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Reissco: Contending with Supplier Price Increases

It was February 2010. Even before he picked up the phone, Jeff Treczyski knew what to expect. He had been tracking raw material pricing for almost two years, and he knew that the price of steel was up by almost 10 percent over the last two months (see **Exhibit 1**). Treczyski had no doubt that Changchang Lee, his contact at Xiling Metal Works, a brake rotor supplier in China, was calling to request a price increase. However, while he had prepared himself for the possibility of a 10 percent increase, it quickly became clear that Lee was asking for 30 percent. As she explained over the phone:

> "Our labor costs are growing in addition. Nobody seems to want to work in a factory anymore. To keep our workers we had to give them a 15 percent wage increase last month. We will likely have to bump it up again after Chinese New Year when many of our most skilled foundry employees will look to switch jobs now that they've gained more experience. Additionally, as you know the government-controlled utility has been steadily decreasing the energy subsidies for manufacturers and is increasing our rates by 5 percent – and that's just until the end of the year. Frankly I don't know what will happen after that."

As the call ended, Treczyski wondered what he could do to get the price increases under control. He had worked at Reissco, a Tier-2 automotive supplier, for five years now, the last two as a commodity manager for the Global Braking – Rotors product line. The calls were always the same, and they always seemed to come in rapid succession. Just earlier this week, Treczyski heard similar stories from two other suppliers, one claiming a 20 percent increase in raw material costs, the other claiming he had to almost double salaries to keep his workers on the line. There was no doubt in his mind that some suppliers used every potential opportunity to ask for a price increase, whether justified or not. Treczyski reflected:

> "The math used by most of my suppliers in these negotiations often seems unrealistic. When pressed for a justification the suppliers respond with vague but plausible-sounding reasons, and submit an Excel sheet that basically amounts to 10%+15%+5%=30%. No amount of arguing seems to dissuade them. Sometimes they submit invoices or documents to show their true costs, but those never seem clear or consistent either. Often, if their

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