IT CHARGEBACK VS SHOWBACK: WHAT'S THE DIFFERENCE?

In today's competitive business environment, it's important for businesses to be partially or fully digital. That means investing in technology and software that makes your company more competitive, efficient and profitable. This is a process businesses undergo when taking on digital transformation.

However, software solutions can sometimes carry a heavy financial burden for enterprise businesses. However, chargebacks and showbacks present a potential solution.

IT chargebacks and showbacks both represent processes where departments are asked to be accountable for their technology usage and resources by being given visibility of the costs associated with it. Chargebacks are the more controversial of the two because they involve charging individual departments, against their budget, for using resources. That said, they produce greater results. Both promote some accountability while helping businesses manage the high-costs of technology in a digital age.

In this article, we'll define both IT chargebacks and showbacks, as well as talk about their differences as well as their pros and cons. Stay tuned to learn all about IT showbacks and chargebacks.

IT Chargebacks and Showbacks Defined

When a company implements an IT chargeback policy, they bill each department for the number of

technology resources used for a given period. This is a controversial process since in most cases, departments don't have to pay for usage of things like utilities and other company resources.

However, when it comes to technology, businesses use chargebacks for a few reasons:

- Chargebacks hold departments accountable for usage;
- They offer insight to IT departments and stakeholders as to how resources are being used; and
- They provide companies with greater agility to respond to demand without limitation.

On the other hand, a showback offers similar benefits but might be more palatable for employees, departments as well as IT.

Showbacks offer departmental visibility into IT resource usage without charging departments for their use. When a showback occurs, a document, similar to a billing statement, is sent to the IT department showing them the cost of the individual department's usage, but it isn't expected to pay for it. This may alleviate conflict caused by chargebacks between departments and IT.

While chargeback and showbacks are indeed very similar, choosing one or the other depends on the needs of your business and how you plan to implement them. Some businesses that choose to switch to the chargebacks methodology use showbacks as an intermediary step in the change management process because they allow departments to get used to receiving a monthly statement before they have to start paying out on it. This can make for a smoother transition.

Other times, showbacks are used instead of chargebacks for their ease of implementation and reduced risk of conflict between departments.

Showbacks vs Chargebacks: Strategic differences

Showbacks and chargebacks are similar in that they both offer visibility and accountability to departments around their technology usage while providing cost figures. However, there are some strategic differences.

For one, an important difference between chargebacks and showbacks is the amount of accountability that's required from a department for their resource usage. A chargeback, while sometimes tenuous, offers more departmental accountability than a showback because departments are required to pay for their usage, tending to make them more resource conscientious.

Further, a showback lacks enforcement. It does not have a method to ensure the departments' monitor, manage and maintain resource usage at the most efficient levels. While showbacks may be better for reducing friction between IT and operations departments, they don't drive the same results as chargebacks because of the lack of enforcement mechanism.

For this reason, showbacks are sometimes used as an intermediary step for companies who seek to implement chargebacks but want to manage the change effectively.

Showbacks vs Chargebacks: Operational differences

When it comes to how each method is implemented, there are some obvious operational differences between chargebacks and showbacks. Both provide a statement containing the same information, costs and usage. That said, chargebacks require payment. Showbacks are simply meant

to be reviewed so departments can understand and correct usage issues.

When a chargeback occurs, the department receives an invoice. Each department in this scenario must maintain their own budget. They pay the invoice based on their budget, so they are tasked with being cautious about resource usage because they have to work under departmental budgetary constraints. When a department pays a chargeback, this can be done by exchanging real money, but more likely a ledger is used to deduct usage costs against the department's remaining budget.

Advantages of IT Showbacks

There are some advantages to using each method. Here's what companies like about using IT showbacks:

- Encourages users to make resource-intensive changes that positively impact cost
- Correlates the cost of IT with business capabilities and goals
- Allows businesses to compare cost of vendor solutions with actual departmental usage needs
- Easy to implement
- Existing accounting systems and practices don't need to be amended to implement showbacks
- Requires no additional accounting processes, like true-ups
- Decreases the chance for error, keeping mistakes relatively low
- Provides transparency between departments and IT

Disadvantages of Showbacks

In addition to the many benefits offered by showbacks, there are also some disadvantages. They are:

- This method fails to enforce accountability; it only shows departments their usage but doesn't incentivize change
- IT departments cannot recover costs
- Communication, education and company culture are required to be in place if departments are going to change their resource consumption habits

Advantages of IT Chargebacks

There are a number of pros and cons for those considering using chargebacks. Here are some of the main considerations that IT departments and organizations should make:

- Incentivizes users to be strategic with resources
- Promotes total transparency and accountability
- Helps IT departments decide which services are most useful and which ones can be discontinued
- Recovers the cost of services by IT through using chargebacks

IT Chargebacks Disadvantages

While chargebacks have some clear advantages, it isn't a perfect system. Below are some disadvantages of using IT chargebacks:

- Creates tension and conflict between departments, potentially leading to exacerbated issues between IT and operations
- Requires businesses to perform financial true-ups against budgets on a regular and ongoing basis
- Increased the chance of accounting errors, due to the nature of the method
- Requires businesses to integrate chargeback processes into existing financial systems
- Presents a lower risk of adoption across the organization and a higher risk of failure