The role of Single Sales Entity models in modern business

Focus on Asia

03 April 2025

The better the question. The better the answer. The better the world works.

Shape the future with confidence

Key takeaways

- Economic challenges in Asia, such as inflation, supply chain disruptions, global trade wars and growing competition, are prompting businesses to reconsider their supply chains and operating models to enhance revenue growth, reduce costs, and improve efficiency.
- The Single Sales Entity (SSE) model is increasingly being adopted in Asia for its ability to centralize sales operations, reduce the number of legal entities, and streamline processes across multiple countries.
- While the SSE model offers significant benefits, its implementation in the diverse and complex tax and regulatory landscape of Asia can be challenging, requiring careful alignment of tax, legal, and operational considerations.

Introduction

- In January, our teams published an article on key characteristics and benefits of the SSE model along with the key considerations for its implementation (see the Role of Single Sales Entity Models in Modern Business) from a global perspective. The article summarizes the key benefits of SSE models such as legal entity rationalization, IT and finance simplification, synergies via centralization of sales and greater insight of the central management to the local operations.

- While SSE models are particularly popular in Europe (where practical implementation is facilitated by EU harmonization), there is also room for their implementation in the Asia region with certain adjustments. This would of course require its adaptation to each company's facts, circumstances, footprints and strategies, as well as to the region's rules, regulations and customs. Therefore, this article focuses on SSE model's application in Asia and the key points to consider.

What is the SSE model and why is it gaining importance in Asia?

- The SSE model involves centralizing strategic functions including sales and distribution operations in a single legal entity that could manage customer contracts, invoicing, and product delivery across multiple countries. This contrasts with traditional models where each country may operate through its own local legal entity.

- In Asia, where businesses often face a wide array of tax regimes, regulatory requirements, and consumer preferences across different countries, the SSE model can offer operational advantages. By centralizing key functions like sales management, pricing, logistics, and working capital management, businesses can achieve greater efficiency, cost savings, and improved oversight across multiple markets.

- For instance, a company selling its products in markets such as Japan, India, and Southeast Asia could benefit from using a single entity in Singapore or Hong Kong as its SSE. This entity could handle all the sales transactions for the region, while localized, more routine operations such as market research, executional marketing, or logistics could be handled by local branches or subsidiaries.

Why now?

- Global economic challenges such as inflation, supply chain disruptions, global trade wars and growing competition, are prompting businesses to reconsider their operating models to enhance revenue growth, reduce costs, and improve efficiency. These developments are also affecting Asian companies and other multinationals with distribution networks in Asia. An SSE model is a useful alternative to consider instead of the more traditional limited risk distributor (LRD) legal entity model due to SSEs limited use of legal entities, IT, transactional and process efficiencies. Therefore, companies which implemented a traditional LRD distributor model can still consider SSE models as a step further in the evolution of their distribution network to further centralize and simplify, rather than a step back.

- In addition to the cost pressure, as mentioned in the earlier article on SSEs, the increased scrutiny following the implementation of the base erosion and profit shifting (BEPS) project in 2015 and rise in the work from home policies and practices after COVID-19, have heightened the potential permanent establishment (PE) risk exposure for companies. SSE models can also be utilized as a tool to manage the PE risks (which will be further discussed in the following sections).

General benefits of the SSE model and considerations for Asia

1. Centralized transaction management: By centralizing sales activities through a single entity, businesses can significantly reduce the number of intercompany transactions. This can lead to simpler financial reporting, fewer journal entries, and reduced risks related to transfer pricing compliance. In addition, centralized cash management can improve working capital management, currency risk management, and overall financial efficiency.

2. Enhanced operational efficiency: Centralizing sales management and customer contracts under one entity simplifies processes such as contract execution, invoicing, and payment collections. Customers across multiple countries in Asia may prefer to deal with a single entity for all their business transactions, enhancing their experience and reducing administrative burdens.

3. Improved visibility and decision-making: A centralized structure provides management with better visibility into the financial performance of the sales operations across various markets. This enhanced visibility supports improved budgeting, better decision-making, and the ability to identify inefficiencies quickly.

4. Legal entity rationalization: The SSE model allows companies to reduce the number of legal entities they operate in each country, cutting down on registration fees, compliance costs, and complexity. However, Asia's diverse tax and regulatory environments, including varying tax laws, trade agreements, and labor regulations, mean that companies must conduct a thorough analysis before consolidating operations in any given market.

Key considerations for implementing the SSE model in Asia

1. Local tax, legal and regulatory challenges

Asia's tax and legal landscape is complex, with different countries imposing varying tax, trade, foreign exchange, product licensing and employment regulations. For example, India and China have strict local tax rules and extensive regulatory requirements for foreign businesses operating within their borders. In these jurisdictions, companies must carefully navigate local tax requirements, transfer pricing laws, and permanent establishment (PE) risks to ensure compliance and avoid penalties.

2. Transfer pricing and taxation

In an SSE model, transfer pricing becomes critical, as companies need to determine the appropriate profit allocation between the central entity and its remaining branches or subsidiaries. Most Asian countries, including Japan, India, and China, have rigorous transfer pricing regulations that require careful planning. For example, a company operating an SSE in Singapore and branches in India and Japan must ensure that intercompany transactions are priced in line with local tax laws and the Organization for Economic Cooperation and Development (OECD) guidelines.

- US federal income tax considerations

  When implementing the SSE model in Asia for US multinationals, due consideration should be given to Subpart F, global intangible low taxed income (GILTI), base erosion anti-avoidance tax (BEAT) and foreign tax credits. These considerations would change depending on multiple factors such as the transaction flows, business model (business to consumer, direct to consumer, business to business, etc.), in country stock ownership/importer of record. Consideration should be given through modeling, e.g. to whether Subpart F income or the relevant impact on the foreign tax credits is better for the organization as a whole. Similar modelling exercises can also be used to understand the BEAT impact.

Additionally, companies need to consider the potential impact of VAT or Goods and Services Tax (GST) across different Asian markets. Some countries, such as India, have complex indirect tax regimes that require careful analysis when structuring cross-border sales transactions.

Key considerations for implementing the SSE model in Asia (cont'd)

3. Market-specific adjustments

Even when operating under an SSE model, businesses may still need a local legal entity in certain Asian markets to meet customer expectations, adapt to regional consumer preferences, and comply with market-specific regulations. For example, in countries like China and Japan, where customer preferences and market dynamics are significantly different from Southeast Asia, having a physical or operational presence for marketing, customer support, or logistics may still be necessary.

4. Employee and labor considerations

Transitioning to an SSE model may require the transfer of employees from local subsidiaries or legal entities to the centralized structure. This process can be complicated in countries with strong labor laws, such as India or South Korea, where union approval or compliance with local labor agreements may be necessary.

5. IT and ERP system integration

A successful SSE implementation in Asia requires seamless integration of IT and finance systems across the region. Companies may need to upgrade or amend master data in their Enterprise Resource Planning (ERP) systems to ensure that all branches or subsidiaries can operate under the same platform. This may involve considerable investment in technology and data migration, especially for large organizations operating across multiple countries.

The role of the SSE model in managing Permanent establishment (PE) risks

As mentioned in the earlier article on SSEs, the increased scrutiny following the implementation of the base erosion and profit shifting (BEPS) project in 2015 and rise in the work from home policies after COVID-19, has heightened the potential permanent establishment (PE) risk exposure for companies. In Asia, companies must be extra cautious about potential PE risks for their distribution model. Local tax authorities in countries like India, Japan, and China are increasingly scrutinizing whether foreign entities have a significant enough presence to be considered a PE, which would subject them to local taxation. Our experience is, however, that Asian tax authorities would typically try to resolve their claims through transfer pricing (i.e. higher taxable profits for a local related party) rather than the more complex taxation of a foreign entity.

To manage this risk, companies may need to carefully design their SSE structure, with the appropriate people, functional footprint and activities to ensure that local branches are not seen as agents of the principal entity (assumed to be separate from the SSE) instead of the SSE. Declaring a PE in countries where required in the legal form of branches, along with clear agreements outlining the scope of activities and the reporting lines of local branches can help companies manage their tax exposure and avoid unexpected risk and subsequent liabilities. However, in some Asian countries, like China, establishing a branch is not possible for non-financial firms.

Customer communication and change management

Introducing an SSE model can lead to changes in how customers interact with a company, especially in terms of contracts, invoicing, and payment processes. In Asia, where, similar to the rest of the world, relationships with customers are often built on trust and long-term engagement, it is essential to communicate these developments effectively. Businesses should inform customers well in advance about the new structure, how it will affect them, and what steps will be taken to ensure a smooth transition. Involving key customers in the process and gathering their feedback can also improve the implementation and strengthen customer loyalty.

Conclusion: Is the SSE model right for your business in Asia?

The SSE model offers significant potential for companies looking to optimize their sales operations and distribution networks across Asia. By centralizing sales activities, businesses can reduce costs, improve efficiency, and gain better financial control. However, the diversity of tax, legal, and market conditions across Asia means that careful planning and local expertise are essential for successful implementation. Companies must assess the benefits of centralization against the complexities of regional and local regulations, transfer pricing compliance, and customer requirements to determine if an SSE model aligns with their business strategy in the region.

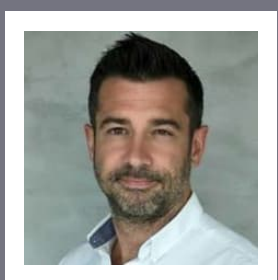
In addition to the diverse regulatory environments, the business profile in the local markets will also be an important factor when considering and designing an SSE structure in Asia. It would be relatively easy to implement an SSE for an export model where local customers import themselves and very difficult in cases with a substantial presence and/or many local-to-local transactions. In the latter cases, use of bonded status and special zones, may be considered, to allow a foreign party to trade locally while staying outside the customs territory.

Ultimately, while the SSE model presents opportunities for greater efficiency, it requires a thoughtful approach to address the unique challenges posed by Asia's dynamic business environment.

Authors

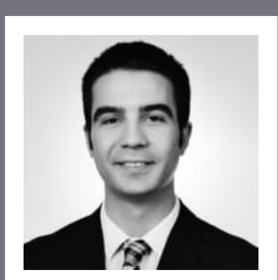
Edvard Rinck

Partner,
Operating Model Effectiveness –
Asia-Pacific Desk, Ernst & Young AG



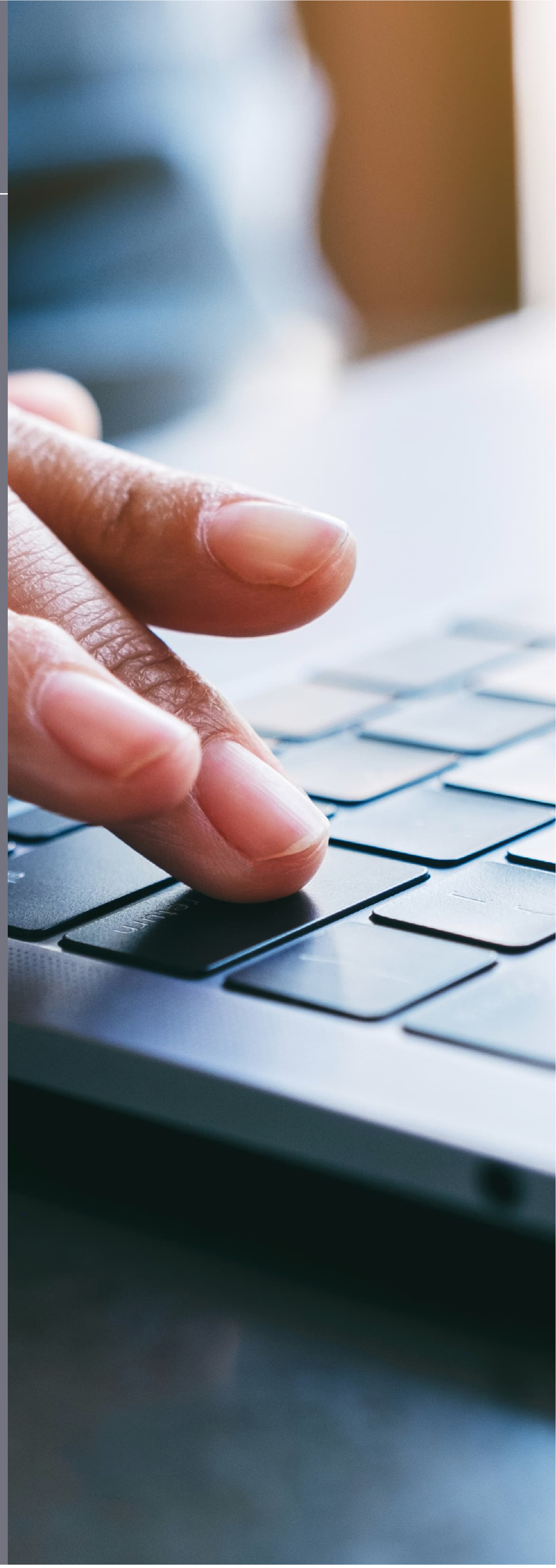
Sam Barrett

Managing Director,
Operating Model Effectiveness (Americas),
Asia Pacific Business Group,
Ernst & Young LLP



Aras Gorkem

Senior Manager,
Operating Model Effectiveness,
Ernst & Young LLP



Disclaimer

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multidisciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

ED None
EYG no. 001382-25Gbl

ey.com