YOUR GOALS & DBAP MEASURES OF PROFITABILITY

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There are several major goals of dairy farm owners. Some, like quality of life, freedom and independence, the hope of accumulating saleable assets for retirement or sustaining the farm for the next generation are qualitative and not easily measurable. However, even these qualitative goals require that some degree of economic success is realized. With this idea in mind, I'd like to address some common goals of dairy farmers as they relate to economic measures of profitability that are used in DBAP to determine relative successfulness.

<u>Goal 1</u>. *In the short run of things, the dairy farm has to generate dollars adequate to continue the operation and provide for farm family health and welfare*.
Operating profit margin, OPM, is a measure of profitability that recognizes the ability of the business to cash flow as it conducts the production activities. DBAP reports it as a percent, so rewording it, you might consider OPM to be the percentage of total revenues that is left over after production activities and interest and depreciation are paid. For 1998, the DBAP dairies averaged 9% OPM while the top 25% most profitable dairies averaged 21%.

What should be of additional concern to most producers is the percent of expenditures that went for operating, interest and depreciation costs. For DBAP 1998, the averages were 79%, 4% and 8%. As always, there was considerable variation as the top 25% most profitable dairies averaged 64%, 2% and 11%.

<u>Goal 2</u>. *Every business invests money to get a return on that investment, at least in the longer term. For many farmers, generating an inventory of assets for future sale is their business goal that relates to retirement*. Return to assets, ROA, is a measure of how well the dairy business repaid the owner for having made the investment. In 1998, DBAP dairies had an average of 9% ROA, highest of the DBAP years (1995-8). The top 25% most profitable dairies averaged 25% ROA.

<u>Goal 3</u>. *Dairy farmers reinvest in the business for future growth, to improve profitability or perhaps to strengthen it for the next generation(s)*. Return to equity, ROE, is a measure of how well the dairy business repaid the owner for the risky use of his equity in the business. Also, it relates to opportunities to develop further growth. In 1998, DBAP dairies had an average of 12% while the top 25% most profitable dairies averaged 30% ROE.

While several major goals of dairy farm owners are qualitative, all goals require that some degree of economic success be realized. DBAP provides economic measures of profitability that help determine relative successfulness of your dairy farm business relative to your goals. More **important, DBAP provides information about how to make adjustments to enhance your progress towards your goals.**