



Damian R. Beil

## 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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*Published by WDI Publishing, a division of the William Davidson Institute (WDI) at the University of Michigan.*

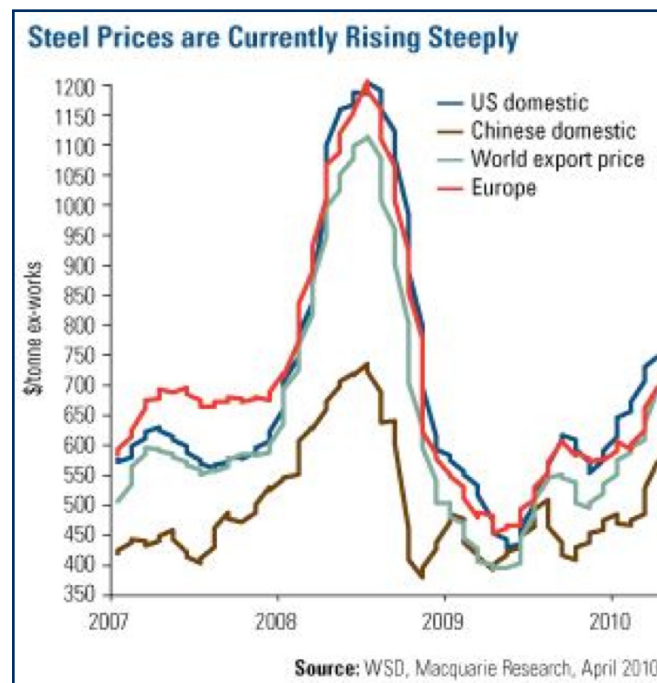
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request is ignored the supplier withholds shipments until Reissco comes back and honors the so-called fair price increase, knowing full well that it would be hard for Reissco to explain to its customers, who demand lean inventories and short lead times, why their shelves are suddenly out of front brake discs for a 2002 Toyota Camry.”

In just two hours, Treczyski would have to bring the news of the suppliers’ requests to Martha (Marty) Gordon, director of purchasing for the Worldwide Aftermarket division. In these situations, Gordon always asked the same two questions: “What should the fair price increase be? And how come the suppliers never come back to us when the steel prices come down, or when their government announces new subsidies for the manufacturers?” Treczyski knew he needed a way to navigate this situation – and soon – to maintain Reissco’s already-thin positive margins in the rotor business line.

**Exhibit 1**  
**Steel Price Trends**



Source: “Chart of the Week: Strong as Steel.” *U.S. Global Investors*, 20 Apr. 2010, <[www.usfunds.com/investor-library/frank-talk/chart-of-the-week-strong-as-steel/](http://www.usfunds.com/investor-library/frank-talk/chart-of-the-week-strong-as-steel/)>. Accessed 21 Aug. 2017.

## Company Background

Reissco was a leading global automotive supplier of chassis and safety technologies. Its primary customers were manufacturers of automotive, light commercial, heavy-duty, industrial, agricultural, marine, rail, off-road and industrial vehicles, as well as the worldwide aftermarket and retail. Reissco was founded in 1979 from the merger of two chassis producers. In the early 1980s, the company diversified into safety technology such as components for braking systems. Most of its growth was due to innovation and acquisitions – a part of the company’s drive to diversify its operations and to position Reissco as a global leader in its categories.

Based in Michigan, Reissco employed about 19,000 people in 24 countries with 59 manufacturing locations and 13 distribution sites. In 2009, the company had \$2.3 billion in sales, a decrease from \$2.9