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BUSINESS GUIDE

## Why Departmental Budgeting Is Underrated and Underutilized

Better control spending and maximize resources by focusing more on the spend of different teams

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# Why Departmental Budgeting Is Underrated and Underutilized

Better control spending and maximize resources by focusing more on the spend of different teams

Though it's a vital component of managing an organization's finances, departmental budgeting often doesn't get the attention it should. Leaders tend to focus more on big-picture financial plans and decisions, leaving departmental budgeting as an afterthought. Yet, it is at the department level that most of the spending happens in a company and where there is the highest chance of misalignment between financial goals and operational activities.

For example, a finance team sets a budget for the marketing department that requires them to reduce costs significantly to stay on track with overall financial goals. However, it's the budgeting choices marketing makes at the departmental level to meet those budget targets that will likely have a significant effect on company outcomes. Marketing's primary goal is to expand brand awareness and attract new customers, so cutting in the wrong places could ultimately hinder the company's growth potential. Without the right goals and corresponding KPIs, departmental budgets can put the company on the wrong course.

So why is departmental budgeting underrated or even overlooked? Part of the reason may be companies don't appreciate the importance of those tactical decisions. 49% of respondents to a Deloitte survey said their company focuses on planning, budgeting, and forecasting outcomes rather than the underlying drivers.

In today's complex and fast-changing economic landscape, executives are prioritizing financial resilience and adaptability, and that needs to extend to departmental budgeting processes.

Without accurate and granular budgeting at the departmental level, businesses risk overspending, inaccurate revenue projections, and missed opportunity when markets shift.

Rigid financial processes can impede a company's ability to weather economic storms and capitalize on emerging opportunities.

That's where effective departmental budgeting comes in. Deloitte found that 19% of employees feel managers and decision-makers do not have sufficient involvement in planning, budgeting, and forecasting, and that these companies are less likely to use connected planning. By letting department heads own their budgets, they can align spending with actual operational needs, uncover areas of waste, and optimize resource allocation to align with company goals. This approach empowers department heads to be more accountable for their budgets and make data-driven decisions that benefit both their departments and the overall company.

## Budgeting Techniques and Approaches

To build departmental budgets, you first need to select the right method. There are four popular budgeting approaches that help organizations optimize resource allocation, drive performance, and make informed decisions:

1. **Zero-based budgeting.** Zero-based budgeting helps companies break free from historical spending patterns because every budgeting cycle starts from zero, forcing departments to justify all expenses. This approach enhances cost control and prompts a rigorous evaluation of priorities. However, this approach can be time-consuming because you are starting from scratch each year.
2. **Rolling forecasts.** This technique ditches the annual budget in favor of continuous forecasting, helping you adapt to market changes swiftly. This method boosts proactive decision-making and resource reallocation because leaders can prepare for what's expected in the near future. One challenge is this requires continuous monitoring and updating, which can be resource-intensive.
3. **Driver-based budgeting.** This aligns budgets with key performance drivers, such as units sold or customer acquisitions. This strategy helps companies flow resources to where they can have the greatest impact. But ongoing monitoring and maintenance are necessary to ensure accuracy.
4. **Variance analysis monitoring.** This strategy tracks budget-to-actual performance regularly with frequent variance analyses. This enables fast adjustments to optimize resource allocation and strengthen financial control. A downside is this approach can be reactive in nature, addressing discrepancies after they occur.

By leveraging one of these budgeting methods, or a combination of them, organizations can create strong financial plans that fit their specific needs. In an environment where adaptability is critical, learning and using these techniques helps departments succeed in the face of uncertainty. It also provides a framework for departments to advocate for innovation investments, and facilitates steady growth.



## 4 Departmental Budgeting Metrics to Watch

Departmental budgeting metrics will vary depending on the organization's goals and priorities, but here are four key metrics that are commonly used to evaluate departmental budgets:

- 1. Budget variance.** This metric measures the difference between the budgeted amount and the actual expenses incurred by a department. A positive variance indicates that the department spent less than budgeted, while a negative variance suggests overspending.
- 2. Return on investment (ROI).** ROI measures the financial return generated by a department's activities relative to its budget. It does this by comparing the ratio of net profit to the total budgeted amount.
- 3. Cost per unit.** This metric assesses the efficiency of a department by calculating the cost associated with producing or delivering a unit of a product. How this metric trends over time can indicate improved efficiency or shortcomings in processes.
- 4. Resource utilization.** Resource utilization metrics evaluate how effectively a department is using its allocated resources, such as labor, materials, or equipment. This can include metrics like labor productivity or machine utilization, and improvements here can boost productivity.

## 10 Essential Steps to Successful Departmental Budgeting

Departmental budgeting provides the cornerstone of effective financial planning and management. These 10 steps will help guide you in creating accurate, actionable, and strategic departmental budgets:

- 1. Goal setting.** Clearly define departmental goals and make sure they are aligned with the organization's strategic objectives. Understanding the bigger picture helps shape budget priorities.
- 2. Historical data analysis.** Examine past financial performance to identify spending patterns, revenue trends, and areas of inefficiency. Historical data provides valuable insights that can improve decision-making.
- 3. Revenue forecasting.** Project anticipated revenue based on market trends, sales projections, and historical performance. This step forms the foundation for budget allocation.
- 4. Expense identification.** List all departmental expenses, including fixed and variable costs. Categorize them into operational, administrative, and capital expenditures.
- 5. Cost allocation.** Allocate costs to specific activities or projects, ensuring precise resource allocation in alignment with their respective influence and importance.
- 6. Budgeting methodology.** Choose the appropriate budgeting approach, such as zero-based, to suit your organization's needs and goals.

7. **Resource allocation.** Allocate funds to different activities, projects, or cost centers based on priorities such as strategic objectives, time sensitivity, risk level, and resources required. Ensure each allocation directly contributes to goals.
8. **Flexibility and review.** Budgets aren't static. Continuously review and adjust budgets based on changing circumstances, market dynamics, and new opportunities.
9. **Reporting and analysis.** Generate regular budget reports to track progress, analyze variances, and highlight successes and challenges. These reports inform strategic decisions.
10. **Continuous improvement.** Analyze the effectiveness of the budgeting process after each cycle. Identify areas for improvement and adjust to enhance accuracy and efficiency.

By following these essential steps, organizations can navigate the complexities of departmental budgeting, align resources with strategic objectives, and drive sustainable financial success.

## Best Practices for Departmental Budgeting

Disciplined departmental budgeting is crucial to effectively managing resources, setting priorities, and achieving organizational goals. The following best practices will help set your organization on the right path to budget better.

- **Keep it collaborative.** Involve all relevant stakeholders in the budgeting process, including department heads, managers, finance personnel, and even key individual contributors where appropriate. Collaboration helps create a budget that reflects the real needs and goals of each department. This also encourages transparency, reduces resistance to budget constraints, and promotes a sense of ownership among team members. Regular communication and feedback loops during the budgeting process can help identify potential problems early on and allow for adjustments as needed, preventing potential problems.
- **Data-driven decision-making.** Base budgeting decisions on accurate and up-to-date data. Use historical financial data, performance metrics, market trends, and other relevant information to make informed decisions.



This helps you set realistic budget targets, identify areas ripe for cost savings, and allocate resources effectively. When you have data you trust, you can prioritize investments and allocations that align with your department's strategic goals and avoid overspending in areas that may not yield the desired outcomes.

- **Contingency planning.** Create a budget process that is flexible enough to accommodate changes in business conditions, unexpected events, and emerging opportunities, and go in ready to adjust it as necessary. Develop contingency plans that outline how your department will respond to various scenarios, such as revenue shortfalls or unexpected expenses. This proactive approach helps your department adapt to changing circumstances without derailing its operations or objectives. Regularly review and revise the budget as necessary throughout the fiscal year to align with current conditions.

Remember that these best practices should be tailored to your organization's specific needs and industry dynamics. Each department may have unique considerations, but a collaborative, data-driven, and flexible approach will generally lead to more effective departmental budgeting.

## **Navigating Challenges in Departmental Budgeting**

Without effective tools and processes for departmental budgeting, challenges can arise that hinder efficiency, accuracy, and adaptability. In fact, disconnected systems are the #1 barrier to connected planning, per Deloitte's survey.

1. **Manual data entry and calculations.** Budgeting that relies on spreadsheets and manual data entry is time-consuming and prone to errors. As budgets become more complex, maintaining accuracy becomes increasingly difficult. Copying and pasting data between various spreadsheets or documents

can lead to version-control issues and mistakes that may go unnoticed until later stages of the budgeting process. At that point, it becomes a bigger headache.

2. **Version control and collaboration.** When multiple individuals are working on the same budget in separate spreadsheets, it becomes difficult to track changes, maintain version control, and ensure that everyone is using the latest information. Collaboration may involve emailing files back and forth, leading to confusion and the risk of using outdated data.
3. **Limited scenario planning.** Budgeting with spreadsheets makes it hard to quickly model and analyze different budget scenarios. It's tough to perform "what-if" analyses for various situations, hindering the department's ability to prepare for changing conditions.
4. **Lack of real-time updates.** Effective budgeting needs up-to-date financial, operating, and market data, not static, point-in-time budgets. A lack of up-to-date information can lead to budget decisions that are based on outdated assumptions.
5. **Difficulty in generating insights.** Extracting meaningful insights from complex spreadsheets can be challenging. Planners need robust reporting and data visualization capabilities to present budget-related information in a clear and concise manner to decision-makers. Without this, effective communication and alignment across departments is much tougher.

Many organizations are adopting budgeting systems at the department level that offer automation, real-time updates, collaboration features, scenario modeling, and better data visualization. These tools can help overcome the limitations of spreadsheet-based approaches and enhance the efficiency and accuracy of departmental budgeting processes.

## Leveraging NetSuite for Budgeting Efficiency

NetSuite Planning and Budgeting is a system that addresses many of the common challenges associated with departmental budgeting. NetSuite Planning and Budgeting alleviates key pain points with features including:

- **Automated data sync and calculations.** NetSuite Planning and Budgeting provides a centralized place where users can input and manipulate budget data directly, eliminating the need for manual data collection and entry in spreadsheets. Automatic data syncing with NetSuite ERP improves data accuracy and accessibility. Up-to-date financial and operational data, account structures, and dimensions are automatically reflected in plans, budgets, and forecasts.
- **Expansive collaboration.** Multiple users can work on the same budget concurrently using NetSuite, and the software automatically tracks changes in real time. Built-in version control means users are always seeing and working in the latest version of the budget. This eliminates the need to email files back and forth, reducing confusion and providing everyone access to the most up-to-date information. Deloitte's study showed that companies that involve multiple functions in the planning process develop more accurate forecasts faster.
- **Scenario planning.** NetSuite lets your finance team create and analyze various budget scenarios quickly. They can model what-if scenarios to explore budgeting options based on changing conditions. This helps departments make informed decisions and adjust their budgets in response to shifting business environments.
- **Advanced data visualization and reporting.** Finance leaders and staffers can create customized reports and dashboards to extract meaningful insights from the budget data. This enables decision-makers to better understand the budget's impact, identify trends, and communicate effectively with other departments.

[Gachina Landscape Management](#) uses NetSuite Planning and Budgeting to eliminate its labor-intensive, spreadsheet-based budgeting process. The shift also let the company cut the cost of a consultant needed to run that process. Branch managers now create their own budgets in NetSuite annually, then adjust them each month. This rolling budget means they no longer wait until month-end to gauge profitability and can make operational adjustments sooner.

NetSuite Planning and Budgeting makes departmental budgeting more effective by automating tasks, facilitating collaboration, creating scenario plans, providing real-time updates, and enhancing data visualization. These capabilities help organizations overcome the challenges associated with spreadsheet-based budgeting methods and lead to more efficient, accurate, and informed budgeting decisions.

While departmental budgeting may have been undervalued in the past, it is especially critical today. In a business landscape characterized by rapid market shifts and complex external dynamics, agile departmental budgeting is imperative.

NetSuite Planning and Budgeting empowers organizations to adapt quickly, make informed decisions, and optimize resource allocation, helping them remain resilient and competitive in the face of evolving challenges.

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