



Outsourcing

REVIEWED BY [WILL KENTON](#) | Updated Jul 27, 2018

What is Outsourcing

Outsourcing is the business practice of hiring a party outside a company to perform services and create goods that traditionally were performed [in-house](#) by the company's own employees and staff. Usually done as a [cost-cutting](#) measure, it can affect jobs ranging from customer support to manufacturing to the back office.

Outsourcing was first recognized as a business strategy in 1989 and became an integral part of [business economics](#) throughout the 1990s. The practice of outsourcing is subject to considerable controversy in many countries. Those opposed argue it has caused the loss of domestic jobs, particularly in the manufacturing sector. Supporters say it creates an incentive for businesses and companies to allocate resources where they are most effective, and that outsourcing helps maintain the nature of [free market](#) economies on a global scale.



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BREAKING DOWN Outsourcing

Outsourcing can help businesses reduce labor costs significantly by outsourcing certain tasks. Businesses can also avoid expenses associated with [overhead](#), equipment and technology.

In addition to cost savings, companies can employ an outsourcing strategy to better focus on core aspects of the business. Outsourcing non-core activities can improve efficiency and productivity because another entity performs these smaller tasks better than the firm itself. This strategy may also lead to faster turnaround times, increased competitiveness within an industry and the cutting of overall operational costs.

Outsourcing Examples

Outsourcing's biggest advantages are time and cost savings. A manufacturer of personal computers might buy internal components for its machines from other companies to save on production costs. A law firm might store and back up its files using a [cloud-computing](#) service provider, thus giving it access to digital technology without investing large amounts of money to actually own the technology.

A small company may decide to outsource bookkeeping duties to an accounting firm, as doing so may be cheaper than retaining an in-house accountant. Other companies find