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An analysis of the Birken Group

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## Summary

This thesis is based on the “BØK” courses and “ELE3750 Finansiell Analyse og Verdsettelse”.

Our strategic analysis regarding the Birken Group shows that most external factors tend towards favorable trends for the organization. However, consumer’s demand for competitive outdoor sport events may decrease. Our internal analysis shows that the Birken Group has several factors that give them a potential sustainable competitive advantage, but the cost structure prevents them from achieving this.

In the financial analysis we see that the net profit margin is decreasing, despite the fact that revenue has tripled over the last 9 years. This is once again due to rapidly increasing costs, which has increase over 5 times in 9 years. The Birken Group has a very low liquidity risk, mainly due to a large cash reserve of approximately 60 million NOK. We also see a plummet in the free cash flow to equity due to a 20 million NOK decrease in the short-term debt item payment in advance.

We therefore advice for the Birken Group to reduce the rampant growth of costs and invest parts of the cash reserve to get a higher rate of return on their excess cash, while still maintaining a healthy cash buffer. We also recommend that the Birken Group reduce their dividend payout while their net working capital is fluctuating heavily, which it has for the last few years.

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## **1.0 Introduction**

## 1.1 Research Question

In this thesis we are going to study a Norwegian organization, the Birken Group, which has experienced negative development regarding its profitability in the last nine years. Our research question is therefore as following: Why has the Birken Group's profitability declined, and what measures can be taken for future improvements?

## 1.2 Introduction

The purpose of this thesis is to obtain, with different analytical tools, a better understanding of the economic development in a well-known Norwegian organization. We chose to study the Birken Group (Birken AS, Birkebeinerrennet AS and Birkebeinerrikket AS), who throughout several years has hosted different outdoor sports events. We studied the development of the organization from 2006 to 2014; a period where the organization has grown fast, but also seen fluctuations in economic results. We wanted to see why these results have been varied and how solid the organization is.

We will do a strategic analysis of the company, which is divided into two parts. First we will internally analyze the organization by performing a VRIO analysis combined with a Value Chain Analysis. Second we will look at the external factors through a PEST analysis and a Porters Five Forces analysis. We will then elaborate with a SWOT analysis to combine all the strategic analyzes. After the strategic analysis we will do a financial analysis of the Birken Group, starting with a profitability analysis. Then we follow up with a Growth Analysis to see how they have developed. Then we will analyze the Birken Group's liquidity risk to see if and where there is a risk connected to their debt. Through these steps we will hopefully achieve a deeper understanding of how the Birken Group function, what makes them able to achieve their success and potentially what can be enhanced.

We have based our studies on accounting numbers for the Birken Group, collected from Brønnøysundregisteret. The information regarding the trends in the Norwegian economy is collected mainly from Statistisk Sentralbyrå (SSB), the Norwegian Bank and the World Bank. We also gathered information from employees from Birken AS, the only operating company in the Birken Group from the beginning of 2014. The information we gathered about the competitors and other companies in the industry is mainly obtained from Orbis and Proff.

The Birken Group is, as a non-profit organization, exempt from corporate tax. This means that there are some analyzes that would be natural to do to on commercial companies, which can't be used here, since such companies aren't required to report their financial statements as precise as other companies. We still believe that the numbers we present are sufficiently good enough to complete the analyses we've done and draw conclusions that arise from the report.

The Birken Group has a construction and history regarding its owners that closes it towards other investors. The owners are sport clubs, which in this case also is exempt from corporate taxes. The owners have raised initial capital and are also injecting new capital when needed. The organization has throughout the period generated a positive result, which has led to dividends. The purpose of the organization makes it unattractive to invite additional owners. The owners have observed a negative shift in trends within the market over the last three years. New strategies should be introduced in order to continuously generate profits.

### **1.3 The Birken Group**

The Birken Group is a Norwegian organization with a vision to increase interest for cross-country skiing, cycling and running races through outdoor sport events. The organization arranges events within athletic sports and outdoor activities, involving cross-country skiing, mountain biking and mountain running races. They aim to host events that appeal to the competitive and physical aspect among people. They state

that their events have been booming for several years, but a reduction in people participating in their events and in general within the market they operate have been detectable over the last three years. The Birken Group presumes this is the beginning of a lower activity within the market they operate for a considerable time period. A key market risk for the Birken Group is a fluctuation in the number of event participants as a result of a consistent change of trends within outdoor sport events.

The Birken Group is mainly known for their first and most popular event, the cross-country skiing event “Birkebeinerrennet”, which has its root in Norwegian culture and history. The race is based on the historical event when a medieval Norwegian political formation called “Birkebeinerene” escaped with the heir to the Norwegian throne Håkon Håkonsson<sup>1</sup> as a rebellious Group called “Baglerne” wanted to kill the infant heir and by that help crown another king that would be more supportive to their cause. The “Birkebeinerne” fled with the infant heir all the way from Østfold to Trondheim. They crossed from Lillehammer to Rena on skis, which is approximately 54 kilometers.

The organization now known as the Birken Group organized the first event in 1932. To organize this event, “Birkebeinerrennet AS” was created. The event was essentially a recreation to this particular stretch as a cross-country skiing race event designed to challenge the participant’s with the same route (Rena to Lillehammer) and distance as “Birkebeinerene” was forced to overcome. The participants had to wear a backpack with a weight of 5,5kg to simulate the weight of the infant heir. The weight of the backpack was reduced to 3,5kg in 1993, which is the only change that has been done regarding this event<sup>2</sup>. Since “Birkebeinerrennet” first was arranged in 1932 it has become extremely popular and the organization have extended to hosting 18 other yearly events in addition to “Birkebeinerrennet”, with about 50 000 yearly paying participants combined.

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<sup>1</sup> Myntherr. 2016. “Håkon håkonson 1217-1263.”

<sup>2</sup> Birken. 2016. “Birkebeinerrennet.”

The second event presented by the organization is called “Birkebeinerrittet” and is a mountain cycling version of “Birkebeinerrennet”<sup>3</sup>. Rena IL is a sports club and has always been responsible for 50% of the organization. Regarding the cross-country skiing event “Birkebeinerrennet” arranged in 1932, they cooperated with the ski sports club “Lillehammer Ski club” under the name of “Birkebeinerrennet AS” while regarding the mountain cycling version “Birkebeinerrittet” they cooperated with the cycling club “Lillehammer Cycling Club” under the name of “Birkebeinerrittet AS”.

The third event presented was “Birkebeinerløpet”; a running event founded on the same historical background as “Birkebeinerrennet”, but only including the last 21km. “Birkebeinerrennet AS” arranged “Birkebeinerløpet”. For several years “Birkebeinerrennet AS” was responsible for all cross-country skiing and running events presented subsequently, while “Birkebeinerrittet AS” was responsible for all cycling oriented events. On January 1st. 2014 “Birken AS” was created through a joint venture between “Birkebeinerrittet AS” and “Birkebeinerrennet AS” in order to improve synergy and simplify operations and make the “Birken” brand more recognizable. Rena IL (50%), Lillehammer Ski Club (25%) and Lillehammer Cycle Club (25%) own the organization. The organization has 20 members of the administration, 60 central volunteers with a protracted relationship to the organization and about 6000 yearly volunteers spread over their 19 events.

## 2.0 Strategic Analysis

In this chapter we will analyze the Birken Group both externally and internally.

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<sup>3</sup> Birken. 2016. ”Birkebeinerrittet.”



## 2.1 PEST Analysis

This PEST analysis will describe the most important external factors that affect the Birken Group. These external factors will help to explain and predict what will happen in the future to the market that the Birken Group operates in.

### 2.1.1 Political Factors

In this section political and legal factors will be discussed.

#### 2.1.1.1 Taxation policy

*“The Norwegian tax system is based on the principle that everybody should pay tax according to his or her means.”*<sup>4</sup> The corporate tax rate in Norway is 25%<sup>5</sup>, which is a fairly high corporate tax rate. The tax rate was reduced from 28% to 27% in 2014, while it was 28% since 1992<sup>6</sup>. It was again reduced from 27% to 25% in 2016<sup>7</sup>, and while no official documents from the parliament have been released yet, several news sources claim the parliament has decided to reduce the corporate tax to 23% before 2018<sup>8</sup>. This is still considered to be fairly stable and it’s likely to remain similar for some time. However, there is a law that gives companies, whose main purpose isn’t to create value for the shareholders, tax exemption<sup>9</sup>. This is why the Birken Group does not pay taxes, but then again nor does most other direct competitors. This is a great advantage over other companies who have to pay taxes.

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<sup>4</sup> Skatteetaten. 2016. ”Tax in Norway.”

<sup>5</sup> Skatteetaten. 2016. ”Paying tax and value added tax for the company.”

<sup>6</sup> Store Norske Leksikon. 2014. ”Skattereformene i 1978 og 1992.”

<sup>7</sup> Statsbudsjettet. 2016. ”Skattesatser 2016.” Hentet 17. Mars 2016.

<sup>8</sup> Geir Molnes og Victoria Armstrong. 2016. ”Dette betyr skatteforliket for deg.”

<sup>9</sup> Skatteetaten. 2016. ”Skatt for frivillige og ideelle organisasjoner.”

### **2.1.1.2 Employment law**

The Working Environment Act gives the employees in Norway more rights than most other countries. It upholds the health and safety for the workforce. Trade unions are also very strong in Norway. It's not mandatory to join a union if you work in Norway, however most employees are union members. All employees have the right to parental leave, and at least 21 holidays, but most have more. Employees are in general very well protected in Norway, and it's hard to fire employees relative to other countries, which could potentially hurt the Birken Group.

### **2.1.1.2 Government stability**

The World Bank Group did a study from 1996 to 2016 on amongst other things political stability<sup>10</sup>. Norway received a very high score on political stability, which is also the common consensus. Stability is always comforting, especially since the Birken Group benefits from the current tax exemption.

## **2.1.2 Economic Factors**

### **2.1.2.1 Business cycles**

There has been an economic recession in the world after the 2008 crash. Norway had two non-consecutive years of negative GDP growth<sup>11</sup> so it wasn't hit as hard as other countries. However, a negative GDP growth is bad for the Birken Group since a lower GDP means people will buy less services, like the ones the Birken Group offers. There has also been a second dip in the economy, after 2008, which is quite normal after a recession, and the Norwegian economy shrank a bit again in 2014.

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<sup>10</sup> The World Bank Group. 2015. "Worldwide Governance Indicators."

<sup>11</sup> The World Bank. 2016. "GDP Growth (Annual%)."

### 2.1.2.2 GDP trends



Although there was a second dip in 2014 the GDP was still greater than the GDP before the 2008 crash<sup>12</sup>. Even though there has been two years of negative GDP growth the GDP is trending upwards, which is a good sign. When GDP grows the Birken Group will sell more services as well.

### 2.1.2.3 Interest rates



We see that key policy rate decreased massively after 2008<sup>13</sup> to try to help the recovery of the 2008 recession. This is the rate at which the Norwegian central bank

<sup>12</sup> Trading Economics. 2016. “Norway GDP.”

<sup>13</sup> Trading Economics. 2016. “Norway Interest Rate.”

lends out to other banks. Businesses would have a higher rate, but the interest rate they get is dependent on the key policy rate. This means that if the Birken Group wants to expand it would be cheaper now rather than later when the interest rates rise. That being said the Birken Group has a lot of cash, and if they want a return for lending out their cash through f.ex. bonds, they will likely get a lower return when the key policy rate is lower.

#### 2.1.2.4 Inflation



The inflation rate peaked late 2008 and then decreased until 2012<sup>14</sup>. Since then it has gone up above 3%. This is a fairly standard level of inflation and there is no reason to expect a big rise in inflation to come soon.

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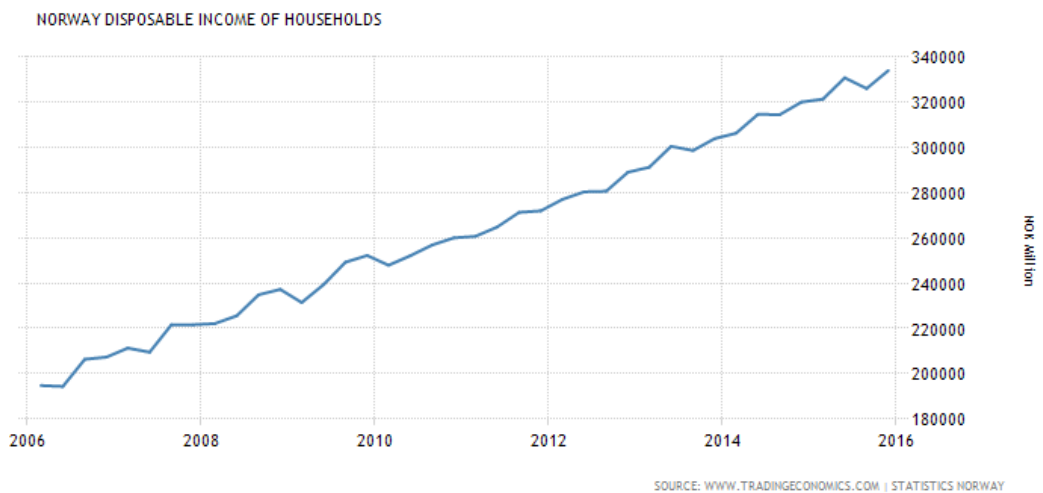
<sup>14</sup> Trading Economics. 2016. "Norway Inflation Rate."

### 2.1.2.5 Unemployment



The unemployment level has been rising since 2008 and is above 4.5% in 2016<sup>15</sup>. This is on the high side, but relative to other European countries this is still good. High unemployment could potentially be a threat to the Birken Group’s reliability on volunteers, however the Birken group still have way more volunteers than they need.

### 2.1.2.6 Disposable income

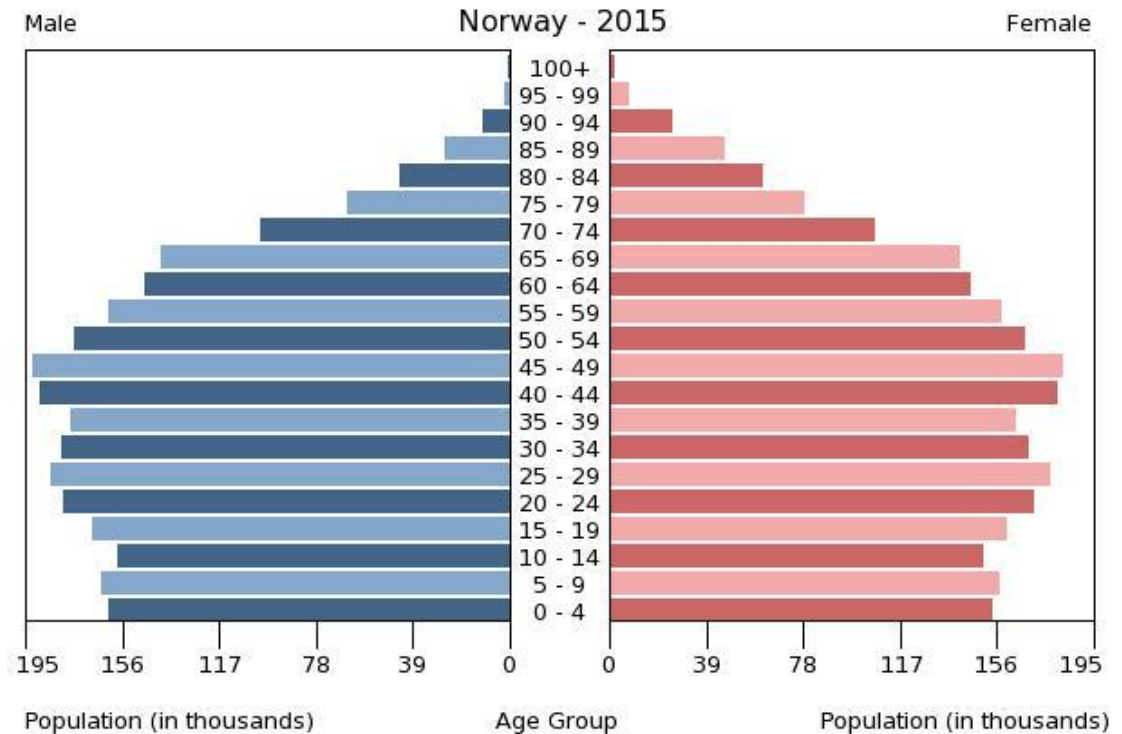


<sup>15</sup> Trading Economics. 2016. “Norway Unemployment Rate.”

The disposable income of Norwegians is steadily increasing<sup>16</sup>, which is good for the Birken Group. Ski and cycling activities aren't cheap, the equipment can be expensive and it takes time to get in shape for the race, which some people might not be able to afford if they had less disposable income. Traditional endurance events has for several years been popular among relatively young professionals as a way to prove masculine capabilities and to achieve something to brag about.

### 2.1.3 Sociocultural factors

#### 2.1.3.1 Population demographic



We see that that in the Norwegian demographic the largest group is 45 to 55 year olds<sup>17</sup>. This is also the group that participate the most in different Birken events. We see fewer younger people, and therefor one would expect fewer participants over time

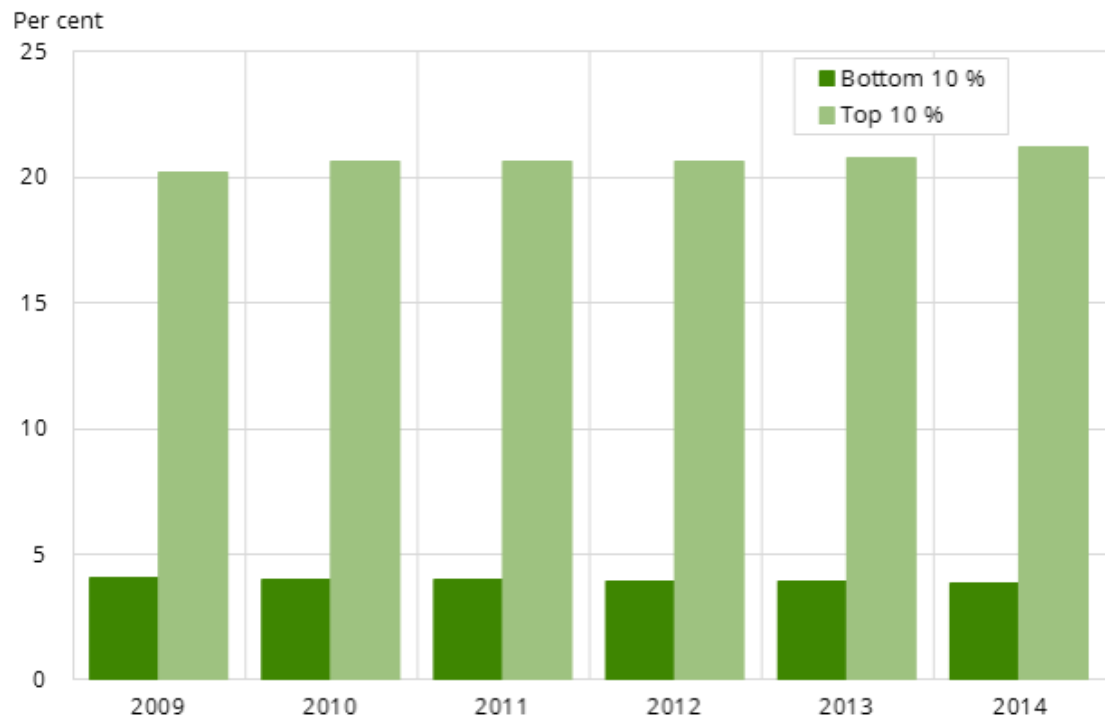
<sup>16</sup> Trading Economics. 2016. "Norway Disposable Income Of Households."

<sup>17</sup> Central Intelligence Agency. 2016. "The World Factbook."

to attend Birken events. We also know that a growing part of the Norwegian population consist of immigrants. They are less likely to attend the Birken group's ski events, since Norwegians are much more interested, on average, in cross-country skiing than most other populations.

### 2.1.3.2 Income distribution

Figure 1. Income share of the top 10 per cent and bottom 10 per cent. Equivalent household income



Source: Statistics Norway.

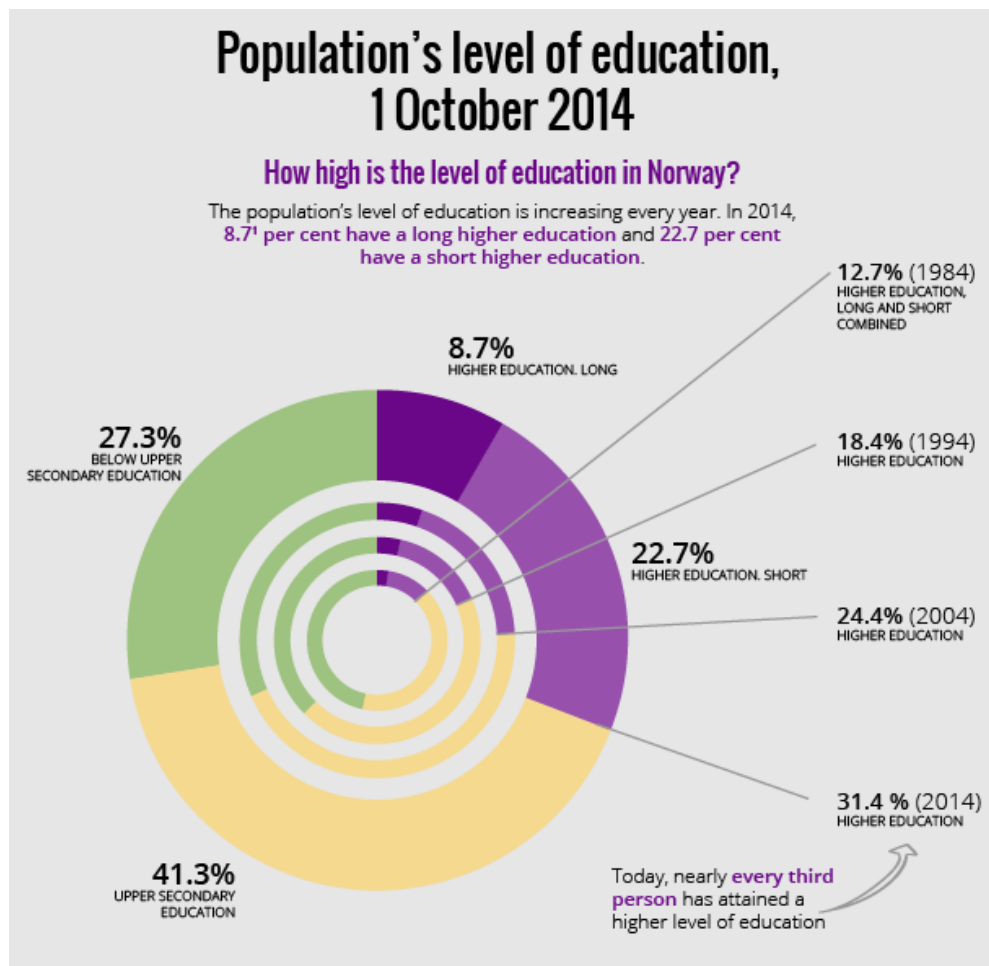
Norway has a very even distribution of wealth amongst its population<sup>18</sup>. The Birken group's services are not considered to be a luxury service, but on the other hand they're not inferior services and require a certain economic level from their participants. Therefore a more equal distribution of wealth is good for the Birken group, since this increase the Birken group's potential customers.

<sup>18</sup> Statistisk Sentralbyrå. 2015. "Income and Wealth Statistics for Households, 2014."

### 2.1.3.3 Lifestyle changes

The healthier lifestyle is getting more and more popular, and events like those the Birken group offers is certainly a part of this lifestyle<sup>19</sup>. The “birkbeinerrennet” is a platform where amateurs can compete with professionals and “achieve” their lifestyle goals by competing and performing well. We see that people across all ages are jogging, cycling and working out more, which is ideal for the Birken group, since these activities are directly related to the events they are offering. Statistisk Sentralbyrå (SSB) stated that the more educated the population is, the more active their lifestyle is.

### 2.1.3.4 Levels of education



<sup>19</sup> Statistisk Sentralbyrå. 2016. Idrett og friluftsliv, Levekårsundersøkelsen, 2014.”



We see that the Norwegian population's education is increasing at all levels, but the higher education especially has seen huge growth<sup>20</sup>. This is very good for the Birken group since the higher educated the population is, the more likely they are to exercise and thus attend events like the ones the Birken group offers.

#### **2.1.4 Technological Factors**

We see that equipment for skiing, cycling and running is improving. This is increasing the over all performance level within the sports, making the activities generally more entertaining and accessible. The Birken group also benefits from technological improvements in payments methods. They get most of their payments before the events take place, which of course is an advantage when one takes the time value of money in to consideration. We also see social media has exploded over the last few years. This makes the Birken brand name more visible, since a lot of the participants like to share the accomplishments and experiences they receive at Birken events.

### **2.2 Porter's Five Forces Analysis**

It is extremely important for a business to understand the competitiveness in a market. Porters Five Forces is characterized as a review of the activities and competitiveness within a market. To analyze if a market is attractive, specific parts have to be evaluated. We divide the five specific parts in to five levels of threat: Low, moderately low, moderate, moderately high and high.

#### **2.2.1 Threat Of New Entry**

*“New entrants to an industry bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete”.*

New entrant wishes to consume from a market, which affects both prizes and

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<sup>20</sup> Statistisk Sentralbyrå. 2016.”Population's level of education, 1. October 2014.”

costs<sup>21</sup>. When the threat of new entrants is high, incumbents must hold down their prices or boost investments to deter new competitors. The threat of entry is dependent on the height of entry barriers and on the reaction an entrant a new arrival can expect from incumbents. If a threat of entry is high within an industry/market it holds down profitability.

The market for outdoor activity events is quite competitive in Norway and to establish and arrange similar events don't require much investment.<sup>22</sup> The market contains many small producers, but only a few large enough to be comparable to Birken AS. This is a result of the cost structure reducing the ability for established players to develop great economies of scale. The market where Birken AS operates can be described as a niche market, which affects the way the service and brand is presented to consumers. Licenses is also a relevant part of acting in this market due to the effect on nature or public surrounding and could therefore be problematic for a new entrant to obtain on a satisfactory time and location. The market is vulnerable to trends. New and innovative takes on the activities Birken AS provide have a chance of attracting potential customers from Birken AS, perhaps especially the younger generation. Birken AS is a brand name connected to Norwegian history; a cultural aspect affects its popularity. New and trendier events can challenge Birken AS for the younger generations and people that are less affected by the historical aspect. Outdoor activity events are for some people an excuse to reunite with friends and meet new people, so the celebration after the sport events is for some the biggest factor why they sign up for the main event. A new entrant that is able to complement this aspect in a more sufficient manner than Birken AS could attract some of the customer base.

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<sup>21</sup> Porter. 2008. "The Five Competitive Forces That Shape Strategy", Harvard Business Review. s. 80

<sup>22</sup> Porter. 2008. "The Five Competitive Forces That Shape Strategy", Harvard Business Review. s. 82

The treat of new entrants is conferring the discussion above considered being moderate. Even though some licenses and approvals are needed in order to arrange these events it isn't too hard to obtain, especially if it's done through an established sports club, which is the case for Birken AS. They have a brand name that is hard to directly compete with, but small new startups could pick from a considerable amount from the large customer range of Birken AS.

### 2.2.2 The Power Of Suppliers

*“Powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants”*. The bargaining power of suppliers depends on the relative power struggle between the suppliers and the companies in an industry/market. A powerful supplier can directly pressure the profitability of the industry they it's in. If the suppliers have large influence on a company it can be problematic if the supplier increase costs that the company cannot directly pass on to their customers through higher prices.<sup>23</sup>

Birken AS is according to itself and as far as our research goes not reliant on any other companies in regard of arranging their events. They are reliant on a large number of volunteers, but so far Birken AS have received about 3-4 times as many volunteers requests on their events than they need to involve.

The bargaining power of suppliers is conferring the discussion above considered weak due to Birken AS not being reliant on other companies and are extremely popular amongst volunteers.

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<sup>23</sup>Porter. 2008. The Five Competitive Forces That Shape Strategy”, Harvard Business Review. s. 82

### 2.2.3 The Power Of Buyers

*“Powerful customers – the flip side of powerful suppliers – can capture more value by forcing down prices, demanding better quality and more service...”*<sup>24</sup> The buyers have large bargaining power if they have negotiating leverage relative to industry participants. The bargaining power of buyers can be large due to few buyers, high fixed cost or if the producer is dependent on regular and comprehensive amount of entries on their events to get the satisfactory amount of participants.

Birken AS is mainly selling tickets/start numbers to individuals and is not dependent on large clusters of registrations. This is helping to underpin the different alternatives a potential participant has to fulfill the demand that Birken AS aim to provide. A potential customer also has the opportunity to measure and share their accomplishments themselves without participating in an event, which will be elaborated on. In a discussion with Birken AS they stated that the most essential measure they do in order to reduce the customer bargaining power is to provide a direct connection between their own events and about 40% (aimed towards the largest/most popular) of the competitor cycling, skiing and running events arranged in Norway. This is known as seeding events. This means that the result a participant get in one of these events is affecting the starting number and competitive group of the upcoming Birken AS arranged events. In some cases this assures the customer to also participate in Birken AS's events instead of a substitute because they want to maintain their progress. However, for some potential participants these other events could be enough to satisfy their need of competitive sport events per season, which could lower the chance of them participating in any of Birken AS's events later on in the season. The seeding measurement could also potentially backfire if a participant gets a bad result in a seeding event and therefor becomes more hesitant to sign up for a Birken AS event.

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<sup>24</sup>Porter. 2008. The Five Competitive Forces That Shape Strategy”, Harvard Business Review. s. 83

The bargaining power of customers is conferring the discussion above considered moderate. Birken AS isn't reliant on large cluster sales, but this gives each potential participant more freedom to chose among the large amount of similar providers and alternatives the services provided by Birken AS.

#### 2.2.4 Threats of Substitutes

*"A substitute performs the same or a similar function as an industry's product by a different means."*<sup>25</sup> Substitutes are always present even though they can be hard to detect and don't seem very similar to what already exists in an industry. If the threat of substitutes is high, the profitability in the industry will suffer and the price sealing will be lower.

Birken operates in a moderately competitive market. Birken AS's flagship event "Birkebeinerrittet" is a long distance (54 km) cross-country skiing race. Both Vasaloppet in Sweden and Marcialonga in Italy are built on similar concepts. Birken As also has domestic competition. For instance, there is a lot of Norwegian racing events in both Cycling (Grenserittet, Norsjørittet), Running (Oslo Maraton, Sentrumsløpet) and Cross-Country Skiing (Holmenkollmarsjen), which functions as valid substitutes to the events that Birken AS arranges. They are competitive outdoor sport events with a similar business model and audience. However, Birken AS states that similar activities that aren't competitive are the best substitute to the events they organize/provide, such as Randonee skiing, mountaintop skiing and in general other cross country skiing/running/biking oriented activities that isn't competitive. Birken AS aims to host events that appeal to the competitive and physical aspect among people. The best substitutes are activities that triggers or pushes themselves without involving events and official measurements, or find other ways to measure and communicate their progress. Internet and social media is connecting people and are furthering satisfying the demand to share and access accomplishments. Taking

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<sup>25</sup> Porter. 2008. The Five Competitive Forces That Shape Strategy", Harvard Business Review. s.84

pictures on a mountaintop or having a GPS-wristband measure the speed and distance on a skiing, running or cycling trip are examples of great substitutes to signing up for one of the Birken groups events.

The threat of substitutes is conferring the discussion above moderately high, especially long-term because of the technological progress. Other actors in the industry can also conduct the activities provided by Birken AS.

### 2.2.5 Threats of established rivals

“Rivalry among existing competitors takes many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvement.” The threat of established rivals depends on the number of providers in an industry/market, the specific industry and the basis on which they compete. If the rivalry among existing competitors is high it limits the profitability of the industry.<sup>26</sup>

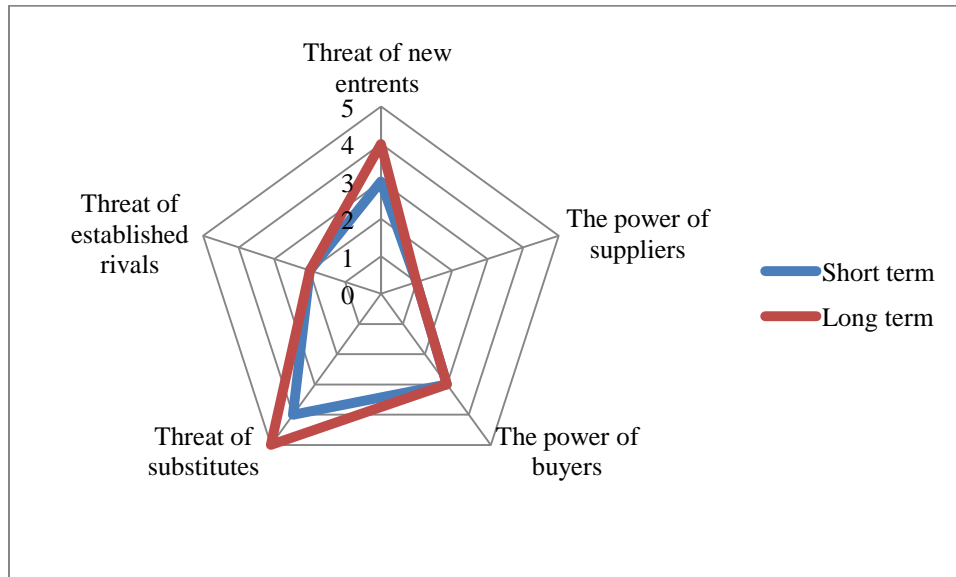
There are several established actors providing similar products and operating within similar proportion and size/capacity as Birken AS. The stated industry is established in a way that a highly responsive customer could participate in most offers provided, but this is evidently not generally. Outdoor activity events play a significant role in Norwegian culture and several providers have grabbed the opportunity to become sizable and established. Some differs considerable due to geographical location, but participating in extensive event like the ones Birken AS arranges is ordinarily associated with a weekend trip/short vacation so hosting in a populous area doesn't necessarily correlate positive with participants. This causes established outdoor activity events in different countries than Norway like “Vasaloppet”<sup>27</sup> in Sweden and “Marcialonga”<sup>28</sup> in Italy to be threatening established Rivals.

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<sup>26</sup>Porter. 2008. The Five Competitive Forces That Shape Strategy”, Harvard Business Review. s. 85

<sup>27</sup> Wikipedia. 2016. “Vasaloppet”.

The threats of established rivals is confer the discussion above moderately weak due to just a few well established actors with highly comparable products and the considerate matter that a weekend or a short vacation is required in order to fully participate in the events arranged by Birken AS or its established rivals in this industry.



## 2.3 Value Chain Analysis

In the next chapter we will analyze the Birken Group's value chain.

### 2.3.1 Value Chain

In 1985 Harvard Professor Michael Porter published "Competitive Advantage: Creating and Sustaining Superior Performance"<sup>29</sup>, in which he describes the Value Chain Analysis. It illustrates the activities and processes of a company and how it attempts to create value for the customer in each part of companies' activities. Below is a diagram Porter Generic Value Chain

<sup>28</sup> Wikipedia. 2016. "Marcialonga".

<sup>29</sup> Mindtools. 2016. "Poerter's Value Chain".

Figure 1: Porter's Generic Value Chain



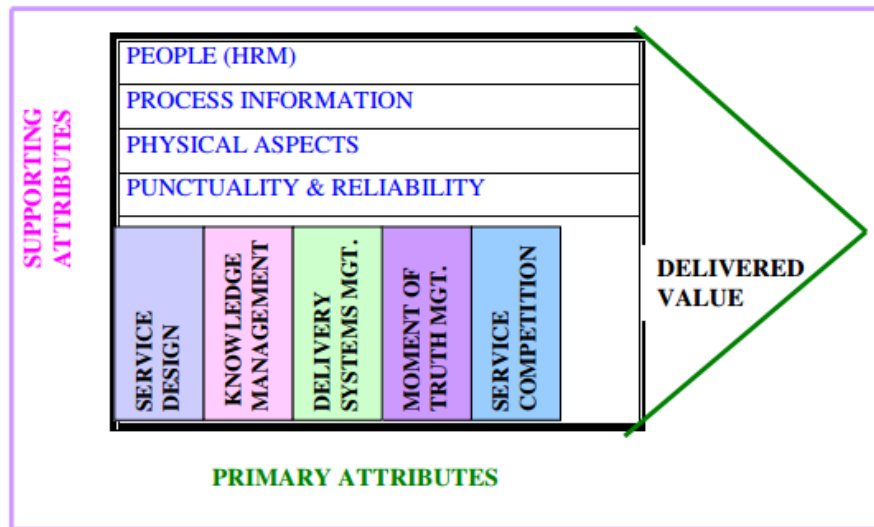
### 2.3.2 Value Chain for Services

A modified Value Chain for Services (VACSE) developed by Elisante ole Gabriel<sup>30</sup> exists because Porters Value Chain is not very suitable for service companies such as Birken AS. This is because the items on inbound and logistics are not very relevant. Ole Gabriel explains it as follows: *“The shape of the VACSE will be the same as that of Porter but the most important thing is the components of the new model. Therefore, the difference is not in shape but components and application.”*<sup>31</sup> Ole Gabriel also deliberately redefined Porter’s activities to attributes because it’s more fitting for the VACSE.

<sup>30</sup> Gabriel, Alisante Ole. 2006. Value Chain for Services,” IMS International Journal.

<sup>31</sup> Gabriel, Alisante Ole. 2006. Value Chain for Services,” IMS International Journal



**Figure 1.4 Value Chain for Services (VACSE)**

As the Birken Group is striving to attain a better profit margin, it must attempt to produce output, which has a higher customer value than customer costs. This is based upon Ole Gabriel's model of Customer Delivered Value (CDV) = Customer Value (CV) – Customer Costs (CC)<sup>32</sup>. If the perceived CV for the service Birken AS provides is higher than the CC, then there is a positive CDV. CC is the monetary value a customer is willing and able to pay for a service, while the CV is the amount perceived by the customer for a service. In essence this means that Birken AS needs to create services that are perceived to be of higher value than their costs. Therefore, the more value Birken AS creates, the better its profit margin. Decreased costs for Birken AS will also create a higher CDV and also improve the profit margin.

Attributes are divided in two groups; primary attributes and supporting attributes. Primary attributes are the ones that are directly related to the creation of the service, while supporting attributes increase the efficiency of Birken AS. "The attributes shown in the VACSE figure need to be highly coordinated so for them to operate as a

<sup>32</sup> Gabriel, Alisante Ole. 2006. Value Chain for Services," IMS International Journal s.4.

system (synergy). This will assure customer satisfaction and reliable feedback at any point in time.”<sup>33</sup>

### 2.3.2.1 Primary Attributes

#### 2.3.2.1.1 Service Design

In Service Design it's important for service providers to understand the value they create for their customers. It's more difficult to design a service product than a physical product. The latter is tangible, measureable and often follows a pre-defined formula, while service products are intangible. Therefore it's crucial for Birken AS to understand its customer's price sensitivity.

Innovation is important because it lets Birken AS attain more customers. It is also possible to create new service products which will let Birken AS grow through expansion into new markets. In terms of the design question, it is very important to consider price. If the price is too low or high, it will hurt Birken AS' potential profits. With that taken into consideration Birken AS needs to find a balance in their pricing policy with justification. When deciding the price, it's important to take brand name, reputation, ideas, information, places, personalities and events into account. Creating value for Birken AS is about creating perceived CV which can fully satisfy the needs of the customers.

#### 2.3.2.1.2 Knowledge Management

*“Knowledge management has two sides, just like a coin. One side of the coin is about service providers knowing the intricate needs of the customers. The other side of the coin is about the customer being knowledgeable of the type of the service he needs and how he needs it to be delivered.”*<sup>34</sup>

This quote above by ole Gabriel sums up how both the service providers and customers need to have a common understanding. These understandings range from

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<sup>33</sup>Gabriel, Alisante Ole. 2006. Value Chain for Services,” IMS International Journal S.17

<sup>34</sup>Gabriel, Alisante Ole. 2006. Value Chain for Services,” IMS International Journal S.18

the customers' needs, and the providers' ability and methods to fulfill them. While the customers names and faces are important to know for Birken AS, the most important thing for them is to fundamentally understand the needs and psychological dynamics of the decision making process. This concept is known as "Buyers Black Box," developed by Kotler.<sup>35</sup> Because Birken AS is a service company it's crucial for them to have good communication with the customers for co-creating meaning.<sup>36</sup> Birken AS' customers are heterogeneous, and have different needs. Birken AS can attain a sustained competitive advantage through the knowledge of customers. By having more knowledge and understanding of their customers Birken AS can attain a competitive advantage.

#### 2.3.2.1.3 Delivery Systems Management

In the industry sector the delivery system is straightforward. Companies within this sector will set up pre-planned blue prints for delivery of their goods. This is completely different for service companies such as Birken AS. Services suffer from perishability and inseparability.<sup>37</sup> The first of those words is the issue of not being able to stockpile services. It is impossible to stock up Birken AS' cross-country events. If you miss the yearly event of "Birkebeinerrennet," you have to wait until next year to partake. The second of those words means that it is impossible for the customer to be separate from the service provider. Customers cannot use Birken AS' services without being in contact with them.

The delivery system is important to customers. Birken AS' date, time, location, structure and distance of their events means a great deal to customers. Birken AS also has online booking for all their events even up to a year in advance. Customers pay to attend Birken AS' events, but the delivery system will increase the total perceived CV.<sup>38</sup>

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<sup>35</sup> Kotler.1994. Referert i Gabriel, Alisante Ole. 2006. S.18

<sup>36</sup> Gabriel, 2005. Referert i Gabriel, Alisante Ole. 2006. S.18

<sup>37</sup> Gabriel, Alisante Ole. 2006. Value Chain for Services," IMS International Journal S.18

<sup>38</sup> Gabriel, Alisante Ole. 2006. Value Chain for Services," IMS International Journal S 19

#### 2.3.2.1.4 Moment of Truth Management

This is the time when the customer receives the service from the service provider. It will cause a reaction from the customer, positive or negative. “*Moments of truths can build or destroy trust and confidence in the minds of prospective and existing customers.*”<sup>39</sup> When Birken AS hosts their events it will lead to customers being happy or unhappy with the events. As all customers are different, they may have different opinions on the same issues. Regardless if the customer has an objectively right or wrong opinion, it still remains valid in their head. Customers also personalize their experiences within the moment of truth because it often leads to strong impressions. Birken AS needs to protect their reputation by being careful with expectations of moment of truth from their customers, because it can make or break future sales. Word of mouth is an incredibly potent tool to assure potential customers that Birken AS’ events are great.

#### 2.3.2.1.5 Service Competition Management

Birken has to continuously innovate because of the competition in the marketplace. They are challenged by several competitors on all their fronts. As a result, the market should continue to be innovative. Choices are essential to customers and it creates an environment where the service providers can never rest on their laurels. Birken AS may be the largest service provider in their market, but it is not guaranteed they will maintain that position in the long-term. That is why they need to constantly manage quality service to their customers.

#### 2.3.2.2 Support Attributes

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<sup>39</sup> Gabriel, Alisante Ole. 2006. Value Chain for Services,” IMS International Journal S.19

#### 2.3.2.2.1 People (Human Resource Management)

The value of people in the service system is high in the co-creating of value.<sup>40</sup>

Employees act as an extension of the company or organization they work for. As such they are expected to act according to the companies' values when they are working. If a Birken AS employee acts different than what a customer would expect, then there is a mismatch between expectations and reality. Service providers should train employees to act a certain way. This is especially true for a company of Birken AS' size. They have relatively few employees but probably a more decentralized system to manage their employees, where the employees have more autonomy. *“The Communicational Interaction Model (CIM) as propounded by Gabriel (2005) can be one of the solutions to avoid differing appreciations [between customer and company].”<sup>41</sup>*

#### 2.3.2.2.2 Physical Aspects (Customer Service)

This is the traditional customer service section and includes the things the Birken Group does which help to facilitate service. Some of these things include the Birken Group's agents on events and the tangible things customers are able to see on the events. It also extends to after-sale service, which can include all the things the Birken Group does after the event to help their customers. All these things will leave an impression, and it can lead to a positive increase in word of mouth.

#### 2.3.2.2.3 Process Information

Service providers need to have a broad comprehension of how they generate value for their customers. Then they can use efficient communication and strategy to have the best process information possible. Customers are unable to see service and therefore base their confidence upon the information they receive from the service providers. Some customers are argumentative and others understanding, so it's all about applying the right action to different customer types. The easier the Birken Group

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<sup>40</sup> Gabriel, Alisante Ole. 2006. Value Chain for Services,” IMS International Journal S.21

<sup>41</sup> Gabriel, Alisante Ole. 2006. Value Chain for Services,” IMS International Journal S. 21

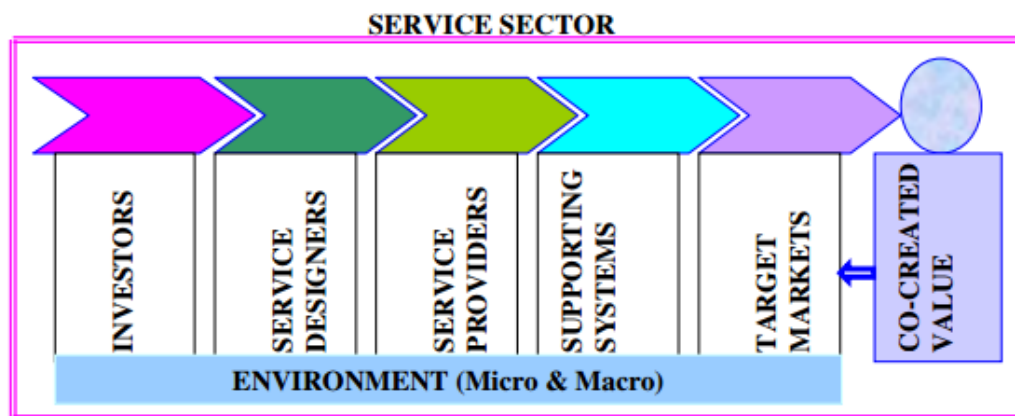
makes it to access information for its customer, the better the process information segment will be.

#### 2.3.2.2.4 Punctuality and Reliability

Both punctuality and reliability are particularly important to a service company. Time itself is a powerful influence over the customer’s value of the service. This is especially important for the Birken Group who hosts athletic events where time is of the essence. As such the Birken Group needs to start events on time and also have a system in place to manage times of participants. A deviation of the start time can cause a significant problem for many participants with pre-race rituals and warm-ups. Reliability is also important because it speaks for the Birken Group’s consistency. Being consistent is a good attribute for companies because it improves customers’ confidence in the company.

#### 2.3.3 Value Co-Creating Model for Services

Another model from ole Gabriel is the Value Co-Creating Model for Services (VCMS). It is a model which complements the aforementioned VACSE model. The VACSE model analyzes the delivery of the service from a service company.



#### 2.3.3.1 Investors

Ole Gabriel's model explains that investors are needed. The Birken Group does not create and sell any new shares. Only 300,000 NOK was required as initial capital for founding Birkebeinreittet AS and Birkebeinerrennet AS. The second point about investors is that they need stable investment projects, and the owners of the Birken Group are extremely stable. Since these companies became corporations in 1994, they have had the same owners. The Birken Group owners can be relied upon to stay long-term.

#### 2.3.3.2 Product Designers

In the case of the Birken Group, the product designers are the ones designing the different proportions on every single event the organization offers. The Birken Group has 19 events within cross-country, cycling and running with different distances and stage profiles in terms of difficulty and altitude. Some events are designed to be very challenging, while others are designed for the youth, purposely to appeal to a broad audience and fulfill the customers' needs.

#### 2.3.3.3 Service Producers

Service Producers are not a priority when it comes to the services offered by the Birken Group. The assignments required by hosting an event are completed almost entirely by the help of volunteers. The volunteers are instructed to guide and inform event participants in addition to their other responsibilities, but are not the main focus for most volunteers.

#### 2.3.3.4 Supporting Systems

The supporting systems consist of all the enabling systems in place that help facilitate the Birken Group's events. Examples of these are the online booking system and the infrastructure. It's very important that these work smoothly, since any difficulties in the supporting systems can cause dissatisfaction and thereby hurt the Birken Group directly.

### 2.3.3.5 Target Markets

The Birken Group's target market includes both Norwegians and foreigners. According to Ole Gabriel's model it's crucial for the Birken group to include their customers in the value creation. They can approach this by informing their customers of upcoming changes. When the Birken group makes changes that will affect customers, they will need to clearly communicate these changes. If done correctly, customers will feel part more included and briefed on relevant matters. Superior communication can provide trustworthiness from costumers and make them less hesitant to choice their events. In 2014 the Birken Group decided to specifically targeted international customers,<sup>42</sup> which has doubled the amount of international attendants.

### 2.3.3.6 Environment

It's important to take environmental factors, both internal and external, into account when applying the five factors above. That being said we've covered this before and will therefore not be repeated.

## 2.3.4 Adapted Value Chain Analysis

The Adapted Value Chain method is used to compare similar companies in a similar market to see their cost efficiency. It serves as a benchmark to analyze the ratio between different costs and total revenue between companies. That way it's easier to analyze which activities in particular help differentiate the Birken group from their competitors. Birken Group is compared to Nordsjørített AS<sup>43</sup> and Oslo Maraton AS<sup>44</sup>. All numbers are from 2014, and rounded to the nearest hundredth of a percentile.

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<sup>42</sup> Caroline Enge. 2014. "Slik skal Birken lokke flere utenlandske deltagere."

<sup>43</sup> Proff. 2016. "Nordsjørített AS"

<sup>44</sup> Proff. 2016. "Nordsjørített AS."



Neither of the companies listed their sales and distribution (S&D) and will therefore not be compared. Neither of the companies have any R&D, so it has also been removed from the model. Small businesses are not required to report all of their specific costs in their annual reports. Administration is one of these costs and it is not listed by any of these companies in the 2014 annual reports. Therefore, the administration/revenue was also removed.

	<b>COGS /Revenue</b>	<b>Depreciation /Revenue</b>	<b>COGS+Depr. /Revenue</b>
<b>Birken Group</b>	86.13 %	2.66 %	88.79 %
<b>Nordsjøritt AS</b>	82.78 %	0.17 %	82.95 %
<b>Oslo Marathon AS</b>	80.27 %	0.69 %	80,96 %
<b>Difference in % points</b>	- 5,86 %	- 2.49 %	- 7.83 %

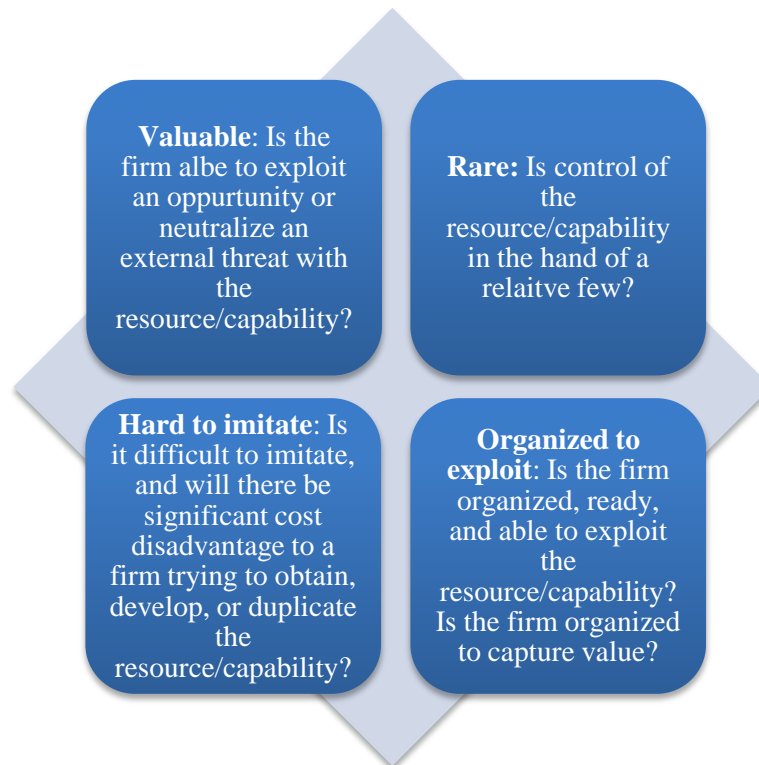
Compared to their direct rivals, the Birken Group does noticeable worse in COGS/Revenue formula. Their difference to their best rival is almost 6 % points. That means the Birken Group has higher costs of goods sold than their rivals in Oslo Maraton. Additionally, it leaves Birken with a profit margin less than 14 %, while their rivals have almost 20 %. Birken does worse in this area, which is a large concern. Birken needs to improve their profit margin to stay competitive in the long run.

In terms of the depreciation/revenue ratio, the Birken Group also does slightly worse than its rivals. This is not the most important ratio for service companies, because they do not have as much non-current assets as production companies. Furthermore, some of this is explained by the fact that the Birken Group is several times larger than both Nordsjørittet and Oslo Marathon in terms of revenue. Even though the Birken Group is larger than its competitors, it still has higher depreciation/revenue ratio than

them. This essentially means that the Birken Group has much higher depreciation costs than its rivals.

The most important ratio is the COGS+Depreciation/Revenue, because it includes both the previous ratios added together. It tells how much COGS and depreciation the company needs in order to garner its revenue. The Birken Group uses far more resources in order to acquire its revenue. The difference between the Birken Group and the most cost effective company, Oslo Maraton, is 7.83 %.

## 2.4 VRIO Analysis



<b>Resource</b>	<b>Valuable?</b>	<b>Rare?</b>	<b>Imitable?</b>	<b>Exploited?</b>	<b>Competitive implication</b>
<b>Cost Structure</b>	No				Competitive Disadvantage
<b>Goods</b>	Yes	No			Competitive Parity
<b>Reputation</b>	Yes	Yes	Yes	No	Unexploited Competitive Advantage
<b>Brand</b>	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
<b>Historically Significance</b>	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
<b>Technology</b>	Yes	Yes	No		Temporary Competitive Advantage
<b>Network</b>	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
<b>License</b>	Yes	Yes	No		Temporary Competitive Advantage
<b>High Quality Events</b>	Yes	Yes	Yes	No	Unexploited Competitive Advantage

#### 2.4.1 Cost Structure

As shown in the adapted value chain analysis, the Birken Group has lower profitability than their closest domestic competitors. The Birken Group's cost structure is worse than their competitors as well, which consequently results in their profit margin being worse. Thus the Birken Group's cost structure is not a valuable resource. Therefore, the Birken Group has a competitive disadvantage in this area. This is unfortunate and therefore something they should strive to improve.

### 2.4.2 Goods

Every company in this industry has some goods such as medals, diplomas and small apparel. These assets are valuable because it increases the customers' value of the service. Neither the goods themselves nor the suppliers of the goods are rare. That leads to this resource being on a competitive parity for the Birken Group; it gives neither a disadvantage nor an advantage.

### 2.4.3 Reputation

The Birken Group enjoys a very good reputation in Norway. They are occasionally covered in the major Norwegian newspapers, typically around Easter when they host their biggest event. Even though the Birken Group doesn't spend very much on marketing, word-of-mouth is very powerful in the cross-country skiing, marathon and cycling communities. That is because those communities are very tightly knit together. However, the Birken Group does not exploit its reputation to the extent they could. They generally do very little marketing, and therefore highly rely on outside sources to inform consumers about their movements in the market. This includes newspapers as well as the outdoor sport communities. The Birken Group could potentially exploit this resource better. However, since the reputation and publicity is already strong from outside sources, they have focused less resource towards marketing.

### 2.4.4 Brand

Birkebeinerne is a well established brand name. In early 2016 the movie "Birkebeinerne" was released, which portrayed the political formation's historical escape from Østfold to Trondheim to get the heir to safety. The movie has further added to the reputation of the brand name. Thus the Birken Group has a sustained competitive advantage considering brand recognition. According to their website<sup>45</sup>, they have a registered trademark for the Birken Brands. The Birken Group has listed 5 million NOK of "Patents, licenses, brand name, goodwill etc." in their balance sheet.

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<sup>45</sup> Birken. 2016. "Varemerket Birken."

#### 2.4.5 Historical significance

The Birken Group is mainly known for the first and most popular event called “Birkebeinerrennet”, which have its roots in Norwegian history and culture. The historical aspect behind the flagship event is something the Birken Group stressed to contain when establishing their second event <sup>46</sup> “Birkebeinerrittet” and the following events presented subsequently. Most of the Norwegian population knows about the historical aspect behind the theme of the Birken Group’s events, which could be considered to be of great value to the company when it comes to publicity, advertisement and brand recognition. The historical aspect is unique in the market where the Birken Group operate and not something directly imitable. It is possible to use another historical event and recreate it in form of an outdoor sporting event, but it’s very unlikely to be received and recognized as well in the historical aspect like the Birken AS events. The Birken group is able to exploit the historical relevance and brand recognition broadly. The historical significance is a consistent theme through their events and the way they present themselves as an organization<sup>47</sup>.

#### 2.4.6 Technology

In terms of technology, the Birken Group has a temporary competitive advantage. This is because they have acquired industry-leading technology in their website. Despite of this, it is probably not that costly to imitate these systems and therefore it only results in a temporary advantage. The exact specifics of this is five webcams<sup>48</sup> where you can see temperature, wind speed and direction, humidity, recent weather, forecast of weather to come and air pressure. Additionally, the Birken Group have invested in a project called BirkenTV<sup>49</sup>, which covers the major events live and makes people able to track different contestants from home. There is also a extensive

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<sup>46</sup> Birken. 2016. “Birkebeinerrittet.”

<sup>47</sup> Birken. 2016. “ Birken Logo“

<sup>48</sup> Birken. 2016. “Webkamera.”

<sup>49</sup> Birken. 2016. “Birken-TV.”

database with all historic results, all the way back to 1932,<sup>50</sup> containing every single Birken Group events. The reason why these investments only achieve a temporary competitive advantage is because the Birken Group' gets all of its technological solutions from one of their many partners. It is normal for the big technology companies to partner with the biggest event host in sports, in this case the Birken Group. If the Birken Group were to be overtaken by any other domestic rival it would almost definitely mean that it would also lead to them losing their technological, temporary advantage. This advantage is purely technological, not aesthetically.

#### 2.4.7 Network

A highly important sustained competitive advantage is what regards the Birken Group's network. About 6,000 volunteers participants in their events yearly, with 3-4 times as many applicants as they need to involve. The Birken Group's events are highly popular both in the local region and beyond. There are also the seeding events that connect the most popular and established events to the Birken Group's own.

#### 2.4.8 License

Because local sport clubs owns the Birken Group, it doesn't need any sort of special licensing from authorities. If it were a for-profit company, it would require licensing to operate. This resource is valuable and rare, but is not costly to imitate. This means it's only a temporary competitive advantage.

#### 2.4.9 High Quality Events

Since 1932, the Birken Group has arranged events and they have only gotten better and better at it. The ability to host such high quality events is crucial to attract new and old customers. People are expecting high quality when they attend an event hosted by the Birken Group. This is the main reason why their reputation is so good. Nevertheless, the Birken Group does not have a sustainable competitive advantage

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<sup>50</sup> Birken. 2016. "Resultater."

since the Birken Group is not exploiting this. They could exploit this in the future, but for now this is an unexploited competitive advantage.

## 2.5 SWOT Analysis

The following SWOT Analysis is based on the Birken Group and their position in the market for 2014. Its purpose is to illustrate their internal strengths and weaknesses, as well as their external opportunities and threats.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Positive Net Income in the last nine years</li> <li>• Revenue has increased steadily since 2006</li> <li>• Big excess cash reserves</li> <li>• Strong Network</li> <li>• Strong concept</li> </ul>	<ul style="list-style-type: none"> <li>• The company is divided in terms of structure and location</li> <li>• Profitability has decreased despite increased revenue</li> <li>• Poor accounting quality</li> <li>• Not run by business professional</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Healthy lifestyle is trending</li> <li>• Tourism is increasing</li> <li>• Plays a large role in Norwegian culture and history leads to passionate stakeholders and many volunteers</li> <li>• Large outdoors activity market, potentially higher market share</li> </ul>	<ul style="list-style-type: none"> <li>• Increased competition in the market</li> <li>• Activities are threatened by bad weather</li> <li>• Limited capacity in the accommodation market where the Birken Group is located</li> <li>• Expectation of an upcoming recession in the market where they operate</li> </ul>

The Birken Group has numerous strengths. First and foremost they have achieved positive net income the last nine years. This is impressive, because it means at the end of the day the Birken Group is making more money than it spends. Additionally, the Birken Group's revenue has increased steadily since 2006. The Birken Group prioritizes stability and long-term goals in order to always have its services available to the consumers. This means that the Birken Group requires a healthy economic

backbone to run their business model. With the positive net income and the steady increase in revenue means that the Birken Group is doing financially well. Another important strength is the Birken Group's ability to use its large cash reserves to secure an excellent liquidity. However, the Birken Group has the opportunity for a stronger profitability if it were to invest its excess cash into the financial markets. Networking is also an important area for the Birken Group, because of the seeding events and volunteers they cooperate with in order to add value to their services. The Birken Group is a recognizable and well-established brand name due to its historical and cultural background.

Regarding weaknesses, an alarming factor is the decreasing profitability despite the aforementioned increase in revenue. The Birken Group is earning more revenue every single year, but is unable to turn this into a better profit margin. If the Birken Group wants to remain economically healthy, it needs to actively address cutting costs to increase or at least retain its current profit margin. Another issue for the Birken Group is the fact that the company is divided in terms of structure and location. The Birken Group is unstructured when it come to location. They have three offices, one in Rena, one in Lillehammer and one in Askim. If the goal is to cut costs and increase profitability, the company needs to improve in terms of structure and location. Before 2014 there were two equal companies (Birkebeinerrennet AS and Birkebeinerrittet AS), but in 2014 they started Birken AS, which took over all operations. This has not yet been finalized as of the end of 2014, because these two companies still contain a considerable amount of valuables. Interestingly, these two companies own Birken AS 50 % each, in essence having three companies where there is only one needed. The accounting quality is poor, and leaves a lot to be desired.

Regarding external opportunities in the marketplace, the Birken Group has several trends to take advantage of. Exercise and lifestyle is becoming a larger focus in people's life which means people are willing to invest time and money into pursuing good health. Not only do individuals invest into better health, but companies and



organizations are also investing into their employee's health by registering them for event like the ones the Birken Group offer. Also, more tourists are now traveling to Norway for the Birken Group's events.

The Birken Group events attract many volunteers, partly because of their well-known brand and cultural relevance. The large degree of enthusiasm and positive reputation amongst its stakeholders is a valuable resource.

The Birken Group has to account for several external threats, due to them operating in a competitive market. The Birken Group's flagship event "Birkebeinerrittet" is a long distance cross-country skiing race. The event has several highly similar alternatives such as Vasaloppet and Marcialonga, which are Sweden's and Italy's take on the same concept. Another largest threat is weather conditions. Every events organized by the Birken Group could potentially be cancelled, based on bad weather. Most contestants pay several months in advance to register for the Birken Group's events, so the financial loss of cancelling an event is not crippling, but it may cause participants to be less likely to sign up for future events. Another complex factor is the limited accommodation market in Lillehammer; the ending location of most of the Birken Group's events. This is a bottleneck that prevents the Birken Group from extending their flagship event as much as they may want. There is also the expectation from the board of directors that there is a recession approaching their market.

### **3.0 Accounting quality**

Accounting quality is an important field in order to understand how to administrate a company as well as possible. However, it is to be considered as an inexact science, due to distinct rules for each country. These rules may also vary depending on the type or the size of the company. The Birken Group falls under the category of a small business according to the Norwegian accounting law<sup>51</sup>. It is the Financial Supervisory

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<sup>51</sup> E-economic. 2016. "Små foretak – Hva er små foretak?"

Authority of Norway (FSAN) who is responsible for setting guidelines for good accounting policies. There are four main issues of accounting, which may cause for concern. First is how companies apply the accounting principles taken from lawmaking institutions. Second is how companies estimate their own future. Third are how different items and events are classified. Fourth is how companies classify their permanent and transitory items. These four cornerstones of accounting have to be implied into a company in order to get a clear understanding of its financial state.

Most companies are required by law to present financial statements at least once a year, due to many stakeholders using financial statements as a tool to research different matters. First there are the authorities, which require financial statements from companies to determine if they are adhering to the tax laws in a country. Investors also need financial statements from companies in order to analyze potential investments. Creditors will need them as well, to determine the liquidity risk of their capital and how much rate of return they will require for each debtor. We can break it down into three user-types of financial statements: equity-based, debt based-capital and compensation focused. Each of these types will require different valuation methods to meet their goals. These methods are present value method, multiples, liquidation method, forecasting method and financial performance. Despite the different valuation methods and users of financial statements, they all have one thing in common; the financial statement itself needs to be as unbiased as possible, and it also needs to be easy to comprehend. Furthermore, they need to distinguish between transitory and permanent items.

In terms of accounting quality, it is crucial to understand that the Birken Group is considered a non-profit company by the Norwegian tax authorities. As a consequence, the Birken Group does not have to pay any taxes on their yearly results. Their vision is as follows: «*Formålet er å drive ideell virksomhet ved å fremme interessen for langrenn, sykkel, løp og annen breddeidrett.*»<sup>52</sup> This means the main

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52 Brønnøysundregisteret. 2014. "Årsregnskap Birken AS, 2014."

purpose of this company is to increase the popularity of cross-country skiing, cycling and running by hosting competitive events. The Birken Group needs a healthy economic backbone in order to accomplish its vision. The Birken Group's shares are not listed on any stock exchange. It has been common practice to hold onto shares rather than to sell them to private for-profit investors. This means that the Birken Group has very stable owners which focus on the social good of the company rather than maximization. However, there are downsides to this, for example; lost income and a potential for new investors that is highly slim or nonexistent.

Another issue is the fact that Birkebeinerittet AS and Birkebeinerrennet AS between 2006 and 2014 have had many inconsistencies and poor reporting in their yearly financial statements. For example, from year-to-year there are many items on the income statement and the balance sheet which are removed and placed under the other item of the respective category. This means some specific information is lost, which can be crucial in determining the actual financial state of the company. For example, administration costs were only specified in some years, where as in all other years of our analysis they were placed under the "annen driftskonstad" item. These sorts of generalizations greatly deprive the accuracy of analyzing the financial statements.

Another troubling matter is that in the consolidated yearly financial statements the numbers for each item in a category did not add up to the bottom line of that category. This indicates poor accounting and the case that is has gone into the official version of the financial statement released to the public is disappointing. For example, this happened in 2007 when the cost side of the income statement did not match the year's profit. When the numbers from the financial statements does not match the bottom line of that category in the given year, you have to go next year's financial statements to verify the numbers because of all the Birken Groups financial statements include the numbers from last year. However, the bottom line was correct, so while there were significant errors in the individual items in the income statement, it did not attribute to an error, which makes the numbers on the financial statement wrong.

Petersen and Plenborg (2012, 370) present an efficient and easy-to-understand table which aims to assess an overall score of a company's accounting quality.

Assessments of the Following Statements	True				False
	1	2	3	4	5
Analysis of accounting quality has shown:					
Few motives for accounting manipulation				x	
A high degree of quality in accounting policies				x	
A high degree of recurring items				x	
A high level of information in the annual report		x			
Few 'red flags' in the financial statement				x	
<b>Overall score</b>				3.8	

The Birken Group currently does not have favorable accounting standards. Regarding motives for accounting manipulation it only receives a 4, which is due to each unclear labeling of the cost items. To label them as "other" is arguably not transparent enough to a stakeholder, which is unfortunate.

The Birken Group has genuine accounting problem and barely manages a 4 in the quality in accounting policies category. In 2006 and 2007, the Birken Group's financial statements were a lot more detailed. This has made a changed for the worse and many cost items now are being removed and instead added to a general cost item called "other". Additionally the Birken Group has used different accounting firms over the period of 2006 to 2014. Birkebeinerrikket AS used KPMG from 2006 and Birken AS from 2014 exclusively. Birkebeinerrennet AS on the other hand, has used Ergo accounting from 2006 to 2010. In 2011 to 2013 they changed to Ernst & Young,

when finally, in 2014 they changed to KPMG. All Birken companies, as of 2014, are using KPMG, but we believe some of the issues with the Birken Group's accounting quality is result of the companies in the organization using different accounting firms for many years.

A strong area for the Birken Group considering accounting quality is the high level of information they present. They have descriptive notes for activity, which would have provided them with the highest grade if it weren't for their other issues. Instead they receive the score of 2.

The Birken Group does poorly as they only get a score of 4 in the red flags industry. The fact that they didn't manage to add up all their costs in 2007 to the total costs was very problematic. Despite this, their bottom line numbers were correct. There were also missing numbers in the debt items. So in total there were 4 occasions of plain wrong numbers in the financial statements, and it happened across three years. The only reason they get a 4 instead of a 5 is because this happened in the years between 2006 and 2008. So at least it seems they have managed to correct their mistakes in recent years.

An overall score of 3.8 leaves a lot to be desired. However, many of the Birken Group's issues in accounting have the largest impact in the earlier years of our analysis. The Birken Group's accounting standard is currently poor and needs a great deal of improvement in order to be a well-executed component for the organization.

#### **4.0 Reformulating the Financial Statements**

It's important to consolidate the financial statements considering the Birken Group has three companies since 2014 (Birken AS, Birkebeinerrennet AS and Birkebeinerrittet AS) and two companies before 2014 (Birkebeinerrennet AS and Birkebeinerrittet AS). Income statements have been reformulated. Furthermore, their balance sheets have been reformulated to total assets (TA), capital employed (CE) and net operating assets (NOA) formats to further improve the detail. Then we can analyze their profitability, growth, liquidity and cash flow. All reformulated financial

statements are available in the attachment section. It's important to reformulate and consolidate the financial statements because it makes it easier for the readers to understand them. Another reason is that the liabilities are separated between operational, financial and investments. Furthermore, it's easier to identify surpluses and deficits in the income statement to increase the accuracy of the information. Equity changes occur frequently and the reformulated balance sheet will help to illustrate the underlying factors behind these changes, which is the last reason to reformulate the financial statements.

#### 4.1 Analytical Income Statement

The Birken Group provides many income items on their income statement, which was positive for the accuracy of the analysis. Depreciation, net financial expense and most other revenue items were already calculated. Beneath is the information from 2006 to 2014. Raw numbers are in 1000 NOK.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Gross Profit</b>	12,742	8,364	9,374	14,545	6,686	4,059	4,482	3,131	15,422
<b>EBITDA</b>	12,742	3,394	4,908	14,545	6,686	4,059	4,482	3,331	15,422
<b>EBIT</b>	10,301	1,581	3,905	13,515	5,894	3,393	4,228	3,121	15,128
<b>NOPAT</b>	10,301	1,581	3,905	13,515	5,894	3,393	4,228	3,121	15,128
<b>Net Income</b>	11,752	3,429	5,554	14,898	6,871	4,368	5,498	3,936	15,283

#### 4.2 Analytical Balance Sheet

The final reformulation of the financial statements is in the balance sheet, which is summarized beneath. For full detailing, see the attachments. Raw numbers are in 1000 NOK.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>NONCA</b>	24,139	11,412	5,226	2,698	3,182	2,081	628	628	698
<b>NOWC</b>	23,669	15,877	15,401	15,864	9,881	8,706	10,084	5,826	2,842
<b>NOA</b>	47,809	27,290	20,628	18,563	13,063	10,787	10,712	6,455	3,540
<b>NFA</b>	-20,163	-5,166	-168	-168	-167	-163	-164	-500	-21
<b>NOA + NFA</b>	27,645	22,123	20,459	18,394	12,896	10,624	10,547	5,955	3,518
<b>Total Equity</b>	27,645	22,123	20,659	18,394	12,896	10,624	9,553	5,955	3,518

## 5.0 Profitability Analysis

To gain a much deeper insight on the Birken Group's profitability, we have used numerous profitability ratios such as Return on Invested Capital, Trend Analysis of the Income Statement, Trend Analysis of Invested Capital and Net Profit Margin. Together they provide an extensive look into the Birken Group's profitability. Under normal circumstances this analysis would include Weighted Average Cost of Capital (WACC) and Economic Value Added (EVA), but because the Birken Group's mission is not to maximize profits for shareholders, we decided not to include these analyzes.

### 5.1 Return on Invested Capital

Return on invested capital (ROIC) is a tool used to measure the ratio of profit a company makes based on the capital invested in it. A positive number will mean that the company is making a profit from its capital and vice versa. The larger the ROIC number is, either positive or negative, the more the company is earning or losing in regards to the invested capital.

The average of nine years Net Operating Assets (NOA), the Birken Group has a positive ROIC for each consecutive year. The ROIC numbers seem to fluctuate a lot, within the range of 17.69 % to 76.58 %. These numbers are very good. The

fluctuation from the low to the high return on invested capital is only to be expected for a company that has a business model like the Birken Group. From these numbers alone we can determine exactly how much return the Birken Group is making on its invested capital. The index numbers rounds down to the nearest whole percent.

<b>ROIC</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Birken Group</b>	58 %	37 %	47 %	76 %	33 %	19 %	23 %	17 %	25 %

### **5.2 Trend Analysis of the Income Statement**

The purpose of a trend analysis of the Income Statement is to compare change in different categories within the income statement from year to year, with 2006 being the base year. This way the information about how different key financial performances have changed, as a percentage over nine years, from 2006 to 2014. The base year of 2006 uses 100 for all its ratios because it's the base year. Any change seen since then is a percentage change from the same financial indicator as it was in 2006. A higher number than 100 means an increase, while a lower number than 100 means a decrease from the base year. Raw numbers are in 1000 NOK, while the indexing rounds to the nearest whole percent.



	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Revenue</b>	91,845	90,627	86,218	83,470	72,045	59,783	48,463	39,589	30,769
<b>Revenue Index</b>	298 %	294 %	280 %	271 %	234 %	194 %	157 %	128 %	100 %
<b>Gross Profit</b>	12,742	8,364	9,374	14,545	6,686	4,059	4,482	3,331	6,973
<b>Gross Profit Index</b>	183 %	120 %	134 %	209 %	96 %	58 %	64 %	48 %	100 %
<b>EBITDA</b>	12,742	8,364	9,374	14,545	6,686	4,059	4,482	3,331	4,764
<b>EBITDA Index</b>	267%	175%	196 %	305%	140 %	85 %	94%	69 %	100 %
<b>EBIT</b>	10,301	6,551	8,372	13,515	5,894	3,393	4,228	3,121	4,470
<b>EBIT Index</b>	230 %	146 %	187 %	302 %	131 %	75 %	94 %	69 %	100 %
<b>NOPAT</b>	10,301	6,551	8,372	13,515	5,894	3,393	4,228	3,121	4,470
<b>NOPAT Index</b>	230 %	146 %	187 %	302 %	131 %	75 %	94 %	69 %	100 %
<b>Net Income</b>	11,752	8,399	10,021	14,898	6,871	4,368	5,498	3,936	4,625
<b>Net Income Index</b>	254 %	181 %	216 %	322 %	148 %	94 %	118 %	85 %	100 %

The table above illustrates the massive problem for the Birken Group, which is the problem of declining profitability. Revenue has increased almost three times from 2006 to 2014. Gross Profit has increased, but the rate of total costs has grown higher than total revenue. This shows the problem of acquiring a good profit margin even with increased revenue. Additionally, the Birken Group is not a producer so their variable costs are miniscule compared to typical production companies. The profitability issue is a major issue that needs to be addressed. Earnings before interest, depreciation, taxes, depreciation and amortization (EBITDA), earnings before interest and tax (EBIT), net operating profit after taxes (NOPAT) and Net Income illustrate the same issue as was highlighted in gross profit. The Birken Group

has very low depreciation costs since most of their assets are current assets rather than non-current assets.

### 5.3 Trend Analysis of Invested Capital

A trend analysis is a good way to analyze the historic changes for key financial indicators for a company over several periods. The following Trend Analysis will focus on invested capital. Raw numbers are rounded to the nearest thousandth while index numbers are rounded to the nearest whole.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>NOA</b>	47,809	27,290	20,628	18,563	13,063	10,787	10,712	6,455	3,540
<b>NOA Index</b>	1,350	771	583	524	369	305	303	182	100
<b>Equity</b>	27,645	22,123	20,659	18,394	12,896	10,624	9,553	5,955	3,518
<b>Equity Index</b>	1,350	771	583	524	369	305	303	182	100
<b>NFA</b>	-20,163	-5,166	-168	-168	-167	-163	-1,964	-500	-21
<b>NFA Index</b>	91,756	23,513	767	766	763	742	8,941	2,275	100

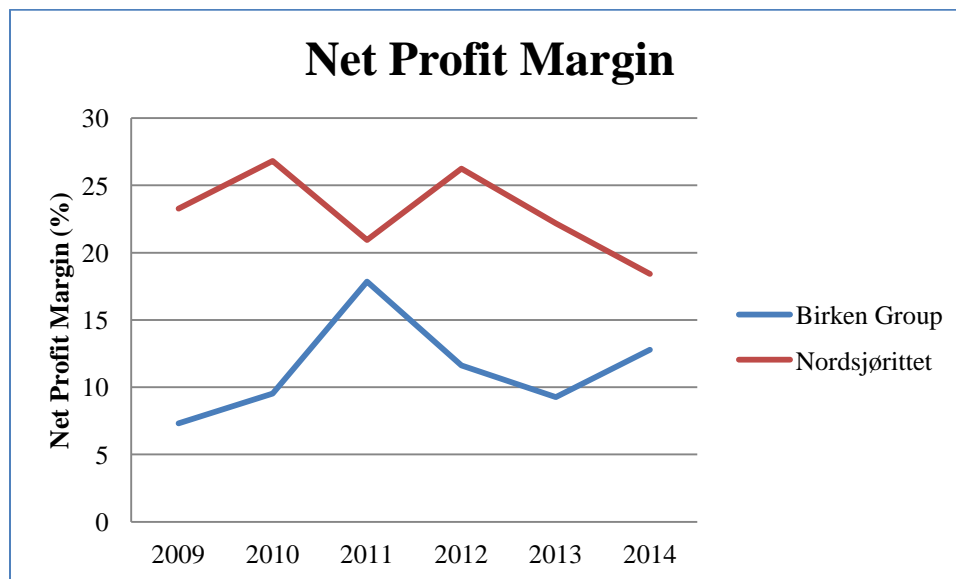
Net Operating Assets (NOA) has increased each and every year and is 14 times larger in 2014 than in 2006. This means the company had a massive growth during these years. Equity has grown almost eight times as large in the same time frame.

Something peculiar is the fact that net financial assets (NFA) have increased 91756 % over the course of nine years. However, by looking at the 2006 base it is only 21 975 kroner, virtually nothing. While it did increase to 20.2 million in 2014, 15 of those millions are owed to its parent companies Birkebeinerriitet AS and Birkebeinerrennet AS. Even with that in mind we can still see that the Birken Group had their growth partly financed by increasing debt. These numbers further highlight the poor gross profit of the Birken Group, and how essential it's for the company to improve in that particular aspect.

### 5.4 Net Profit Margin

The most crucial issue in the Profitability Analysis is the weak profit margin of the Birken Group compared to their competitors. Net Profit Margin is the best way to analyze profitability because it shows how much of each krone is translated directly into profits. Nordsjørittet was founded in 2009 and therefore the analysis starts from that year. As illustrated in the table below, the Birken Group gets heavily outcompeted in each of the six years analyzed by their competitors at Nordsjørittet when it comes to Net Profit Margin. The Birken Group was outcompeted even in 2011 which was their best year and a worse than average year for Nordsjørittet. In 2014, the Birken Group did close the gap somewhat.

Net Profit Margin	2014	2013	2012	2011	2010	2009
<b>Birken Group</b>	12.80 %	9.27 %	11.62 %	17.85 %	9.54 %	7.31 %
<b>Nordsjørittet</b>	18.43 %	22.18 %	26.25 %	20.95 %	26.82 %	23.26 %



Net Profit Margin is the single most worrying trend for the Birken Group. Their low profitability has left them behind their competition in the market place. This ratio fluctuates a great deal for both companies in the market, but the overall trend is alarming and something the Birken Group needs to address.

## 6.0 Growth Analysis

The growth analysis is compiled of different key figures that either increase or decrease for each period. The Birken Group's shareholders are likely to be the most interested party because they will want to know what sort of growth the Birken Group has managed to have in several key areas. Investors are probably less interested, due to the Birken Group not being a company open for selling shares. It would be typical to add an Economic Value Added model to determine the value the company has creating for its shareholders, but the fact that the Birken Group's shareholders are fixed and the organization is not looking to attract new investors makes it much less interesting. Therefore, other sections of growth analysis are added instead of economic value added.

Key financial data will be evaluated in the tables below to give an informative visualization of the data. 2006 is the first year of our analysis, so we will use data from 2006 to 2014 to give a performance indicator level over time. We will specifically look at an index for the NOA format of the reformulated balance sheet. The numbers in the table below are rounded to the nearest whole number from the base year 2006.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
Gross PP&E (O)	630 %	728 %	628 %	376 %	400 %	277 %	89 %	84 %	100 %
Accumulated depreciation (O)	830 %	616 %	341 %	350 %	269 %	226 %	86 %	71 %	100 %
<b>Net PP&amp;E</b>	546 %	775 %	749 %	386 %	456 %	298 %	90 %	90 %	100 %
Other non-current assets (O)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Deferred tax (O)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total NONCA</b>	3457 %	1635 %	749 %	386 %	456 %	298 %	90 %	90 %	100 %
Inventories (O)	215 %	164 %	143 %	202 %	222 %	160 %	118 %	140 %	100 %
Other current assets (O)	252 %	185 %	182 %	360 %	312 %	154 %	183 %	168 %	100 %
Cash (O)	207 %	228 %	221 %	222 %	186 %	168 %	128 %	104 %	100 %
Accounts Payable (O)	305 %	290 %	360 %	154 %	157 %	274 %	202 %	158 %	100 %
Tax Payable (O)	198 %	255 %	214 %	158 %	169 %	152 %	151 %	216 %	100 %
Other Short Term Debt (O)	61 %	58 %	52 %	53 %	29 %	18 %	85 %	95 %	100 %
Accounts Receivable (O)	306 %	420 %	407 %	506 %	490 %	388 %	154 %	105 %	100 %
<b>Total NOWC</b>	833 %	559 %	542 %	558 %	348 %	306 %	355 %	205 %	100 %
<b>NOA</b>	1350 %	771 %	583 %	524 %	369 %	305 %	303 %	182 %	100 %
Cash (F)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Long Term Debt	91756 %	23513 %	767 %	766 %	763 %	742 %	8941 %	2275 %	100 %
<b>NFA</b>	91756 %	23513 %	767 %	766 %	763 %	742 %	8941 %	2275 %	100 %
<b>Total NOA + NFA</b>	786 %	629 %	582 %	523 %	367 %	302 %	249 %	169 %	100 %
<b>Shareholders' equity</b>	786 %	629 %	587 %	523 %	367 %	302 %	272 %	169 %	100 %
<b>Total Equity and NIBD</b>	786 %	629 %	587 %	523 %	367 %	302 %	272 %	169 %	100 %

Gross PP&E have increased about six-fold from 2006 to 2014 while depreciation is following a very similar pattern. There is some year-to-year difference although the long-term trend is very closely correlated. Depreciation somewhat decreases PP&E. Net PP&E has increased about five times over the same time span. From data presented previously, revenue has only increased three times in the same time span. This means that Net PP&E has increased almost twice as fast. This results in a negative effect for profit margin, as they now need more fixed assets to increase revenue than they did in 2006. This is a worrying trend for the Birken Group.

Other non-current assets, which mean financial and intangible fixed assets, have information, which is not available and therefore receives the N/A remark. This

basically means that besides 2013 and 2014, the Birken Group did not have any other current assets. Therefore, even though the raw number for this in 2014 was 20 million, and in 2013 it was 6 million, it is divided by 0 because it is the numerical value it had in 2006. Tax payable is non-existent for each and every year.

Total Net Operating Non-Current Assets (NONCA) has increased massively from 2006 to 2014 by 35 times its original size. The majority of this huge increase comes from the 15 million, which the old companies gave the new company as a loan in 2014. NONCA is also affected by the fact that in 2013 and 2014, the Birken Group attains around 5 million in intangible assets. Therefore, it makes sense to look at 2012 as the best ending indicator, because it is untouched by the recent activities. And NONCA increased about 7 times from 2006 to 2012. Although the base numerical value in 2006 of fixed assets were only NOK 700,000. NONCA, apart from the last 2 skewed years, largely follows the general trends of the Birken Group.

The Birken Group has very large cash reserves, which it only holds and does not use in any way other than keeping them in the bank as a checking account. As a consequence, we have moved Cash from financial to operational because it belongs there. Net Operating Working Capital (NOWC) is affected by all the operational changes in both assets and debt. Total NOWC has increase about eight times from 2006 to 2014, a very pleasing number because it also takes into account the operational liabilities. Short-term debt has actually decreased despite the company growing, which is excellent for the Birken Group. Tax Payable is the value-added tax for the sales the Birken Group make, but not for the overall tax on net income. Inventories, other current assets, cash, accounts payable, tax payable and accounts receivable are all in line with the general trend of Birken Group growing, though there are some individual differences between each category. Net Operating Assets (NOA) is affected by Total NONCA and Total NOWC, which are both positive every year. That explains the massive growth in NOA, which has increased fourteen times its size.

The Birken Group does not treat its cash reserves as a financial asset to invest in. Instead, they safely put it into checking accounts. As such, none of the cash reserves have been listed in the financial part of the company. Therefore the information is not available. On the other hand, Total Long-Term Debt has increased astronomically by 918 times. The old companies gave Birken AS a loan upon its inception of 7.5 million each. This results in Birken AS getting a total loan of 15 million for 2014. Additionally, in 2013 one of the old companies took a loan of 5 million, this explains why the long-term debt is so high in 2013. Even back in 2008 there was a loan from one of the companies to the other of 1.8 million. Despite these loans, another huge factor contributing to these high numbers is the fact that in 2006, the long term debt was only NOK 21,975. Such a small amount is virtually insignificant. Therefore, it's easier to look at the raw numbers and say that, even in 2014, long term debt is 20 million, of which 15 million is owed to the parent companies. In essence, that means Birken Group only has 5 million in loans to an outstanding third party. That is a number which is very manageable for the Birken Group to service.

Total NOA+NFA, Shareholders equity and Total Equity + NIBD have all increased by almost eight times since 2006. This is the proof that the company is still growing. Each and every year they have had a positive net growth. The growth is expected to continue, although the growth rate will likely decrease in 2015 due to market factors which the board of directors in their 2014 annual reports describes.

## **7.0 Liquidity Risk Analysis**

Liquidity risk analysis is divided in two parts: short-term liquidity risk and long-term liquidity risk. The short-term liquidity risk analysis will show how well the Birken Group's current assets can cover their current liabilities, while the long-term liquidity risk analyses will look at the Birken Group's solvency.

### **7.1 Short-Term Liquidity Risk**

The short-term liquidity risk analysis will assess the Birken Group's ability to pay its short-term obligations. The reason liquidity is important is because if a company

doesn't have cash to pay their bills it will in worst case go bankrupt, but there are also several other negative impacts from bad liquidity. It reduces options and thus freedom of action, the company might not have the ability to invest in profitable opportunities, the company might have to sell assets or business to a reduced price due to urgency in receiving cash, it will therefore increase financial expenses and as mentioned worst case scenarios would be suspension of payment and bankruptcy.

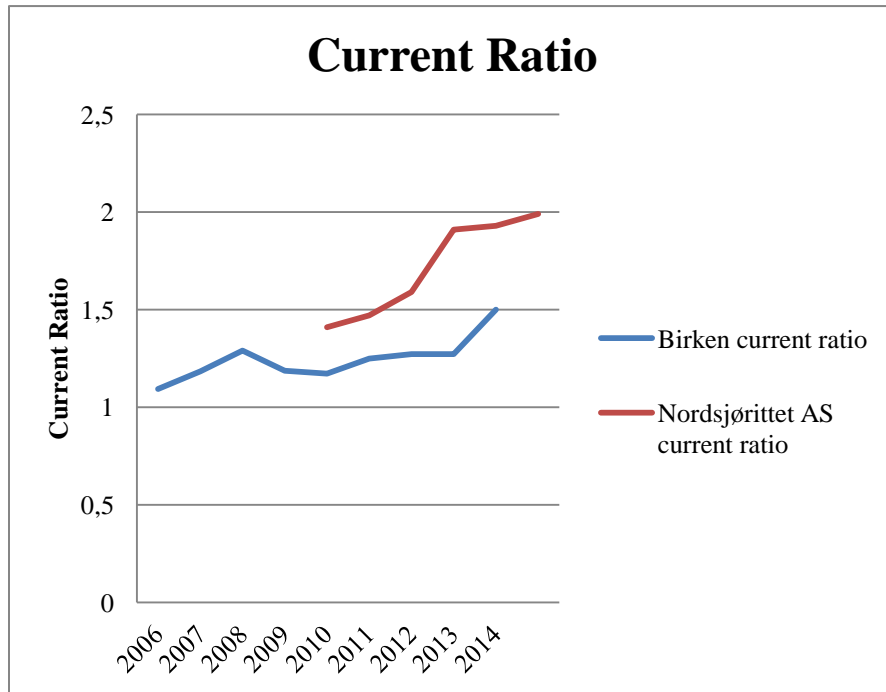
### 7.1.1 Current Ratio

Current ratio (see appendix 12.1) is a tool that sees how well a company would do in case of liquidation. Would its current assets cover its current liabilities? If a company has a current ratio of 1 it would be able to cover all of its current liabilities with its current assets. The greater the ratio, the better it would be able to pay its current liabilities. It's also a ratio that explains to what degree current assets have been financed by current obligations. It is hard to say how high a current ratio should be and it differs from industry to industry. If a company would actually liquidate it's not realistic that all its assets would be sold to its actual value. Outdoor sport event companies usually have low level of inventory and therefore the industry usually have lower current ratio than other industries. Nordsjøritt AS' current ratio has increased from 1.41 to 1.99 over 5 years<sup>53</sup>. It should be noted that the largest cost item in current liabilities, for the Birken Group, is payment in advance, which carries no interest bearing and will be resolved after the event is done. It is therefore interesting to see what the Birken group's current ratio would be if the payment in advance is excluded from the calculation. So when comparing the Birken Group's current ratio with a similar company and when taking the cost item payment in advance into account, the Birken Group has a moderately good level of current ratio.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>CR</b>	1.50	1.27	1.27	1.25	1.17	1.19	1.29	1.18	1.09
CR*	4.31	4.63	4.63	6.18	8.08	7.19	2.33	1.78	1.63
<b>NordsjørittetCR</b>	1.99	1.93	1.91	1.59	1.47	1.41	-	-	-

<sup>53</sup> Orbis. 2016. "Nordsjøritt AS."

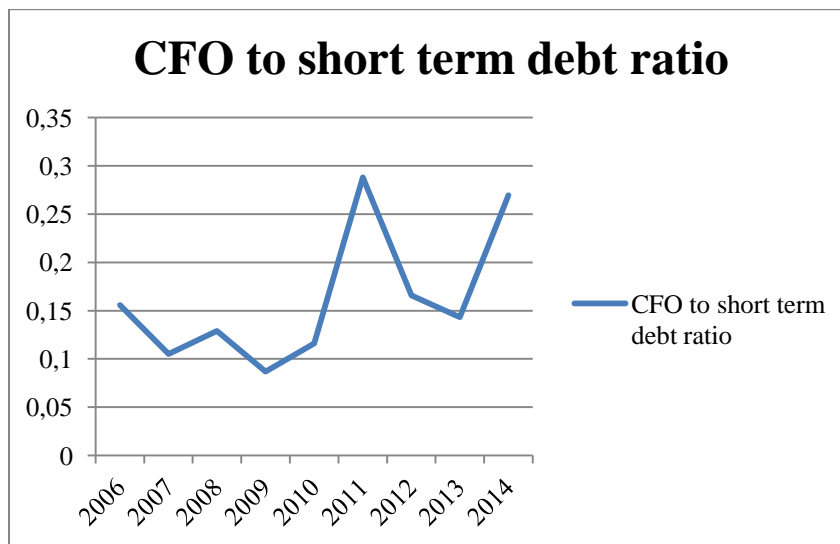




### 7.1.2 CFO to Short Term Debt Ratio

Unlike the current ratio the CFO to short-term debt ratio (see appendix 12.2) measure cash flow instead of assets. This removes the question of how fast an asset could be converted to cash and if that asset would sell to the value estimated. This is obviously a much more conservative ratio. We see that the Birken Group does not produce enough cash flow from their operations to cover their current liabilities, but this is not expected either. The Birken Group has improved their CFO to debt ratio since 2007.

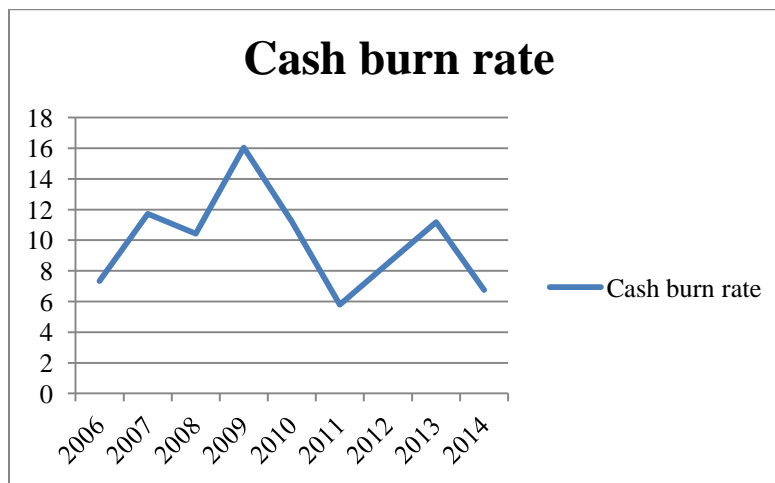
	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>CFO/debt</b>	0.27	0.14	0.17	0.29	0.12	0.09	0.13	0.11	0.5



### 7.1.3 Cash Burn Rate

Cash burn rate (see appendix 12.3) is a conservative ratio that describes how long the company can fund its operations costs without any further cash injection. The cash burn rate is calculated in years. It's important to understand that this ratio is calculated on the EBIT of that year, and if the EBIT is volatile it might not be an accurate tool. What we see here is that the Birken Group has a lot of cash and cash equivalents. This means that even if they don't make money they could host their arrangements for a few years to come.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>CBR</b>	6.76	11.17	8.48	5.80	11.22	16.04	10.43	11.73	2.17



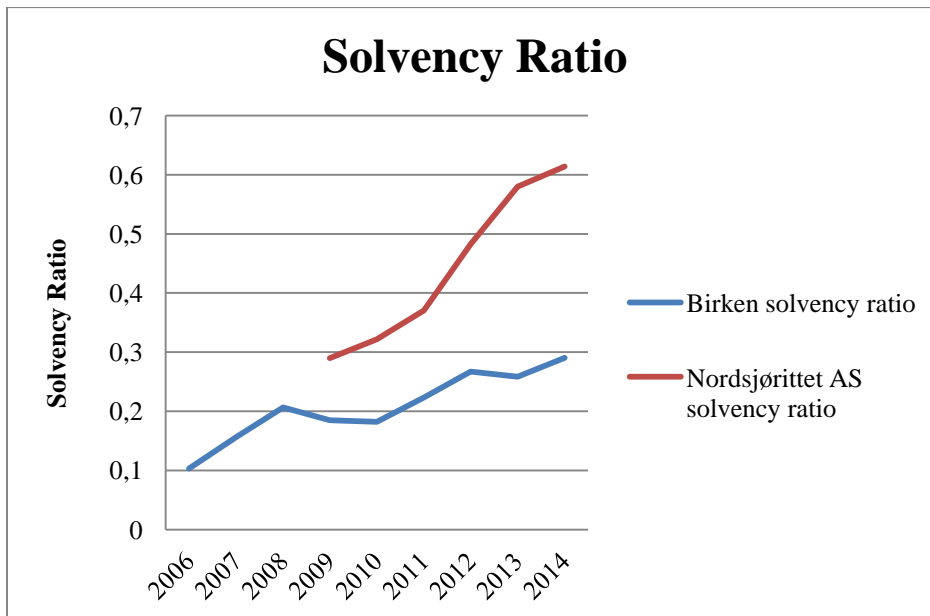
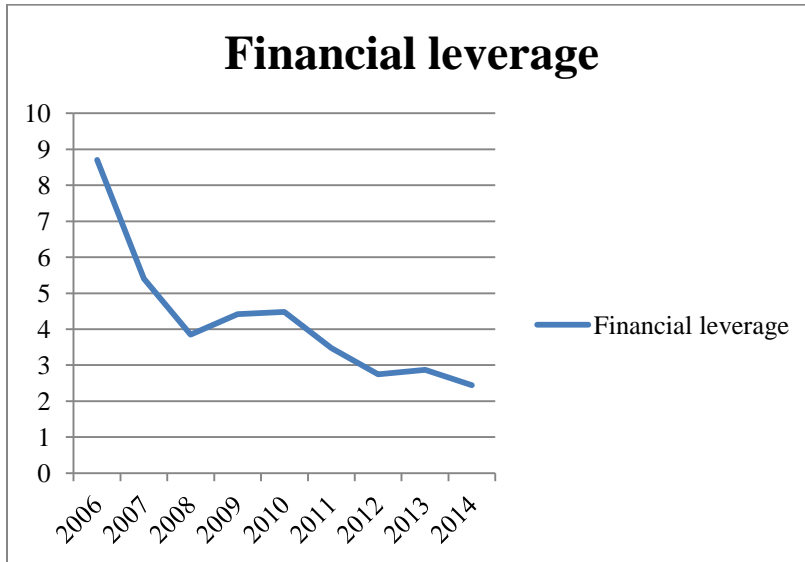
## 7.2 Long-Term Liquidity Risk

Long-term liquidity risk mainly analyzes the solvency of a company. There are two ways to finance operations. Either it's financed through loans, or it's financed through equity. It's obviously safer to finance it through equity, however this reduces a company's expansive capability and profitable opportunities may be missed.

### 7.2.1 Financial leverage and solvency ratio

Financial leverage (see appendix 12.4 and 12.5) and solvency ratio look at the same information, but from opposite sides. The lower the financial leverage is, and the higher the solvency ratio is, the lower the risk. The risk was higher in the earlier years for the Birken Group, but the risk has been reduced steadily. In 2014 the risk seems to be moderately low, both when compared to similar companies and in general, and it's improving. A similar company Nordsjørittet AS had a solvency ratio that went from 0.2898 in 2009 to 0.6139 in 2014. It's natural that the Birken Group has a lower solvency ratio since it's not stock listed and as such doesn't have as much equity injected through selling new stocks, as stock listed companies. If the trend continues there shouldn't be much risk here.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>FL</b>	2.44	2.87	2.74	3.48	4.48	4.42	3.85	5.40	8.70
<b>SR</b>	0.29	0.26	0.27	0.22	0.18	0.18	0.21	0.16	0.10
<b>Nordsjørittet SR</b>	0.6139	0.5797	0.4826	0.3706	0.3216	0.2898			

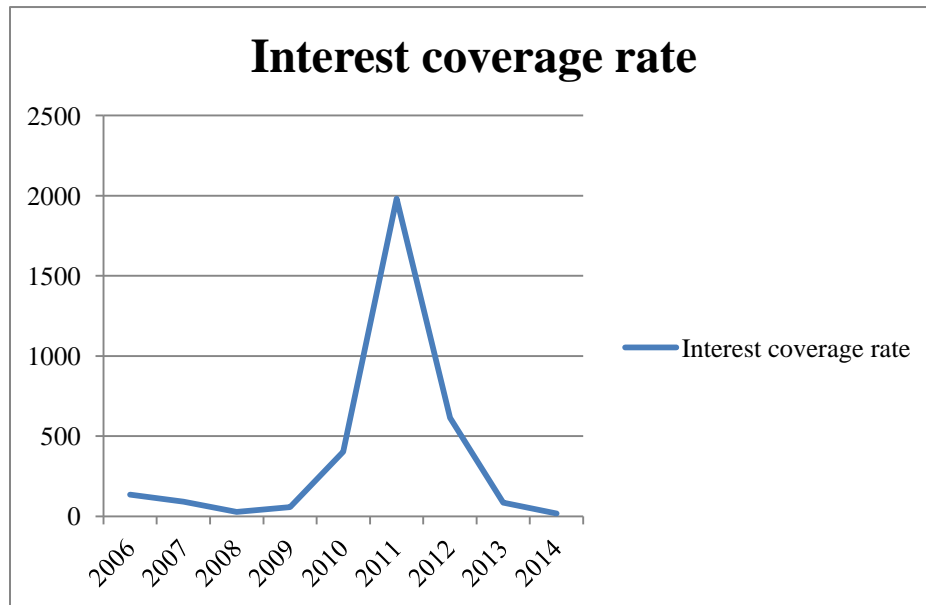


**7.2.2 Interest Coverage Ratio**

The interest coverage ratio (see appendix 12.6) shows how well the operating profits cover the net financial expenses. The higher the ratio is, the better the operating

profits covers the net financial expenses. What is very obvious here is that the Birken Group has very low net financial expenses, which is why ridiculous results appear.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>ICR</b>	17.18	86.40	614.29	1981.20	403.87	58.10	27.81	92.30	456.93



### 8.0 Cash Flow Analysis

All numbers in the table below are listed in 1000 NOK and rounded to the nearest thousandth.

	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>FCFE</b>	-16	8,773	7,687	19,744	9,979	14,975	8,804	2,609	
<b>Dividends</b>	7,230	6,736	7,956	9,400	4,600	3,297	1,900	1,500	4,100

When calculating the Birken Group’s cash flow from NOPAT there are two years, 2008 and 2009, that does not add up. In these years there wasn’t a cost item called “arrangementskostnader”, which was listed every other year, and it’s reasonable to assume that it’s the reason why the CF doesn’t add up. It’s still possible to reverse

engineer the true FCFE by looking at the cash difference from last year and adjusting for new shareholder capital and dividends (see appendix 12.7).

The FCFE was good from 2007 and improved until 2011. The Birken Group saw incredible good numbers in 2009 and 2011. It is natural the FCFE would decrease as it went down to more normalized values, however in 2012 the FCFE decreased by 12 million compared to 2011 and in 2014 the FCFE decreased by almost 9 million compared to 2013. In 2014 the Birken Group had a negative FCFE, meaning that if dividends and new shareholder capital are excluded the Birken Group ended up with less cash than they started with that year. This should be an obvious warning sign that something is wrong, and if this problem is left unattended it may cripple the group. In 2011 they had a FCFE of 19.7 million NOK and in 2014 they had a FCFE of minus 16 155 NOK. That is more than a 19.7 million NOK FCFE difference in 3 years!

The reason FCFE fell so much is mainly two reasons. First reason is because NOPAT decreased from 13.5 million NOK in 2011 to 10.3 million NOK in 2014. But the second and the biggest reason is the change in net working capital has decreased from 4.4 million NOK in 2011 to -14 million NOK in 2014. The biggest reason for this plummet in net working capital is “forskudd fra deltakere” fell from 50.9 million NOK in 2011 to 30.8 million NOK in 2014! This because in 2011 all the spots for the main event “birkebeinerrennet” were sold out in 97 seconds<sup>54</sup>, while in the later years they sell them until approximately a week before the event starts. That means they used to get the money a year in advance, while now the customers only need to pay a few weeks ahead.

A negative net working capital is a huge problem because it becomes very difficult to find the capital needed to host events. This trend must not be allowed to continue. That being said their working capital is at a good level in 2014.

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<sup>54</sup> Ole Jordheim Halvorsen. 2011. ”Birken utsolgt på 97 sekunder.”

Despite having a negative growth in working capital in 2014 the Birken Group still paid out 7,230,000 NOK in dividends. This is not recommendable with the net working capital issue at hand as well as reduced profitability. We believe it would be better to reduce the dividends for a few years due to volatility in the net working capital and use this difference as a buffer.

### **9.0 Recommendations**

We highly urge the Birken Group to improve their Net Profit Margin. This is the most crucial key performance indicator to guarantee the long-term success and survival of the Birken Group. In the last six years, the Birken Group has been at a competitive disadvantage due to its weak Net Profit Margin and cost structure. The Birken Group is not in control of their income due to their volatile business model where trends can make or break companies. However, the Birken Group is in control of their costs, and costs have risen faster than revenue for the Birken Group since 2006. Due to the poor accounting quality, it's impossible to say where the costs are increasing, but its rapid growth has to be slowed down. One thing the Birken Group can do to cut costs is to centralize the location and shut down their operations in Askim. If the Birken Group is not using budgets for their costs beyond what they report in the financial statements, then we strongly suggest them to begin doing it.

The Birken Groups has a large cash reserve, which could be invested and get a higher rate of return in for example bonds. We understand that the Birken Group wants to have a cash buffer, but we don't believe it has to be 60 million NOK.

The Birken Group's net working capital is decreasing and we recommend that the Birken Group should reduce their dividend payouts and use the difference as the cash buffer for as long as the net working capital remains volatile.

### **10.0 Conclusion**

The Birken Group operates in a stable political and legal framework. The economic trends in Norway mostly tend towards a good outlook for the Birken Group. For the

sociocultural aspects we see that Norwegians are getting more educated than before, have a good wealth distribution and the healthy lifestyle is trending, which are all positive trends for the Birken Group. However, there will be fewer 45 to 55 years old in the future, which is the largest purchaser of the Birken Group's services, and a larger part of the population is consisting of immigrants who also are less likely to attend to such events.

The Birken Group has a high threat of substitutes. The consumer may easily commit to the activities that the event is directly related to without joining a competitive event. They have a few highly established rivals, but are maintaining a strong position to stay above them in the industry. The Birken Group is not at all dependent on suppliers and they have way more voluntaries than they need to involve. It's a profitable industry, with moderately low pressure and the Birken Group is in a good position, but we do expect the competitive forces to increase to a moderate level over time.

An important factor for the Birken Group's is to satisfy their customers' needs through their value chain where they strive to attain the highest possible customer delivered value. This can be done in two ways, or a combination of both. Firstly, the Birken Group can increase the customer value, or secondly they can decrease the customer cost. Doing this will increase the profit margin for the Birken Group. Increasing the profit margin is crucial for the longevity of the Birken Group as they are already significantly less profitable than their closest competitors. This is a long-term problem rather than short-term problem because the Birken Group is an established company which remains the largest company in their field. The Birken Group's Value Chain is decent, if not spectacular.

When it comes to VRIO, the Birken Group has some significant upsides while their downsides are also important. Some resources give the Birken Group's temporary,



unexploited or sustained competitive advantages. The Birken Group's brand, network and historical significance are the sustained competitive advantages that will help to increase the profitability in years to come. On the other hand there are resources which prove that the Birken Group is currently at a competitive disadvantage. The most crucial of these resources is the cost structure where the Birken Group does worse than their competitors. For the Birken Group to maintain or improve its position in the market it needs to become more cost efficient.

The accounting quality is so poor that it has become a major issue. Because of the Birken Group's poor accounting quality when it comes to generalizations, it's impossible to determine some of the items in their financial statements. Costs as a whole has risen faster than revenue and profitability is a major concern. Profitability has declined during a nine-year period where we have analyzed the Birken Group. Though the Birken Group is still profitable, there is a significant unused potential.

When it comes to Growth, the Birken Group has experienced massive changes during the last years. From 2006 to 2014 the Birken Group has undergone transformational changes. Costs of goods sold have increased more rapidly than sales income from the base year of 2006. The Growth analysis is worrying when it comes to profitability.

The Birken Group has a low short-term liquidity risk, mainly due to large amount of cash they have. Their current ratio, when excluding payment in advance is over 4, which is incredible. The Birken Group also has an improving solvency ratio and with the current trends for the solvency ratio we expect that there will only be a moderately low liquidity risk here. It's also important to notice that 75% of their long-term debt is to themselves, which skews liquidity ratios in a negative manner. When considering both short-term and long-term liquidity risk, the Birken Group is doing very well and we estimate a low liquidity risk for the Birken Group.

When looking at the cash flow it's clear that the Birken Group has produced very good amounts of free cash flow to equity from 2006 to 2011, but from 2012 to 2014 these numbers have plummeted. This trend is very concerning. Since the Birken Group has a lot of excess cash they can overcome these problems as long as they are still profitable, but when taking the time value of money into consideration this is suboptimal.

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## 12.0 Appendices

### 12.1

Definition: current ratio = current assets / current liabilities

### 12.2

Definition: CFO to short-term debt ratio = cash flow from operations / current liabilities

### 12.3

Definition: cash burn rate = (cash and cash equivalents + securities + receivables) / EBIT

#### 12.4

Definition: financial leverage = total liabilities / equity

#### 12.5

Definition: solvency ratio = equity / (total liabilities + equity)

#### 12.6

Definition: interest coverage ratio = EBIT / net financial expenses

#### 12.7

Definition: free cash flow to equity (FCFE) = cash + new shareholder capital – dividends – cash last year