YOUR GOALS & DBAP MEASURES OF PROFITABILITY
Russ Giesy, University of Florida Extension Service

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.

Goal 1. 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%.

Goal 2. 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.

Goal 3. 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.