

Conclusions

With a changing policy environment requiring more adjustment to forces of supply and demand, dairy managers can improve their business decisions by knowing the financial strengths and weaknesses of their businesses. Analysis of data contained in income and financial statements facilitates the identification of the business' strengths and weaknesses. Calculated measures of liquidity, financial efficiency, solvency, and profitability help to isolate a business' strong features and problem areas. "As a general rule, managers who carefully analyze their business also make better management decisions." (Harsh, p. 149.)

From 1993 to 1996, dairy farm businesses in general did a fairly good job of meeting short-term debt, generating returns, and meeting long-term debt. However, smaller dairy farm businesses, like those in the Corn Belt, Northeast, and Upper Midwest regions, earned a lower rate of return on assets. Expansion in milk production has taken place primarily in the western and southern regions of the United States.

Farm management strategies will play an important role in determining the overall profitability of a dairy farm business as the role of Government supports declines. This is particularly the case for dairy businesses that up to this point have depended heavily on the Federal dairy price support program.

The 1993 data show that as dairy farms become larger, farmers use more strategies to manage the riskiness of

farming. More than 70 percent of farms with sales of \$250,000 and above indicated using at least one management strategy. Large farm operators may feel a stronger need to manage the risk associated with their larger investments. Yet, at least 50 percent of farms in each sales class category used at least one management strategy. However, the 1996 data suggest that changes in management techniques are adopted slowly.

The explanatory variables included in the regression models that are used to examine profit variation among a cross-section of U.S. milk producers explain 41 percent of the variation in net farm income per farm, 32 percent of the variation in economic profit per cwt of milk sold, and 21 percent of the variation in economic profit per cow. Those results suggest that profits in dairy operations are influenced by several variables that can be controlled by operators. Improving operators' management skills can have a strong, positive influence on their dairy businesses, particularly improvements in the areas of efficient input use, the financial needs of the business, and the marketing of products.

Size is the most significant factor influencing net farm income among dairy businesses. Improving animal productivity also increases net farm income. Continued genetic improvement can be used to increase productivity. However, because herd size does not significantly influence estimated economic profit per cwt of milk sold and economic profit per cow, the efficient management of all resources is key to success.