

Eight Reasons to Use a Pro Forma Invoice

A pro forma invoice is an abridged or estimated invoice sent by a seller to a buyer prior to shipment or delivery of goods. It identifies the kind and quantity of goods, their value and other information such as weight and transportation charges. They're typically used as preliminary invoices with a quotation or for importation. Unlike a normal invoice, they aren't a request for payment. They are often used before the sale is complete so that there are no misunderstandings.

Pro forma invoices are primarily used in international trade for the following reasons:

- They spell out details the seller deems important for the transaction.
- It is a universal instrument: All parties recognize an invoice regardless of language or custom.
- Governments understand them, which helps when buyers require import licenses or foreign exchange allocation.
- They become the model for issuing the subsequent invoice and aid in using letters of credits because they provide a roadmap for the banks to follow when issuing the credits.
- The invoices provide itemized costs for the entire transaction, enabling the buyer to determine whether it can handle freight, insurance and other costs associated with the transaction.
- They help the seller propose "rules" governing the transaction, including Incoterms, forwarders, handling, etc.
- They make it easier for the buyer to purchase the goods because they identify total costs, not just the merchandise prices.
- Properly prepared pro forma invoices indicate the seller's level of expertise and experience, which is particularly reassuring to a buyer if no prior business relationship exists.

Using a pro forma invoice helps the seller think about a transaction from start to finish and promotes communication among departments. Sales must provide pricing and its validity period, while credit must indicate acceptable payment terms. In addition, demand planners must ensure the goods will be available to ship in the event of an order; compliance staff will determine that trade can take place and that it conforms to applicable regulations, customs and practices; shipping must choose the best mode of transportation and provide a freight quote as well as charges such as freight and handling and insurance costs and quotes; and export documenters should include the costs of inspections, certification and/or legalization requirements.

Source: NACM Graduate School for Credit and Financial Management project, "Pro Forma Invoices"