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9B17B014

enigma escape rooms ltd.: horror-themed expansion?

Ian Dunn wrote this case under the supervision of Elizabeth M. A. Grasby solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In June 2016, Alexander Miller was reviewing his company’s performance and contemplating an expansion opportunity. Miller had founded Enigma Escape Rooms Ltd. (Enigma) in June 2015 and was pleased with Enigma’s financial performance in its first fiscal year (see Exhibits 1 and 2). In fact, the Windsor, Ontario business had been operating at capacity for the majority of the year; consequently, Miller was considering opening a second location that would offer an additional three escape rooms. The new location would offer horror-themed rooms, differentiating it from Enigma’s current theme rooms (see Exhibit 3). Miller wanted to evaluate Enigma’s capabilities and the competitive landscape before deciding whether opening a second location was a sound business decision.

The Escape Room Industry

Escape rooms challenged a group of players to work as a team to find clues and solve a series of puzzles that eventually allowed the team to exit a locked room. This entertainment adventure often included a time limit, typically one hour, increasing the difficulty and thrill for the players. Escape rooms were often based on a variety of themes, such as offices and fantasy realms.

Background

Although escape rooms had only begun to emerge in North America in 2012, the concept originated in the 1990s as an aspect of computer-based games, wherein similar challenges were presented to players in a virtual setting. In 2008, the first physical escape room was launched in Japan.[[1]](#footnote-1) The concept quickly grew in popularity, and independent operations emerged throughout Asia and Europe. Since their introduction to the North American market, escape rooms had grown in popularity, and the market had not yet shown signs of slowing down. Sixty different escape rooms businesses operated in the Canadian province of Ontario.[[2]](#footnote-2)

Escape Room Themes

Most escape rooms were independent businesses and offered, on average, three different rooms at a single location. The nature and genre of rooms varied with each business; however, most businesses promoted either adventure-based or horror-based themes.

Horror-themed rooms incorporated fear and eeriness within a locked room. These rooms often included creepy themes (for example, bloody crime scenes or cold, dark cellars), haunting music, and elements designed to jump out at and frighten players. The popularity of horror movies drove up the customers’ interest in recreating the experience of being trapped and the need to find a way to escape. Horror-themed escape rooms saw a spike in demand in October due to Halloween.

Adventure-themed rooms focused on creating a unique, challenging atmosphere in which people faced the challenge of solving puzzles to escape the locked room. Adventure-themed rooms typically experienced higher and more consistent demand compared to horror rooms since many customers did not enjoy being scared during the experience. Adventure-themed rooms typically incurred higher set-up costs since the décor was a more important facet to the theme, often including rare and exotic items.

Enigma Escape Rooms Ltd.

History

Enigma was founded in May of 2015 by Miller, an avid entrepreneur who had started and sold two businesses while studying at Western University in London, Ontario. He graduated from the Ivey Business School with an honours degree in business. He had also been employed as a marketing manager for Execulink Telecom and consulted for the Toronto Argonauts, a team in the Canadian Football League. Most recently, Miller worked as a lecturer at Western University and its affiliated colleges.

In April 2015, Miller learned that his father was ill, and he needed to move closer to his family’s home in McGregor, Ontario.[[3]](#footnote-3) At this time, he moved to McGregor and commuted to London once a week to teach part-time. With a lower cost of living in McGregor and a steady teaching income, Miller thought it was an opportune time to open his own brick and mortar business. Using a grant from the WindsorEssex Small Business Centre, Miller launched Enigma in a rented retail location in Windsor, Ontario.

Windsor, Ontario

Canada’s most southern city, Windsor, Ontario was situated on the Detroit River and was a 10-minute drive from Metro Detroit, Michigan. The city’s proximity to the United States coupled with a low Canadian dollar, attracted many Americans to the Windsor area for shopping and entertainment. Caesar’s Windsor, a popular casino, was the anchor in Windsor’s tourism industry. Windsor was also known as the automotive hub of Canada with Fiat Chrysler Automobiles and Ford Motor Company operating large production facilities in the city. Windsor had a population of 281,700 and a median age of 36 years. After a period of high unemployment (reaching 15.7 per cent in July 2009), the city was beginning a resurgence. The unemployment rate was 6.6 per cent in 2016, below the Canadian national average of 6.9 per cent.[[4]](#footnote-4)

The First Year

Enigma launched its first room, The Professor’s Office, in August 2015. Enigma was the first escape room business in Windsor, and it was immediately successful. The majority of the company’s booking times were sold, and it sold out regularly on Friday and Saturday evenings, often extending operating hours until 2 a.m. As the first Windsor operation in the escape room business, coupled with an increasing demand, Enigma had received local media attention. This included interviews on CTV, AM 800 CKLW radio, and a full page spread on the front of the Arts & Entertainment section of the *Windsor Star*, the city’s major newspaper.

Most of Miller’s time was spent managing day-to-day operations due to Enigma’s instant popularity. The rented location had two additional rooms so, with the hiring of additional employees, Miller designed and built two more escape rooms. In January 2016, Enigma launched its second room, The Jungle. Both rooms sold out regularly during the prime slots between 5 p.m. to 9 p.m. on Saturdays. At this time, Enigma employed seven people,[[5]](#footnote-5) and Miller promoted one of his first employees hired, Angelica Haggert, to the position of general manager (see Exhibit 4).

Enigma’s third room, The Pharaoh’s Tomb, was launched in March 2016. This new room was designed for smaller groups and involved two different spaces. Groups would begin in one space—the Pharaoh’s tomb—and then progress to a different space. This design allowed for quicker turnaround time since a new group could begin in the first space while the previous group completed its adventure in the second space. Since this third room was not large enough, Enigma had expanded into the adjacent unit of the rented retail building.

Operations

When customers arrived at Enigma, they were greeted by a staff member. This employee asked the customers to complete a waiver, pay for the experience, and store their possessions in lockers; then the employee provided an explanation of the games in the chosen room. This introduction took about 15 minutes. The customer group was then locked in the escape room, and the staff member monitored the game through the use of video cameras and microphones (see Exhibit 5).

Enigma’s average customer group was five people. Knowing this, Miller decided to design puzzles so that multiple dilemmas could be solved at the same time, thus engaging all players during the entire experience. As a result, The Professor’s Office and The Jungle had almost double the number of challenges that the average escape room in the industry had. Miller had also heard that customers were often frustrated with the limited number of hints[[6]](#footnote-6) at other escape rooms, so Enigma removed the limits on hints to avoid this frustration, to provide players with full control of their experience, and to help minimize damage to the room and its décor. Some groups talked to the staff member continuously while other groups rarely asked questions. This posed a challenge for staff members because they needed to adjust their hints based on how a team was performing so that the challenge was not spoiled.

Teams unable to solve the puzzles within the one-hour time limit were offered 10 minutes of free overtime in exchange for subscribing to Enigma’s Facebook page. Staff gave more direct hints during this overtime period so that the customers would leave having experienced all aspects of a room. In addition, Enigma often took pictures of the groups following their experience to share on social media. With a group’s permission, Enigma would post the picture and a caption about the group’s success in solving the puzzles.

Enigma’s employees were given autonomy on how best to handle each group’s experience. Employee scheduling was tailored to the number of bookings. When Miller was not building new rooms, Enigma’s labour costs were directly related to each booking, and staff members were expected to select specific timeslots each week for which they would be responsible. All employees had their own keys, opened the rooms, and processed customers for booked timeslots (see Exhibit 6). If no customers booked the timeslot in advance, that employee did not have to report to work and was not paid for that period.

THE Competition

The success and popularity of Enigma led to a number of other businesses starting their own escape rooms in Windsor. Enigma’s main competitors were Hidden Trail and Exodus, while Ape Escape was preparing to launch its business.

Hidden Trail

In October 2015, a local gaming lounge decided to add a horror-based escape room in the basement of its operation. Hidden Trail promoted a focus on puzzle quality and storytelling over décor. Customers were allotted a one-hour time limit and a maximum of three hints. Hidden Trail did not install cameras in the rooms so, when groups were seeking hints, employees had to enter and discuss with the group what had happened. Hidden Trail publicized how little it had invested to start the business and heavily discounted its pricing to drive customer business. Groupon[[7]](#footnote-7) was its primary method of generating sales. In June 2016, Hidden Trail expanded its escape room business to a second location.

In December 2015, Hidden Trail’s owner approached Miller about a referral deal wherein Enigma would send groups to Hidden Trail if Enigma was already fully booked. Miller was surprised to discover that Hidden Trail was not selling out all its spots, as word-of-mouth referrals were selling out Enigma a month in advance. Miller declined the offer because he wanted to wait and see what customers thought of Hidden Trail before making a recommendation. Over the next few months, few customers from Hidden Trail visited Enigma so it was difficult to gather any data on customer experiences at Hidden Trail.

Exodus

Exodus began as a single escape room in London, Ontario, in January 2015. In May 2016, it opened a new location with two rooms in a business park in Windsor. Of the two rooms, one was a mobile set-up. Miller believed Exodus’ rooms were high quality but would be more difficult for the average playing team. Exodus gave groups a one-hour time limit and limited the number of hints. If groups did not escape, they could book a second hour at a 50 per cent discounted rate. Exodus also used Groupon to sell to customers. Being in two different cities, Exodus had a large number of likes and followers on social media and was often a top search result when looking online for escape rooms.

Ape Escape

A group of Enigma’s regular customers had decided to launch their own escape room in the Tecumseh Mall in Windsor. Exodus and Hidden Trail were within a five-minute drive of Enigma’s location; however, Ape Escape would be farther away and in a more affluent area of the city. Although Ape Escape was not open yet, it had begun a heavy social media campaign on Twitter and Instagram. Miller believed the rooms and puzzles would be of similar quality and difficulty to Enigma’s rooms since its founders had visited Enigma many times.

EXPANSION OPPORTUNITY

Miller was pleased with Enigma’s performance in its first fiscal year; however, he did not want to become complacent as competitors emerged around Windsor. He believed it was time to re-evaluate his marketing efforts and consider expanding his room offerings. Specifically, Miller wanted to evaluate whether Enigma should launch a horror-themed escape room.

Clearly, a market for horror-themed rooms existed, and these rooms experienced a major spike in demand during the Halloween season. One of Miller’s employees knew about a potential location for a new escape room. Windsor-based business, the CG Realm (Realm), currently a hobby, card, and game shop, was considering renting its basement for an escape room. Realm was not interested in operating its own escape room. The hobby shop owner had casually mentioned this opportunity to Enigma staff, but Miller knew few details. Hidden Trail was also rumoured to be discussing the possibility with Realm, so Miller believed it prudent to make a decision quickly.

If Miller decided to go ahead with this opportunity, he would rent the basement of Realm and convert it into three horror-themed escape rooms. Realm would charge a monthly rent of C$750.[[8]](#footnote-8) Miller estimated utilities would cost approximately $200 a month. Miller believed that horror-themed rooms would be less expensive to design and create than adventure-themed rooms. Hence, he would budget $2,100 in materials and $3,500 in labour for each of the new rooms. Materials included construction items, furniture, and décor, and would be depreciated using the straight-line method over a three-year useful life with no residual value. Miller believed this shorter useful life was appropriate for the puzzles and themes of escape rooms because they regularly required updating. The computer equipment used for group bookings, payment, and video monitoring would cost a total of $4,200. The computer equipment would be depreciated using the same method and estimate as the materials.

If this expansion opportunity went ahead, Miller hoped to have all three rooms built and open to the public by September 2016. This way, Enigma could work out any issues and start generating awareness of the new rooms prior to the busy Halloween season. Enigma would charge each player $23 per visit and projected an average group size of 4.2 players. During the month of September, Miller would budget for between eight and 15 groups a week visiting the new location. During Halloween season, he expected demand would increase to 25 groups a week for four weeks in October. For the remaining 10 months of the year, Miller would project weekly group visit revenue similar to those projected in September.

To generate awareness and demand, Miller would advertise solely for the horror-themed location. This would increase Enigma’s total annual marketing budget by $1,200, and then the total marketing budget would be split between the original location and the new location. Miller would also need to ensure that staff was available to work at the new location. Based on the current flexible scheduling system, he estimated that labour would be the same percentage of sales as Enigma had experienced in fiscal 2016. Miller would also promote one of his current employees to general manager of the new location. This employee would receive a raise of $3 per hour and would be required to work approximately 20 hours a month, with the exception of October in which the employee would work 75 hours for the month.

Another expense that varied with sales was cleaning and maintenance. Again, Miller believed this expense would remain the same percentage of sales as fiscal 2016. Insurance to include the new location’s contents and liability would increase Enigma’s current policy by 40 per cent.

Miller was concerned that adding horror-themed rooms could detract from the image and reputation Enigma had established with its adventure-themed rooms. Some of his current customers had voiced concerns about “things jumping out at me” and told Miller that some of their friends were reluctant to try escape rooms because they did not like being scared. Since various themes often attracted different segments of the market, Miller was not concerned that the new location would cannibalize Enigma’s existing sales. He believed a second location would increase customer’s awareness of Enigma and that a positive experience at the new rooms would, in fact, increase annual sales by 10 per cent at the original location.

Conclusion

Miller wondered if the time was right for such an expansion. Enigma had just finished its first fiscal year, but demand had steadily increased, and he wanted to ensure Enigma maintained its share of the Windsor market. Would demand continue to grow or were escape rooms a fad that might just as quickly disappear? Was the risk and seasonality associated with horror-themed rooms worth his time and investment? Miller needed to answer these questions and decide on Enigma’s future. If he did not act quickly, Miller would risk the prospect of Hidden Trail securing the new location and launching additional escape rooms.

Exhibit 1: Income Statement

For fiscal year ended May 31, 2016

|  |  |  |
| --- | --- | --- |
| Revenue |  |  |
| Sales |  | $ 104,419 |
|  |  |  |
| Expenses |  |  |
| Wages expense | $ 24,049 |  |
| Rent expense | 12,675 |  |
| Utilities expense | 2,560 |  |
| Banking & credit card fees | 1,749 |  |
| Cleaning and maintenance expense | 1,425 |  |
| Office supplies expense | 1,145 |  |
| Insurance expense | 1,195 |  |
| Gas expense | 1,869 |  |
| Web expense | 716 |  |
| Incorporation expense | 57 |  |
| Miscellaneous | 1,164 |  |
| Photo expense | 102 |  |
| Marketing and promo expense | 1,491 |  |
| Depreciation expense | 6,003 |  |
|  |  |  |
| Total expenses |  | 56,200 |
|  |  |  |
| Profit before tax |  | 48,219 |
| Tax |  | 5,114 |
| Profit after tax |  | $ 43,105 |

Source: Company files.

Exhibit 2: Statement of Financial Position

As at May 31, 2016

|  |  |  |  |
| --- | --- | --- | --- |
| Assets |  |  |  |
| Current assets: |  |  |  |
| Cash |  | $ 20,991 |  |
| Supplies |  | 864 |  |
| Prepaid rent |  | 1,017 | $ 22,872 |
|  |  |  |  |
| Long-lived assets: |  |  |  |
| Professor’s office: furniture and décor | $ 2,322 |  |  |
| Accumulated depreciation, professor’s office | (871) | 1,451 |  |
| Jungle: furniture and décor | 11,426 |  |  |
| Accumulated depreciation, jungle | (2,380) | 9,046 |  |
| Pharaoh’s room: furniture and décor | 8,537 |  |  |
| Accumulated depreciation, pharaoh’s room | (712) | 7,825 |  |
| Science lab: furniture and décor | 8,002 |  |  |
| Accumulated depreciation, science lab | – | 8,002 |  |
| Technology equipment | 5,442 |  |  |
| Accumulated depreciation, technology equipment | (2,041) | 3,401 | 29,725 |
| Total assets |  |  | $ 52,597 |
|  |  |  |  |
| Liabilities and shareholders’ equity |  |  |  |
| Liabilities: |  |  |  |
| Accounts payable\* |  | $ 355 |  |
| Wage-related expenses payable |  | 1,471 |  |
| Taxes payable |  | 5,114 |  |
| Net HST remittable |  | 7,552 | $ 14,492 |
| Shareholders’ equity: |  |  |  |
| Common stock |  | 5,000 |  |
| Retained earnings |  | 33,105 | 38,105 |
| Total liabilities and shareholders’ equity |  |  | $ 52,597 |

Note: \* Accounts payable related solely to utilities and insurance, both of which were always purchased on credit.

Source: Company files.

Exhibit 3: Current Room Descriptions

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| **THE PROFESSOR’S OFFICE For groups of 2 to 10** |  | **THE JUNGLE For groups of 3 to 12** |  | **THE PHARAOH’S TOMB** **For groups of 2 to 6** |

Source: Company files.

Exhibit 4: Corporate Structure

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  | **Alexander Miller** President | | | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | |  | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | |  | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  | **Angelica Haggert** General Manager | | | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | |  | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | |  | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | |  | |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | |  | |  |  |  |  |  |  |  |
| **Colin Goodhue** Game Master | |  | **Dave Cracknell** Game Master | |  | **Laura Foy** Game Master | |  | | **Graeme Wachna** Game Master | |  | **Sarah Hagman** Game Master | |  | **Blair Robertson** Builder | |

Source: Company files.

Exhibit 5: Customer Flow diagram

Source: Company files.

Exhibit 6: Current time slot offerings

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **PHARAOH’S TOMB**  **Capacity: 2 to 6 people** | | **THE JUNGLE**  **Capacity: 3 to 12 people** | | **THE PROFESSOR’S OFFICE**  **Capacity: 2 to 10 people** | |
| Mon–Thurs | Fri–Sun | Mon–Thurs | Fri–Sun | Mon–Thurs | Fri–Sun |
| 11 a.m.–2 p.m. | 11 a.m.–11 p.m. | 11 a.m. | 11 a.m. | 11 a.m. | 11 a.m. |
| Every hour | Every hour | 1 p.m. | 12:45 p.m. | 12:30 p.m. | 12:30 p.m. |
| 7 p.m. –11 p.m. |  |  | 2:30 p.m. |  | 2 p.m. |
| Every hour |  | 7:30 p.m. | 4:15 p.m. | 7 p.m. | 3:30 p.m. |
|  |  | 9 p.m. | 5:45 p.m. | 8:30 p.m. | 5:30 p.m. |
|  |  | 10:30 p.m. | 7:30 p.m. | 10 p.m. | 7 p.m. |
|  |  |  | 9:15 p.m. |  | 8:30 p.m. |
|  |  |  | 11 p.m. |  | 10 p.m. |
|  |  |  |  |  | 11 p.m. |

Note: Excess noise from a nearby tenant in the retail building currently prevented weekday operation from 3 p.m. to 7 p.m.

Source: Company files.

1. “History of Live Escape Games,” Room with a Clue, accessed April 7, 2017, www.roomwithaclue.us/2016/02/25/history-of-live-escape-games/. [↑](#footnote-ref-1)
2. “Canada: Ontario,” Escape Room Directory, accessed April 7, 2017, http://escaperoomdirectory.com/#CA. [↑](#footnote-ref-2)
3. Twenty minutes outside the city limits of Windsor. [↑](#footnote-ref-3)
4. “Labour Force Characteristics, Unadjusted, by Census Metropolitan Area (3 Month Moving Average) London (Ont.), Windsor (Ont.), Barrie (Ont.),” Government of Canada: Statistics Canada, May 5, 2017, accessed April 7, 2017, www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/lfss04h-eng.htm. [↑](#footnote-ref-4)
5. All Enigma’s employees worked on a part-time basis, allowing Miller to schedule them as needed. [↑](#footnote-ref-5)
6. Groups could ask the staff member a question (e.g., “Can I move this decoration?”) and receive a hint to help them solve the puzzle. [↑](#footnote-ref-6)
7. Groupon was an e-commerce marketplace that offered consumers discounts at local merchants. Merchants provided deep discounts to Groupon, who then made the sale to the consumers. [↑](#footnote-ref-7)
8. All currency amounts are in Canadian dollars. [↑](#footnote-ref-8)