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Power on

After nearly running out of juice, industrial switch and battery manufacturer SouthWest Electronic Energy has recharged

BY DEBRA BEACHY

SPECIAL TO HOUSTON BUSINESS JOURNAL

While some entrepreneurs may dream of striking it rich with new technology, real estate or the Internet, Len Benckenstein saw his dreams unfold in the less-glamorous industry of industrial rotary switches and batteries.

Four decades after starting the predecessor company of SouthWest Electronic Energy Corp. as a college student, Benckenstein still is pursuing opportunities for his firm, which designs and produces custom batteries and accessories and electro-mechanical assemblies.

SouthWest Electronic's customers include NASA, Schlumberger Ltd. and Texas Instruments Inc.

"We've been in business so long that, over the years, we have changed the product to meet our customers' needs," Benckenstein says.

Apparently, the flexibility has paid off. SouthWest Electronic's revenue reached \$14.2 million in 2005, up from \$12 million in 2004.

Benckenstein started his first company with a friend while studying business at The University of Texas at Austin. In starting the company, Benckenstein was continuing a family tradition — his father and both sets of grandfathers started and ran businesses. And one of his great-grandfathers owned a shoe factory.

Armed with entrepreneurial blood, Benckenstein decided to open an electronics retail franchise with a business partner using \$40,000 they had pulled together.

The partners purchased a franchise to sell Lafayette Radio's products in Hous-



CRAIG HARTLEY/HBJ

Len Benckenstein of SouthWest Electronic Energy: 'I had tooted my horn about how I was going to make a fortune, and here I was in the ditch.'

ton. The company made and sold industrial electric parts.

At first, the idea seemed simple enough. Benckenstein would continue to study in Austin while his friend, a recent graduate and an accountant, ran the business in

Houston.

But, as with many business models, the reality turned out to be much more complicated.

After two years, the franchise was insolvent. Even worse, says Benckenstein, was

SOUTHWEST: Switch, battery manufacturer always finding new sources of energy

his discovery that many vendors and the Internal Revenue Service hadn't been paid.

"I had a nauseating sense of fear," Benckenstein says of his discovery about just how much money was owed.

But he quickly took action.

After realizing that it was not feasible to run a company as an absentee owner, Benckenstein left school and immersed himself in the task of reorganizing the firm.

Until then, Benckenstein's only business experience was mowing lawns and working part-time at a bank in Austin.

His first order of business upon his return to Houston was to work out a payment plan with the IRS and the vendors.

Benckenstein remembered reading about the promissory note method used in the cotton industry and was able to convince his vendors to agree to a similar plan of doing business.

"We had to sell before we could pay. The biggest problem was juggling the cash flow," he says.

In addition to the unpaid bills, Benckenstein quickly found that the company was carrying too much inventory.

"I had an insolvent business and I needed credit," he says.

And declaring bankruptcy was not an option.

"I was instilled with the value of paying what you owe," Benckenstein says.

However, in order to incorporate the company and get back on track, \$1,000 was needed for capital. So Benckenstein signed over his Chevrolet station wagon to the company and renamed it SouthWest Electronic Energy Corp.

At the same time, he was trying to spare his family from finding out what was happening with the business.

"I had tooted my horn about how I was going to make a fortune, and here I was in the ditch," Benckenstein says.

Eventually, he asked an uncle for advice. The uncle put him in touch with a lawyer, who helped to draw up the paperwork to dissolve the old company, while keeping the product lines intact.

Many of the former company's vendors agreed to do business with Benckenstein's new corporation.

'I was instilled with the value of paying what you owe.'

Len Benckenstein
SouthWest Electronic Energy Corp.

FRESH START

SouthWest Electronic opened its doors in 1964 with three employees and 12 customers, generating just under

\$200,000 in sales that first year.

With customers such as Camco International, Dresser Atlas (now Western Geoco), Electronic Labs (now Symbol) and Gulf Aerospace, Benckenstein was able to pay the old company's debt off in less than a year and half.

By the 1970s, SouthWest Electronic had built a manufacturing plant in Stafford.

Today, the company has more than 70 employees and 200 customers.

One customer, PGS Exploration US, a marine seismic business that makes geophysical survey maps, started to do business with SouthWest Electronic after learning about the company at a convention.

"We began using a few of their new lithium ion batteries two years ago," says Gary Scott, PGS Exploration's manager of product development. "We saw they worked well. Then we ordered a larger amount."

Scott says he has been impressed with SouthWest Electronic's service.

"Sometimes we have needs that press time, and they have always done the best they could to meet our needs," he says.

Indeed, going over and above to meet customers' needs led to one of SouthWest Electronics' first long-term customers — and led the company into new lines of business.

Benckenstein says a break came when a sales representative told him he was having problems delivering switches on time to Schlumberger.

"The quantities were small, so we said we could put them together," Benckenstein recalls.

At first, SouthWest Electronics specialized in switch lines, building electronic rotary switch assemblies for Schlumberger. Soon, the company began assembling switch lines for ITT Schadow, Switchcraft and others.

Over time, SouthWest Electronics developed the capacity to make different products quickly, according to Benckenstein.

While the company's ability to make small amounts of custom-designed products is a core strength, it also poses the biggest challenge to growth.

"It's hard to find the customer market that needs what we do," Benckenstein says. "You have to find the company that needs the products we make."

But so far, the team at SouthWest Electronics has been able to do just that.

The customized battery packs sold by SouthWest Electronics are used by NASA in astronauts' space suits and in the computer, medical and oil industries.

SouthWest Electronics' primary competitors include California-based House of Batteries and Nexergy Inc., based in Ohio.

Despite competitors in the specialized market, Benckenstein sees a bright future ahead.

"I think growth will be substantial," he says. "Industrial instrumentation is all battery-powered. We collaborate with companies to design (battery-powered) energy systems."

Nonetheless, Benckenstein says he hopes growth will not be so rapid that he would feel pressure to take the company public.

"I'd hate to have a stock market to tend to," he says. ■

DEBRA BEACHY is a Houston-based freelance writer.

SOUTHWEST ELECTRONIC ENERGY CORP.

PRODUCT: Custom battery packs, battery chargers and electro-mechanical assemblies.

FOUNDED: 1964

FOUNDER AND CEO: Len Benckenstein

EMPLOYEES: 70

2005 REVENUE: \$14.2 million

2004 REVENUE: \$12 million

WEB SITE: www.swe.com