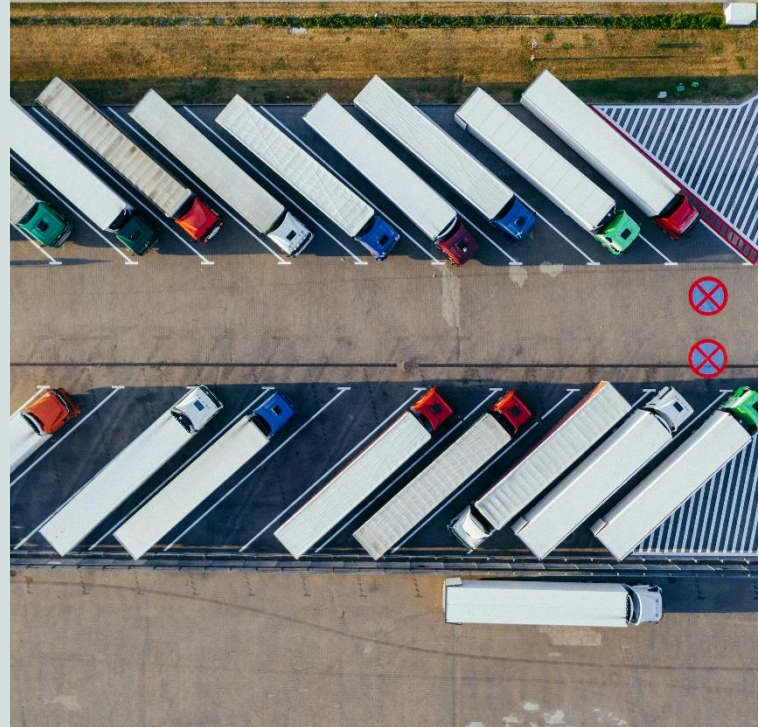


## Projects

# Improving price adjustment mechanisms in logistics contracts

Helping a major logistics operator align contract pricing with real-world cost pressures.



### LOCATION

Sydney, NSW

### CLIENT

Confidential

COMMERCIAL

## Background

A leading logistics provider operating across Australia faced significant challenges in maintaining profitability due to outdated price escalation mechanisms embedded in its bulk haulage and handling contracts. With inflation rising sharply and cost components such as fuel, labour, and capital equipment escalating at different rates, the existing frameworks were no longer sufficient to reflect actual cost movements. This misalignment was causing margins to erode and creating financial strain across operations.

The provider's contracts relied on a mix of indices—some fixed, some lagging—and applied annual adjustments that failed to keep pace with intra-year cost increases. Inconsistent modelling approaches and overly complex escalation structures further compounded the issue, making it difficult to respond quickly to market changes.

## Our role

NineSquared was engaged to conduct a comprehensive review of the provider's pricing adjustment frameworks. The engagement involved analysing logistics contracts, assessing the performance of escalation indices across key cost categories, and comparing them to benchmark indices such as the ABS Consumer Price Index and Producer Price Index.

We examined profit and loss data for a group of representative contracts, identifying discrepancies between modelled and actual costs—particularly in areas like fuel, tyres, and insurance. Our team developed simulations to test the impact of different escalation methods (year-on-year vs. year-on-base), throughput scenarios, and cost weighting structures. These simulations revealed that fixed-weight escalation mechanisms often failed to reflect the true cost composition, especially when certain inputs (e.g. fuel) escalated more rapidly than others.

Key recommendations included:

- Simplifying escalation frameworks to focus on core cost categories.
- Using ABS monthly CPI as a leading indicator to flag rapid price changes.
- Adopting year-on-base escalation methods to preserve margins.
- Centralising modelling frameworks to reduce errors and improve consistency.
- Introducing contract mechanisms to review and adjust cost weights after 12 months.

These improvements were proposed to improve responsiveness to inflationary pressures, reduce modelling errors, and ensure pricing structures better reflect actual cost movements.

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## FOR FURTHER INFORMATION

To learn more about how NineSquared helps clients optimise commercial frameworks and respond to inflationary pressures, visit <https://ninesquared.com.au/projects>.