Chief Operating Officer and has been key in creatively developing H3's employees and operational disciplines including her many years prior with HL Precision. Chris Hafke was recently hired as H3's President to buttress the company's manufacturing and engineering acumen. Rounding out H3's executive team is Rick Anderson, Chief Financial Officer.

For the first two years, the two companies operated individually as subsidiaries under the H3 holding company. While Hi-Grade was a rugged fabrication and laser cutting (and larger) company, HL was a more data-centric precision machining business. HL's expertise in precision CNC machining, assembly and paint, and powder coating capabilities complemented Hi-Grade's significant capabilities in laser cutting, fabrication, and complex welding. They were seeking ways to collaborate together to provide broader manufacturing solutions to each other's customer base.

Following economic challenges resulting from the pandemic in 2020 and the necessary organizational changes and business realignments necessary to create a true "Powerhouse of Solutions" as one company, both legacy companies were merged into one operating company, H3 Manufacturing Group, in late 2021. Since then H3 has been executing on its original business plan through its three manufacturing facilities totaling 165,000 square feet employing more than 170 employees. Combined, the companies serve a broad range of industries, including aerospace and defense, medical devices, power transmission, power generation, life sciences, automated retail, and public transportation.

Since the merger, H3 has grown dramatically in terms of revenue and profitability in just three years. The company recorded its best revenue and earnings results in 2022 and management expects to improve on both in 2023.To get where it is today, major changes in corporate culture and business philosophy and operating disciplines had to align. To find out how they did it, we spoke to Steve Hillard. An excerpt from our conversation follows.

1. What were the major differences between the two entities, and why did you think they would make a good fit?

While both companies had complementary skills and degrees of overlap by function, the actual application of those functions was implemented differently. Both companies had a fairly diverse customer base, but there was virtually no overlap, so the combination provided even greater diversification while also later providing management an opportunity to perform some customer rationalization without impacting revenue.

2. What were the positives and negatives that each operation brought to the table, and how were they reconciled?

Both companies were great long-standing companies but had different operational issues and business principles. HL Precision had a high mix/low volume precision parts business while Hi-Grade had a lesser mix and a slightly greater volume of heavy fabrication work. This created operational differences but also managerial differences. HL Precision' s low volume precision business brought with it a necessary focus on data-driven management and metrics/measurements of many kinds, while Hi-Grade's historic customer base brought size and forecasting from which to better make long-term decisions on a variety of levels. One of the very tangible ways we succeeded in reconciling the two companies' operations through our three facilities was to implement throughput measurements on an individual team member basis. That effectively neutralized the differences between the facilities and the very different types of work they do. Measuring everyone individually but on the same basis of measurement also allowed us to roll up those results by department and the facility as a whole. We post all these results in each facility for full transparency.

3. What steps did you need to take to get them to work better together? Management changes, cultural changes, new technology?

The management and culture changes were overlapping and interwoven. The goal was to create a larger, broader, and more robust "one-company" approach. Our motto—Precision, People, Purpose—by its nature truly does touch on all aspects of the business and our culture. As for technology, there has been great support from our shareholders to invest in the necessary assets to make H3 a truly leading—but not bleeding—edge company.

4. You talk about "new school thinking" –i.e., fewer but better (more profitable) customers. How does that work in actual practice, and how did you accomplish that? How long did it take? Was there any pushback within the company and from clients?

We prefer to call it "customer rationalization." In my view most machine and fab shops historically try to never say no to an order or a customer. Despite the old adage that you cannot be all things to all people, far too often that is exactly what shops tend to do. This is not to say you cannot do many things well; it is to say that the whole customer relationship needs to be taken into account. You must have disciplined leadership—and the data to support it—to discern or rationalize which customers you can best serve, and frankly what customers really value your solutions and relationship. We cannot afford to be performing mere transactional business. Further, like our customers, our company goes through change as it grows. Most of our key customer relationships account for and understand these elements and we continue to evolve with them. As a result, some customer relationships do not remain as a good fit for any number of reasons. Making decisions to gracefully address those situations is perhaps one of the toughest tasks we tackle.

5. One of your internal corporate mottos is "don't lead from fear." What does that mean exactly? How does that manifest itself within the company and how do you instill it in individual employees?

It involves making decisions surrounding our two most valuable assets, that is our customers and our employees. Manufacturing leaders can easily get trapped by fear of acting on their instincts "we are not making a profit, what if we raise the price?" or "what if we enforce discipline upon a skilled employee who doesn't honor our culture?" Failing to address either of these quickly and directly is choosing perceived short-term safety over a long-term solution and in effect, leading from fear.

6. You have a deep belief in building a data-focused culture to optimize operations and drive margins. Why is that so important, and how did you implement it across the combined company?

A focus on data is an essential part of our culture. Culture is the "soft elements" within a company but also the "hard ones" as well. Implementing that culture across both companies and our three locations has not been easy. This one issue may have driven the largest degree of management changes. We have made modifications to our data sets based on some unique differences in the broad ranges of solutions we offer, but for the most part the primary drivers and metrics are now measured the same.

7. What is your biggest business challenge today, and how do you plan to overcome it?

We are blessed to have capacity as our biggest challenge— first and foremost, the capacity of having enough employees with the right skills and training. Also, but not often front of mind, is the capacity for our team to grow in its thinking about how to manage and lead a growing and increasingly larger company while meeting our growing and discerning customers' needs.

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