

Approach to Analysis

The analysis of the total dairy farm business is presented in four parts: economic structure, financial structure, management strategies, and factors affecting the performance of the dairy business.

The economic structure of the dairy business is examined for 1993 (the last year for which survey-based data are available) to provide an overview of the farms included in the analysis and of the factors that determine profitability for the dairy farm business. Characteristics of farm operations with at least \$50,000 in dairy-related sales (specialized dairy farms) are presented, along with efficiency and productivity indicators for the dairy enterprise.

The analysis of the financial structure of the business involves the preparation of balance sheet and income statements. Financial ratios developed from the financial and income statements are used to evaluate regional differences in the financial structure of the total dairy farm business for 1993 and 1996. At the U.S. level, financial ratios were developed for 1993, 1994, 1995, and 1996.

Management strategies used by dairy farmers in 1993 and 1996 are identified. Risks are widespread in agriculture. Unexpected climatic, biological, economic, and political events pose hazards to the viability of farm businesses. One way to categorize farm risk management is to independently consider the production, financial, and marketing strategies used.

Factors affecting the performance of dairy businesses are examined by analyzing the distribution of farm profits in 1993. The cumulative distribution of net farm income for the dairy business at the national level is divided into quartiles, with the bottom quartile representing the least profitable farms and the top quartile representing the most profitable farms. Various structural and performance characteristics of farms with low and high net farm income are tested statistically. Regression analysis is used to determine the influence of farm structural and performance characteristics on three measures of profit for the dairy business: net farm income, economic returns per hundredweight of milk sold, and economic returns per cow.