Granite Partners Case Study:

Business, Regional, and Community Implications of a Cluster-Driven Strategy

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Introduction

This case study was undertaken to provide a qualitative business perspective on the role of industry clusters in greater Minnesota. This case study follows a series of previous studies and reports on industry clusters in Minnesota, which most recently have focused on the medical device industry cluster within the metro region of the Twin Cities.[1,2,3] In contrast, the present study focuses largely on medical device companies and their linked companies outside of the metro region[4].

Industry cluster studies have generally focused on economic development aspects and public policies that can enhance this economic development.[5] This case study was undertaken to explore the industry clusters from the perspective of a Minnesota company, Granite Partners, that has made industry clusters a

[1] Munnich, L., Fried, T., Cho, J., & Horan, T. (2021). Assessment of spatial location and air transport patterns of Minnesota's Medical Device Industry Cluster. Journal of Strategic Innovation and Sustainability, 16(2). https://doi.org/10.33423/jsis.v16i2.4301.

[2] Munnich, L., and Horan, T. (2019). Minnesota Medical Device Industry Cluster: Development, Linkages, and Transportation, University of Minnesota.

[3] Lee Munnich & Frank Douma. (2017). Obtaining manufacturers' perspectives in making regional transportation decisions, Community Development, 48:2, 240-254, DOI: 10.1080/15575330.2017.1285333.

[4] Horan, T., Anders, M., & Lopez, C. (2023) Greater Minnesota Medical Device Industry Cluster StoryMap, https://tinyurl.com/MNClusterStorymap.

[5] Ryan Donahue, R., Parilla, J. & McDearman, Rethinking Industry Clusters, Bookings Institution, Washington, D.C.

foundational part of its business strategy. What is distinctive about this case study is it focuses on how industry clusters can drive a competitive strategy and do so in a manner that has positive implications for communities.

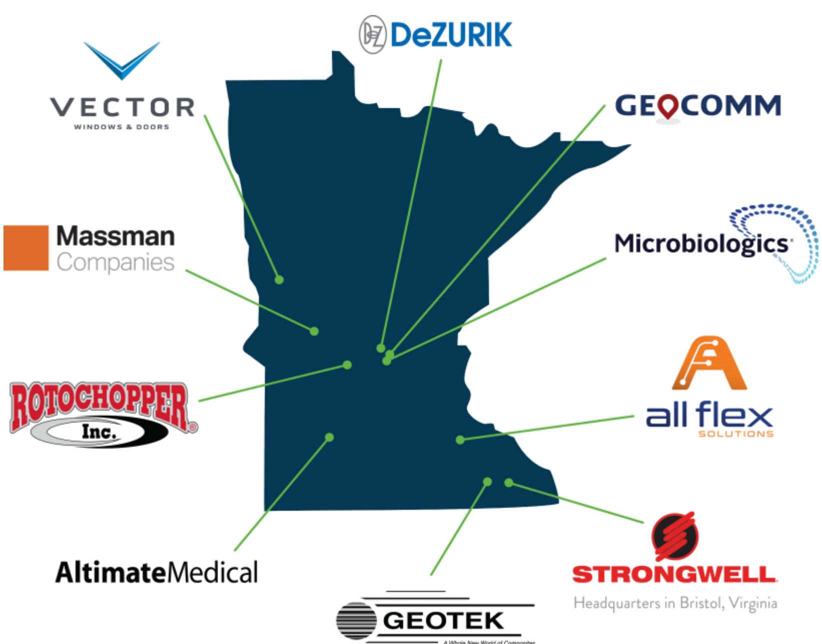
Specifically, the case study focuses on 1) Granite Partners' enterprise strategy, to understand how the industry cluster approach drives competitive advantage, 2) both the hard and soft infrastructure implications of cluster-based economic development, and 3) how Granite Partners utilizes the "shared value" approach to promote community engagement by the business. The case study concludes with a discussion of implications for enterprise strategy, supportive infrastructure, and community development. (A list of interviews conducted for the case study can be found in Appendix 1. Supporting documents are listed in the footnotes.)

Granite Partners Strategy

Founding with Minnesota Roots

Granite Partners is a private investment and holding company headquartered in St. Cloud, Minnesota. In the decade preceding the company's founding in 2002, several large locally owned employers in the Central Minnesota region had been acquired by outside investment groups or corporate consolidators. Rick Bauerly, Granite Partners Founder & CEO, notes that the acquisitions experienced at this time were a catalyst in the company's founding, as "national consolidators or private equity firms would come in, lever up the company, then sell it or put it on the sale treadmill." As he describes, beyond being a negative experience for family members who had grown their companies over generations, the sales were deemed to have a negative impact on the region. Rick notes that the loss of local headquarters could and often did translate into a loss of local intellectual capital.

A fundamental part of its Minnesota roots strategy, Granite Partners recruited local business owners as investors, making an appeal that offered a distinctly alternative investment choice. A local investment group with a commitment to the community would serve as stewards of the platform companies' growth and the legacies of retiring owners and entrepreneurs. Rick states that Granite Partners was founded on this premise: *if they had locally based capital, the company would be more sensitive to the needs of the community*. With twelve initial founding family investments secured in 2002, Granite Partners established its first fund and began making investments in platform companies referred to as "Granite Companies."



The Granite Companies
The ten private established, profitable, and growing Granite Companies are all niche leaders with Minnesota roots and national and global markets.

Industry Cluster Investment Strategy

Both Rick and Operating Partner Pat Edeburn went to Harvard Business School, so they are familiar with Michael Porter's theory of competitiveness, industry clusters, and shared value. They also became familiar with the related work of Lee Munnich Jr., a researcher at the University of Minnesota focused on rural industry clusters.

Pat notes, "I was thinking about what to invest in. What is there in Minnesota? What's important? What's sustainable here?" When he came across the writings of Lee Munnich Jr. and his students, he found their work remarkable. He recalls one study called *Automation on the Prairie*, which identifies clusters beyond medical devices, like production technology in West Central Minnesota[6]. "Well," Pat notes, "we began calling them investment themes. We felt that if we invested into these clusters, we would be more sustainable. Our investment strategy is that we invest in Minnesota platform companies that are strongly tied to Minnesota clusters with economic tailwinds. We then supplement the Granite Companies' organic growth with add-on acquisitions for market and product expansions, capability extensions, and talent acquisitions."

100-Year Time Horizon Attracts Stakeholders

In 2018, Harvard Business School wrote a case study on Granite Partners' evergreen fund and long-term, buy-to-hold strategy.[7] Granite Partners invests in established, profitable, growing, business-to-business companies that are leaders within their respective niches. Granite Partners looks to invest in companies that are or have the potential to generate revenue from products and services, clients, and countries that are contributing to net positive social value. As part of their local focus, the team identifies companies that are headquartered in or near Minnesota or have strong connections or synergies with the state's industry clusters that have favorable macroeconomic drivers for continued growth. Unlike private equity fund structures, Granite Partners has a unique evergreen structure with a long-term planning horizon and ownership orientation, allowing the company to hold and grow the Granite Companies inside its fund well beyond the 4-to-6-year window that is typical of traditional private equity investments.

Granite Partners sees a link to Minnesota and believes the Granite Companies can be a natural extension of the greater Minnesota economy. Pat observes that there has been a sustainable and symbiotic relationship between the Twin Cities and greater Minnesota, where the Twin Cities has the headquarters, research and development, and distribution, while greater Minnesota has the engineering and manufacturing. The smaller towns outside the larger metro area have lower labor costs and are better suited for workforce crossover and training. He describes this as "a sustainable strategy, as opposed to the mid 20th century version of manufacturing overseas." Granite Partners focuses on retaining and growing companies in greater Minnesota, akin to the strategy followed by 3M for decades.

Granite Partners is seeing the interest in their investment philosophy grow. This momentum could move them to be a "destination" investment firm (similar in philosophy to Berkshire Hathaway), an investment group that seeks out long-term stakeholders who care about the value delivered to employees, customers, suppliers, and the communities in which they operate. This devotion to the long-term success of its acquired businesses is something Granite Partners uses as a proof point to secure deals from retiring owners who are thinking about the legacy of their business. Investing in the companies' long-term growth has grown more prominent in Granite's messaging: "100-year sustainability" is their overarching objective. Granite Partners' structure and holding approach focuses on long-term local ownership, with the stated mission to grow companies and create value for all stakeholders.

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[6] Santelli, P., Turner, E., Weimann, K, and Munnich, L. (Instructor), (2010) Automation of the Prairie, Final Report, University of Minnesota, May 4, 2010.
[7] Ivashina, V., and Boyar, J. (2018). "Granite Equity Partners." Harvard Business School Case 219-040.

Investment Focus: Health Sector & Related Clusters

Granite Partners currently focuses investments on the four durable sectors of infrastructure, health, materials, and automation, each with underlying clusters and sub-niches. Each of these sectors includes platform companies that were started by families with Minnesota ties. The ten Granite Companies together represent 3,200 jobs, $1.0 billion in total revenue, and more than $2 billion in economic impact on local communities, based on the Bureau of Economic Analysis (BEA) regional multiplier (2.1x revenue).[8]

Four Durable Sectors
The solutions-oriented, business-to-business Granite Companies currently span four durable sectors, each with macro-environmental drivers for continued growth.

Within the health sector particularly, Granite Partners has been able to tap into the robust medical device industry cluster to extend beyond the borders of the Twin Cities. The medical device manufacturing industry has an extensive network of connections to other industries, which creates synergistic economic impacts throughout the state. Pat observes, “We’re getting a positive spillover effect from the strong medical device industry cluster in Minnesota. More specifically, the human capital side of it means we likely won’t have to go 60 miles down the interstate to find someone who understands regulatory affairs or someone with good medical manufacturing practices.”

Granite Partners’ platform company Microbiologics recently entered the biopharmaceutic cluster, which is related to their medical cluster. “Through add-on acquisitions, we supplement our ability to compete in the medical device cluster here with biology and biosciences in San Diego and pharmaceutical expertise out of Kalamazoo, bringing it all into Microbiologics’ strategy,” says Pat.

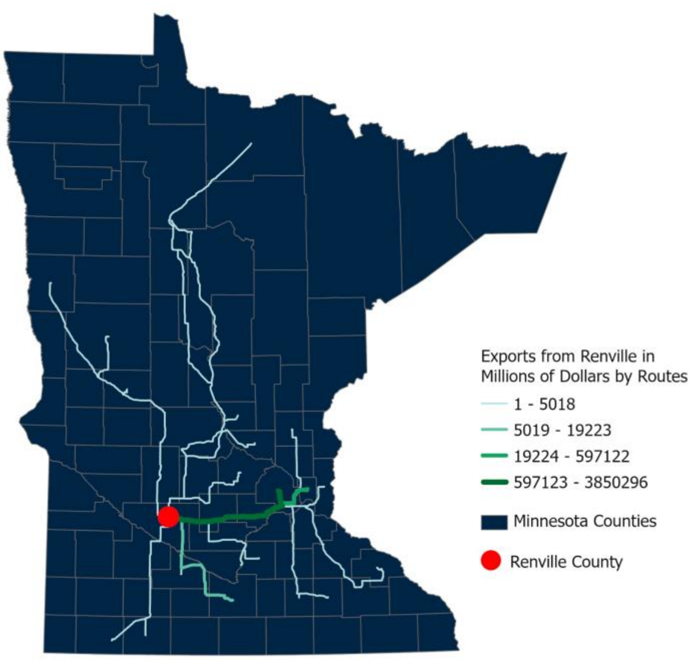
Regional and Community Implications

Regional Supply Chain

As outlined above, Granite Partners’ roots are primarily in Minnesota. For the 10 Granite Companies, that means that the ownership, headquarters, history, and much of the engineering and manufacturing density is generally located in Minnesota. In addition, the companies occupy 20 additional facilities outside of Minnesota that provide sales offices, manufacturing, or other expertise. While the Granite Companies have strong ties to the state, they service and sell to national and global customers

[8] Granite Partners (2023), Granite Dashboard.

According to Rick, while the Granite Companies source globally, Minnesota and the Upper Midwest supply chains play a significant role. This is particularly true for platform company Altimate Medical, where more than half (54%) of the total supply chain value is sourced from Minnesota alone. Altimate Medical makes a variety of medical equipment that offer wheelchair users a standing frame alternative to sitting, such as EasyStand and other brands, that help improve the quality of life for those with limited mobility. Highlighted in the figures above, Altimate Medical's supply chain movement remains strong within the Midwest, but it also extends beyond the bounds of Minnesota and has not only a national but a global reach. This interrelationship among greater regional suppliers is a critical and impactful aspect of the medical device cluster.



A related part of this study analyzed the of medical device supplies as well as their linked industries. Illustrated on the map (left), is a simulation of the interconnectedness of the local supply chain for medical device products leaving Renville County, where Altimate Medical is based, and moving to other parts of the state. This rendering was created using ArcGIS that provides transportation routes most likely used in this specific transportation network, meaning that it simply displays a pattern in the movement of these goods which are by no means accidental, and an important reminder of the necessity this transportation system provides.

Altimate Medical has increasingly embraced an outsourcing approach for manufacturing components. It involves subcontracting the production of individual parts and pieces, followed by sub-assembly, before they are brought together for final assembly at Altimate Medical. "We're not doing a lot of metal manufacturing in the building, and the thing that's really unique and maybe somewhat even proprietary about that business is we're working very closely with the Hutterite colony near the facility. They handle much of our manufacturing and assembly, and we're their largest customer. Prior to material delivery to us, they perform inspections as part of our longstanding and prosperous partnership spanning decades," states Pat.

Talent Retention and Wellbeing

Granite Partners' vision is "world-class individual and organizational wellbeing," and the organization recognizes the strong connection between nurturing wellbeing and retaining a talented workforce. They focus on wellbeing and acknowledge that community and economic development are important components of wellbeing. Granite Partners has taken a direct approach toward the education, training, and mentorship programs they offer team members to foster growth and development and enhance wellbeing. These programs give them an upper hand in attracting and retaining talent. "Our aim is to partner with educational institutions and the community to attract graduating students, which benefits both parties," notes Shelly Bauerly Kopel, Partner in charge of human resource strategy.

"By investing in our local communities and leveraging Granite Partners' resources, we create value and reinforce the very communities crucial to our growth. This approach also plays a pivotal role in talent attraction and retention, addressing the challenges of today's chronic talent shortages. When your work is purposeful, you inevitably work harder and increase productivity and innovation. Our holistic view of world-class wellbeing further enhances our ability to recruit and engage talented team members, which propels our competitive positioning and sustainability," notes Greg Schumacher, Partner in charge of recruiting activities. This represents a new model of investing: to not just entrust your resources to a money manager, but to invest it purposefully with a company like Granite Partners. Effecting community and economic development, Granite Partners seeks to produce solid economic returns alongside positive impacts in the region.

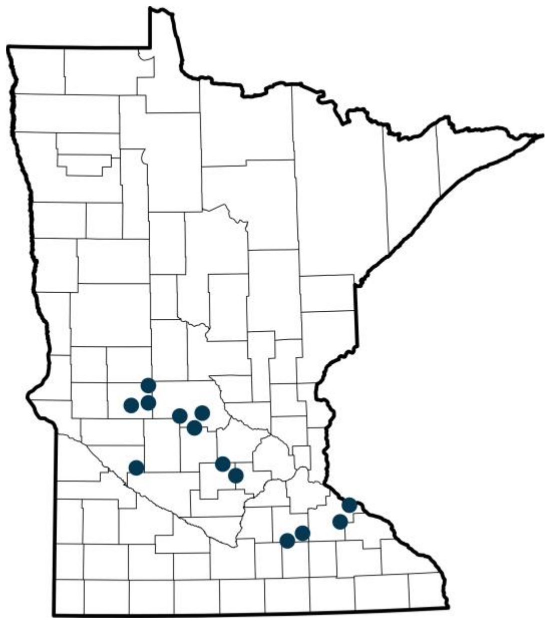
"We've become a significantly more influential force through stakeholder partnerships, now overseeing more than 3,200 jobs and 10 professionally governed Granite Companies. And we couldn't have done that if we hadn't produced excellent returns," Rick says. "Our focus isn't just job creation; we're committed to being stewards of these companies, nurturing their growth, and unlocking their potential."

Shared Value

Rick recalls attending Michael Porter's executive Shared Value course, saying, "What I took away was the idea that economic gains and social gains are not mutually exclusive, and that the 'either-or' thinking that permeates Western capitalism is often a false dichotomy." Granite Partners aims to create value for all stakeholders, and communities have a stake in that value as well. "When considering the community, we reflect on the significance of good-paying jobs with strong benefits for quality of life and community wellbeing," says Shelly. "So, when we think about shared value, we think about creating value in a way that it has a positive impact for all."

A good example of shared value is Granite Partners' partnership with the Minnesota Initiative Foundations. The foundations receive a healthy return on investment and annual cash distributions by investing in the funds that own the Granite Companies managed by Granite Partners, and the Granite Companies contribute positively to their communities.[9] This shared value approach is integral to Granite Partners' broader strategy. "Shared value enhances our competitive positioning. It differentiates, attracts talent, drives innovation, aligns stakeholders, and ultimately contributes to our long-term success and resilience," says Carrie Willis, Chief Operating Officer.

[9] Granite Impact: Growing Companies and Enhancing Communities, (2022).



Solar Garden Commitments
Granite Partners has committed to investing in solar gardens across Minnesota. The solar projects are expected to be online by 2025 and will offset approximately 11 million kWh of energy use.

Granite Partners incorporates environmental, social, and governance (ESG) factors into their business strategy as well. In considering sustainability, they think about it more broadly than just the environment, viewing it as a combined measure of business duration and business impact by using a company-specific wellbeing framework to measure organizational wellbeing. To Granite Partners, "high wellbeing equals sustainability, and to reach 100 years, it's not only the strongest that survive, it's those that are most adaptable and innovative," says Carrie. Granite Partners believes this gives them a competitive advantage.

After a comprehensive review of ESG options, Granite Partners decided to focus on energy emissions and is purchasing more solar. They have partnered with a firm that collects and manages data related to the Granite Companies' energy consumption with the goal of reducing their overall carbon footprint. In addition, Granite Partners has made solar garden commitments with a local energy supplier, investing in solar farms that will annually offset approximately 11 million kWh of the companies' energy use.[10]

Rick observes that competition matters, but so does collaboration. "We are acutely attuned to supply and demand. But we ought to pay more attention to collaboration. There are important synergies between business *and* society in this approach. Granite Partners is building a strong and resilient foundation to inspire talent, grow companies, and enhance our communities. We aspire to do so for 100 years and more."

Conclusions

As noted in the introduction, the purpose of this case study is to illuminate how Granite Partners has successfully implemented an enterprise strategy oriented around the value of industry clusters, and they have done so in a manner that provides shared value to both the company and local communities. There are numerous implications stemming from the Granite Partners case.

In terms of business strategy, Granite Partners illustrates how a company can be structured to provide long-term sustainable value while making significant "shared" value contributions to the communities in which they operate. Their financial structure facilitates a long term 100-year perspective for the Granite Companies.

Further, the industry cluster investment approach leverages "regional connectivity" for competitive advantage. As outlined by McFarland and Grabowski (2022)[11], "growth can be spurred by tapping and nurturing economies that are present outside the locality but within the region." As evidenced by Granite Partners' health sector and the related med-tech industry cluster, these companies benefit from being in a

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[10] Granite Partners (2022) Leaders Meeting, Progress and Plans.

[11] McFarland, C. and Grabowski, E. (2022) Economic Development Quarterly, 2022, vol. 36, issue 3, 317-328.

region that has a strong medical device industry cluster. This finding is consistent with the findings of the quantitative component of this study.[12]

In terms of an economic development strategy, Granite Partners provides an example of the stronger proactive role a company can play in providing jobs, supporting the community, and putting sustainable practices in place utilizing private sector resources. That said, the public sector plays an important role in providing both hard and soft infrastructure support. The Granite Companies benefit from the strong talent pool in the Twin Cities as well as educational institutions throughout the state. Similarly, transportation systems support the regional suppliers and are conduits to reach national and international markets.

The overarching context is the changing role of the private sector in society. When Porter and Kramer first advanced the concept of "shared value", it was meant to alter the social responsibility of a company away from a singular "corporate philanthropy" approach to a multi-level synergistic partnership.[13] The Granite Partners case exemplifies how this can be achieved through a series of innovative strategies and actions.

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[12] Horan, T., Anders, M., & Lopez, C. (2023). Greater Minnesota Medical Device Industry Cluster. https://tinyurl.com/MNClusterStorymap.

[13] Porter, M. E., & Kramer, M. R. (2011, January–February). Creating shared value. Harvard Business Review.

Appendix 1 – List of Interviews

Name	Title	Date
Rick Bauerly	Founder & CEO	12/8/2022 7/27/2023
Shelly Bauerly Kopel	Partner	12/5/2022
Greg Schumacher	Partner (written interview)	10/31/2023
Pat Edeburn	Operating Partner	11/17/2022 5/21/2023
Carrie Willis	Chief Operating Officer	11/7/2022 12/5/2022 12/8/2022 7/27/2023