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**9B17M029**

**EXODUS ESCAPE ROOMS: THE PUZZLE OF EXPANSION**

Bella Copland 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 January 2016, Chris Costello walked into work at Exodus Escape Rooms (Exodus) in London, Ontario, Canada, and looked proudly on his business venture. It was one year ago that Exodus had welcomed its first customers (players) to experience its escape rooms in which players, within one hour, worked as a team to problem solve their way out of a room filled with puzzles and brainteasers. To capitalize on Exodus’s successful first year, Costello was contemplating the business’s expansion options. He was also considering selling the business if the popularity of escape rooms meant finding a buyer would be easy.

THE INDUSTRY

The concept of escape rooms started around 2007 in Japan. The idea quickly spread to China, Taiwan, and other parts of Asia and Europe before extending to North America in 2012.[[1]](#footnote-1) In 2016, there were over 60 different escape rooms in Ontario, most with usually more than a few different rooms for players to experience.[[2]](#footnote-2) While the industry had experienced incredible growth, there was little indication that it would slow down; in fact, further exponential growth was expected.[[3]](#footnote-3)

As escape rooms evolved, more emphasis was placed on a unique escape room characteristic that could elevate players’ experiences, setting them apart from other escape room experiences. This included secret rooms, trapdoors, and more technologically advanced puzzles. Greater emphasis was placed on using themes and stories in the escape rooms.[[4]](#footnote-4) The industry pursued new avenues of growth such as advertising to companies searching for entertaining and engaging team-building activities, and pairing up with production companies to promote upcoming films and projects.

The Canadian gross domestic product had been expected to grow by 2.3 per cent in 2015 and by 2.0 per cent in 2016. However, these estimates were lowered due to the negative impact of sharply lower oil prices on energy-sector investment. Overall, this would affect consumer spending on luxury goods and unique experiences like escape rooms.[[5]](#footnote-5)

EXODUS ESCAPE ROOMS LONDON

History

Prior to opening Exodus, Costello had held a senior account manager position with a technology company for six years in London. Even though Costello thoroughly enjoyed his work, it was when his family booked a “bonding” day at an escape room that he knew he was hooked. Intrigued by real-life puzzle rooms and the challenge of using one’s wits, teamwork, and creativity to beat the clock, Costello was sure this would be his new career path. He decided to spend the summer searching for nearby escape rooms to play, but was surprised to find that the closest room was two hours away.

The combination of his excitement for the concept and the potential to be a first mover in the London area propelled Costello to begin planning his new venture. Using rough budget projections, market research, and what he hoped to be good timing, Costello initiated the process of opening an escape room in London in the fall of 2014. He resigned from his management job, and in January 2015, Exodus officially opened.

**Location**

Exodus was located in downtown London, across from Victoria Park, and was close to many offices, restaurants, and residences (see Exhibit 1). In addition to offering three differently themed rooms and accessible parking, the location had a private function room that could accommodate up to 25 people.

Operations

Exodus offered The Gemini Room, Den of Deceit, and The Nursery—each with its own theme and level of difficulty (see Exhibit 2). Exodus’s customers booked through the booking system on its website. At the time of the booking, a deposit was paid to reserve the hour spot. Twelve hours before the customer’s booked time, a reminder email was sent to the customer who made the booking. Games cost CA$25[[6]](#footnote-6) per person. This guaranteed a private booking and included promotional discounts offered throughout the year. Up to 10 players could be accommodated in any one room at Exodus, and group rates were offered for 16 or more players.[[7]](#footnote-7)

On the booked day, customers were expected to arrive 15 minutes before their scheduled game time to meet with the game guide (an employee) to complete registration (providing personal information), pay for the remainder of the booking, sign a waiver, and lock up any personal belongings they would not be taking with them into the room. Costello noted that almost all of the games started on time. Before entering the room, teams would receive safety information (e.g., emergency exits), the game parameters (e.g., not to break into items, how hints would be provided), and a game briefing describing the premise and goal of the game.

Once in the room, the team was given 60 minutes to solve puzzles and riddles, and work together on how to successfully escape the room. During this time, the game guide would monitor the teams through a camera in order to assess when to provide clues. After time was up, the game guide would enter the room and review the team’s performance. If the team was unable to finish, it was given the option to return another day and complete the game for half the game price. However, if the team successfully progressed to a certain point, thus rendering a return to the same escape room not worth the cost, the guide would explain the remaining unsolved puzzles.

Teams were then taken to the photo area and, using fun props either celebrating their success or shaming their defeat, the guide took a group picture for Exodus’s Instagram and Facebook accounts. Twelve hours after playing the game, the individual who booked it would receive a thank-you email from Exodus and an opportunity to review the experience online.

Marketing

Customers typically learned about Exodus through word-of-mouth or by searching on Google for escape rooms in London. Exodus used social media platforms such as Instagram, Facebook, and Twitter to showcase its customer groups so they could share their experiences with their friends, which, in turn, generated more awareness of Exodus. In addition, Costello used more traditional forms of marketing such as newspaper, magazine, and radio advertisements; and Google marketing, knowing that these methods also benefited the entire London escape room market and not just Exodus.

CONSUMERS

Interested consumers could be segmented primarily into corporate groups, students, and families.

Corporate Groups

A large portion of Exodus’s customers came from local businesses. These players were often coworkers seeking an opportunity for group bonding or teamwork exercises. There were over 15,000[[8]](#footnote-8) businesses in London, including many large companies such as 3M Canada, General Dynamics Land Systems, PwC Canada, KPMG LLP, and EllisDon Corporation. These customers valued a unique experience, were less price-sensitive, and were often influenced by traditional forms of advertising and the business’s credibility. London’s employment rate was 6.4 per cent (less than the Canadian rate of 7.1 per cent).[[9]](#footnote-9)

Students

Students from both secondary and post-secondary institutions in the city also visited escape rooms. Students were more price-sensitive but tended to search for new experiences. Specifically, Costello noticed that student clubs, sports teams, or groups from first-year residences frequented Exodus as a venue for fostering team bonding. In addition, London enjoyed a high population of students, with 35,000 students attending Western University and 15,000 students attending Fanshawe College.[[10]](#footnote-10) These students were most influenced by peer word-of-mouth and social media.

Families

A portion of Exodus’s customers were families interested in a fun activity on weekends or on school holidays. Approximately 16 per cent of London’s population was under the age of 14, and over 100,000 families lived in the city.[[11]](#footnote-11) This customer segment valued family discounts, interesting activities for birthday parties or similar celebrations, and accessible parking.

THE COMPETITION

In London, Exodus had three direct competitors—Mystery Escape Rooms, Escape Canada, and Lost City Escape. Other forms of entertainment existed as indirect competitors.

Mystery Escape Rooms

Mystery Escape Rooms offered five different rooms for players, each with a capacity for six to 16 team members. Regular pricing was $25 per person and $23 for students. A larger room added $3 to the base price.[[12]](#footnote-12) There were also discounts of $1 to $2 offered if patrons “liked” the room on Facebook or paid with cash. Located in a repurposed home in downtown London, Mystery Escape Rooms offered three levels of difficulty (dictated by the number of hints received by players) for each room.[[13]](#footnote-13)

Escape Canada

Escape Canada was located in downtown London and open six days a week (closed on Tuesdays). It offered free parking on site and charged $25 per person for groups of 12 or fewer.[[14]](#footnote-14) Discounts (i.e., 10 per cent off for students) were offered for special events and for students on Thursdays. Escape Canada offered five different rooms at various player levels of difficulty. The maximum number of players that could be accommodated in a room was 10.

Lost City Escape

Lost City Escape was established within a plaza with plenty of parking. Customers were welcomed with a puzzle before even being allowed into the building, adding to their overall experience even before beginning the game. Several reviews stated that while staff were friendly, the establishment was not properly maintained, and the lobby area of the location lacked in size and ambience.[[15]](#footnote-15) The rates at Lost City Escape were $25 per player on weekends and $18 on weekdays.[[16]](#footnote-16)

Indirect Competition

London offered a few alternative forms of entertainment for customers looking for a new experience. These were becoming increasingly more popular and larger threats to escape rooms. Laser Quest,[[17]](#footnote-17) located in downtown London, cost $8.50 per person for a game that allowed players, working individually or on teams, to use laser guns to score points and reach targets. Backyard Axe Throwing League London was an axe-throwing experience wherein customers learned how to throw axes and play in tournaments throwing axes toward targets. Drop-ins as well as group bookings were accepted at a cost of $35 to $45 per person.[[18]](#footnote-18)

FUTURE OPTIONS

New Room

Costello thought that perhaps adding a new game to the current London location would be a great way to not only bring in new customers but also attract those customers who had previously enjoyed other Exodus rooms. Costello would need to determine the theme for the new room while keeping in mind the needs of his chosen target market. A new game room could be added to Exodus’s location without closing one of the current game rooms; however, Costello wondered if it would be better to completely revamp a room that customers had already played. Setting up a modest new room would cost $7,500–$10,000 for set design and technology. Costello had chosen to design most of his own games; however, he considered whether outsourcing this task would be a good idea. Purchasing a game from a company that specialized in creating puzzles to sell to escape rooms would cost between $2,000 and $4,000.

Expansion to Windsor

After achieving so much success in London, Costello was contemplating opening a second location in Windsor, Ontario. Costello’s long-term goal was to have three to four locations—this would be the first step toward that plan. Windsor was approximately a two-hour drive south of London and had a population of just over 210,000.[[19]](#footnote-19) There were two other established escape rooms in the area, so Exodus would not be the first such operation in this market.

If Exodus did expand to Windsor, Costello projected revenues for 2016 at $22,500 for the first quarter (taking into account that it would take a few weeks to get the business set up), $30,000 for the second quarter, and $60,000 for the third and fourth quarters. This expansion would require an investment of $60,000 for renovation and development of the new location.[[20]](#footnote-20) Costello projected monthly expenses to be approximately $5,000 (rent, wages, and amortization). The remainder of the new location’s incurred expenses would be the same per cent of sales as the London location. In an effort to better establish the new location in the Windsor market, Costello planned to increase advertising spending to $36,000 for the first year.

Increased Marketing

Exodus had always relied on more traditional forms of advertising for its business, but Costello was contemplating more innovative or unique options. He would be willing to more than double advertising spending to $6,000 per month but was unsure how best to spend this money. He needed to consider marketing strategies that would truly set Exodus apart in the market.

Sell

While it was Costello’s long-term plan to sell the business in another four to five years, was this the right time to sell? With more and more competition entering the escape room market, in addition to more options for alternative forms of entertainment, perhaps the market was becoming too crowded. Would selling now be too early, and could he lose out on maximizing the return on his investment? Costello would need to determine a fair price for Exodus and consider who the potential buyer(s) could be.

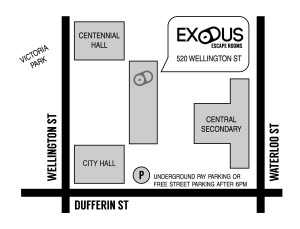
Status Quo

Finally, Costello wondered if continuing with the business operations was the best way to proceed. Exodus’s success had been positive (see Exhibits 3, 4, and 5), and with trends pointing toward more growth, perhaps now was the time to focus on solidifying Exodus’s place in the London market before making any changes. Costello projected a modest 10 per cent increase in sales for fiscal 2016 based on customers’ stronger awareness of Exodus in the London market.

DECISION

Exodus had experienced great success in the past year. Costello was unsure if making a change to the current business plan was necessary since the business had been in operation for only one year. Nevertheless, he sat down at this desk to analyze all aspects of the operations under consideration.

Exhibit 1: location map

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Source: “Welcome to Exodus London,” Exodus Escape Rooms London, accessed March 2016, [www.exoduslondon.com](http://www.exoduslondon.com),

Exhibit 2: escape rooms available

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Source: “London Games: Learn More about Our Escape Games,” Exodus Escape Rooms London, accessed March 2016, <http://exoduslondon.com/exodus-games/>.

Exhibit 3: statement of earnings

For the year ending December 31, 2015

|  |  |
| --- | --- |
|  | **2015** |
| **Revenue** |  |
| Sales | $ 371,195 |
| Cost of sales | 1,035 |
|  |  |
| Gross profit | 370,160 |
|  |  |
| **Expenses** |  |
| Advertising | 23,004 |
| Bank and service charges | 6,111 |
| Insurance | 12,528 |
| Fees, licences, and dues | 1,332 |
| Meals and entertainment | 11,133 |
| Wages | 137,844 |
| Maintenance and repairs | 6,345 |
| Office supplies | 7,128 |
| Phone | 1,494 |
| Rent | 24,633 |
| Room prop expenses | 12,933 |
| Research | 3,888 |
| Travel | 13,257 |
| Web design | 938 |
| Utilities | 2,304 |
| Amortization | 2,171 |
| Vehicle mileage | 3,843 |
|  |  |
| Total expenses | 270,886 |
|  |  |
| Net earnings before taxes | 99,274 |
|  |  |
| Taxes | 11,248 |
|  |  |
| **Net earnings after taxes** | $ 88,026 |
|  |  |

Source: Company files.

Exhibit 4: statement of financial position

As of December 31, 2015

|  |  |
| --- | --- |
|  | **2015** |
| **ASSETS** |  |
| Current assets |  |
| Cash | $ 60,078 |
| Prepaids and deposits | 2,319 |
| **Total current assets** | **62,397** |
|  |  |
| Fixed assets |  |
| Furniture and fixtures | 5,625 |
| Equipment | 1,500 |
| Computer | 1,275 |
| Leasehold improvements | 9,000 |
| Less: accumulated amortization *(all fixed  assets)* | 2,171 |
| **Total fixed assets** | **15,229** |
|  |  |
| Intangible assets |  |
| Incorporation costs | 865 |
|  |  |
| **Total assets** | $ 78,491 |
|  |  |
| **LIABILITIES** |  |
| Current liabilities |  |
| Accounts payable | $ (91) |
| Credit cards payable | 13,395 |
| Taxes payable | 8,932 |
| **Total current liabilities** | **22,236** |
|  |  |
| Long-term liabilities |  |
| Dues to shareholders | 5,206 |
|  |  |
| **Total liabilities** | $ 27,442 |
|  |  |
| **SHAREHOLDER’S EQUITY** |  |
| Retained earnings | $ 51,027\* |
| Common shares | 20 |
| Preferred shares | 2 |
|  |  |
| **Total shareholder’s equity** | $ 51,049 |
|  |  |
| **TOTAL LIABILITIES AND EQUITY** | **$ 78,491** |

Note: \* Dividends of $37,000 were paid out for fiscal 2015.

Source: Company files.

Exhibit 5: Financial ratios

|  |  |
| --- | --- |
|  | **2015** |
| **LIQUIDITY** |  |
| Current ratio | 2.80 |
| Acid test | 2.70 |
|  |  |
| **STABILITY** |  |
| Debt to equity | 0.54 |
| Net worth/total assets | 65% |

Source: Calculations were made using company files.

1. Evelyn Cheng, “Real-life ‘Escape Rooms’ are New US Gaming Trend,” CNBC: Gaming, June 21, 2014, accessed March 2016, [www.cnbc.com/2014/06/21/real-life-escape-rooms-are-new-us-gaming-trend.html](http://www.cnbc.com/2014/06/21/real-life-escape-rooms-are-new-us-gaming-trend.html). [↑](#footnote-ref-1)
2. “Canada: Ontario,” Escape Room Directory, accessed March 2016, <http://escaperoomdirectory.com/>#CA. [↑](#footnote-ref-2)
3. Megan Dolan, “No Escape: ‘Panic Rooms’ are Popping up Everywhere,” Reporting Texas and The Dallas Morning News, December 8, 2015, accessed March 2016, <http://reportingtexas.com/no-escape-panic-rooms-are-popping-up-everywhere/>. [↑](#footnote-ref-3)
4. Stuart Miller, “The Art of the Escape Room,” *Newsweek: Culture*, April 19, 2015, accessed March 2016, [www.newsweek.com/2015/05/01/art-escape-room-323150.html](http://www.newsweek.com/2015/05/01/art-escape-room-323150.html). [↑](#footnote-ref-4)
5. “Global Economics: Scotiabank’s Forecast Tables,” Scotiabank, accessed March 2016, [www.gbm.scotiabank.com/English/bns\_econ/forecast.pdf](file:///C:\Users\kpepers\Downloads\www.gbm.scotiabank.com\English\bns_econ\forecast.pdf). [↑](#footnote-ref-5)
6. All amounts are in Canadian dollars. [↑](#footnote-ref-6)
7. Hours of operation were Wednesday to Friday beginning at 5:30 p.m., and Saturday and Sunday at 1:00 p.m. Hours were based on bookings and were flexible to the needs of customers. This meant that Exodus was usually closed on Monday and Tuesday; however, it could have been made available if needed. [↑](#footnote-ref-7)
8. “Companies in London,” Manta, accessed March 2016, [www.manta.com/world/North+America/Canada/Ontario/London/](http://www.manta.com/world/North+America/Canada/Ontario/London/). [↑](#footnote-ref-8)
9. “Labour Force Characteristics, Unadjusted, by Census Metropolitan Area (3 Month Moving Average): London, Ont., Windsor, Ont., Barrie, Ont., Statistics Canada, accessed March 2016, www.statcan.gc.ca/tables-tableaux/sum-som/101/cst01/lfss04h-eng.htm; “Labour Force Survey, December 2015,” Statistics Canada: The Daily, January 8, 2016, accessed March 2016, [www.statcan.gc.ca/daily-quotidien/160108/dq160108a-eng.htm](http://www.statcan.gc.ca/daily-quotidien/160108/dq160108a-eng.htm). [↑](#footnote-ref-9)
10. “London, Ontario,” Western University Canada, accessed March 2016, [www.uwo.ca/about/visit/london.html](http://www.uwo.ca/about/visit/london.html); “Welcome to Fanshawe’s London Campus,” Fanshawe: 50 Years, accessed March 2016, <https://www.fanshawec.ca/welcome-fanshawes-london-campus>. [↑](#footnote-ref-10)
11. “Census Subdivision of London, CY—Ontario,” Statistics Canada: Focus on Geography Series, 2011 Census, accessed March 2016, [https://www12.statcan.gc.ca/census-recensement/2011/as-sa/fogs-spg/Facts-csd-eng.cfm?LANG=Eng&GK= CSD&GC=3539036](https://www12.statcan.gc.ca/census-recensement/2011/as-sa/fogs-spg/Facts-csd-eng.cfm?LANG=Eng&GK=CSD&GC=3539036). [↑](#footnote-ref-11)
12. “Mystery Escape Rooms: Solve the Puzzles, Find the Clues, and . . . Escape!” Mystery Escape Rooms, accessed March 2016, https://www.mysteryescaperooms.com/. [↑](#footnote-ref-12)
13. Escape Reviewer, “Home: Sweet Home,” accessed March 2016, [www.escapereviewer.com/#!mystery-escape-rooms/c15h8](http://www.escapereviewer.com/#!mystery-escape-rooms/c15h8). [↑](#footnote-ref-13)
14. “Mind over Muscle: Escape Room Survival Guide,” Escape Canada, accessed March 2016, http://escape-canada.com/london/. [↑](#footnote-ref-14)
15. “Lost City,” TripAdvisor, accessed March 2016, <https://www.tripadvisor.ca/Attraction_Review-g154995-d7785771-Reviews-or10-Lost_City-London_Ontario.html#REVIEWS>. [↑](#footnote-ref-15)
16. “Lost City Escape,” Lost City: Escape Room Mind Game, accessed March 2016, www.lostcityescape.com/. [↑](#footnote-ref-16)
17. “Welcome to Laser Quest London (519) 660-6000,” Laser Quest, accessed March 2016, www.laserquest.com/public/locations/ON-London.cfm. [↑](#footnote-ref-17)
18. “Your Questions Answered: Everything You Need to Know about Axe Throwing,” BATL, accessed March 2016, https://batlgrounds.com/axe-throwing-faq/. [↑](#footnote-ref-18)
19. “Census Metropolitan Area of Windsor, Ontario,” Statistics Canada: Focus on Geography Series, 2011 Census, accessed April 2016, [https://www12.statcan.gc.ca/census-recensement/2011/as-sa/fogs-spg/Facts-cma-eng.cfm?LANG=Eng&GK =CMA&GC=559](https://www12.statcan.gc.ca/census-recensement/2011/as-sa/fogs-spg/Facts-cma-eng.cfm?LANG=Eng&GK=CMA&GC=559). [↑](#footnote-ref-19)
20. Costello would need to take out a loan for the $60,000 at an interest rate of 3 per cent. [↑](#footnote-ref-20)