Huron

CASE STUDIES
MANAGEMENT AND
ORGANIZATIONAL STUDIES

Enigma Escape Rooms LTD.

Alexander Miller, Huron at Western

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INTRODUCTION

On June 30th, 2016, Enigma Escape Rooms (Enigma) sole proprietor Alexander Miller sat down to consider his options for the future of his business. While Enigma initially started out as a big success, sales recently began to slow down, and fewer groups were going in. To remain competitive, Miller came up with multiple ideas to expand the business operations and reach, but he was uncertain about the best way to do it. Although he loved running Enigma, he wondered if now was the time to sell the business. If his new ideas did not seem profitable for the long-term success of his business, selling would allow him to continue teaching and looking after his family.

ENIGMA ESCAPE ROOMS

After receiving a grant from the Essex Country Small Business Centre, along with help from close family and friends, Miller started Enigma Escape Rooms in May 2015 in Windsor, Ontario Enigma Escape Rooms quickly grew to become one of the most popular entertainment experiences in the area.

The objective of Enigma was for groups of people to enter a room with a set theme and find clues and solve a series of puzzles that then allowed them to exit the room, which was locked behind them. Participants were under a time limit to complete all of the puzzles, but if groups needed help, they received an unlimited number of hints from nearby employees.[1] Enigma was often recognized for its engaging themed rooms, such as "The Professor's Office" and "The Jungle." Each room had a different level of difficulty and had a different capacity level of players.

[1] Hints were small clues given by employees to guests when they were struggling to solve a certain puzzle and or part of the room.

HISTORY

After a family member fell ill, Miller moved back to his hometown of McGregor, Ontario, and worked reduced hours to help support them.[2] Having lower living costs at his parents' house and a more flexible schedule, Miller decided to launch a small business in Windsor, Ontario. With a passion for puzzle games, an escape room business seemed like the perfect fit for the area.

Enigma was fully operational by August 2015, and it was highly successful, in part, through an effective Facebook campaign. Miller hired two new employees to help with bookings, room maintenance, and general organization, including Angelica Haggert. She was the General Manager and was responsible for bookings calls, cleaning and resetting rooms, as well as puzzle construction. With the additional help, Miller was able to open up more rooms, and the business quickly grew to a team of seven employees. The staff divided periods of assigned work time themselves and were mostly responsible for greeting groups, assisting with clues, and cleaning the rooms.

Enigma was open 11am – 11pm Monday through Sunday and closed 3pm – 7pm on weekdays. The majority of bookings were during their prime time slots: 5pm – 9pm. on Saturdays.[3] The average group size was four people, and most were able to complete the room within the one-hour time limit. Additionally, Enigma offered groups 10 minutes of extended time in exchange for likes on Facebook. If this occurred, staff gave the group direct hints to ensure they completed all of the puzzles and exited the room.

By late March 2015, Enigma's third room, "The Pharaoh's Tomb," was operational and targeted towards smaller group sizes. This design allowed for shorter turn-around times and more bookings per day than the other rooms that Enigma offered. Many people enjoyed the adventure style rooms and liked that they were appropriate for all ages. See Exhibit 1 for an example of Enigma's rooms.

While Enigma was initially a big success, there had been a decrease in customer bookings, which Miller and his team were hoping to improve. More escape room locations were set to open in the surrounding Essex County area, and Miller wanted to remain competitive against them, though he did not know how to.

ALEXANDER MILLER

Alexander Miller always wanted to be an entrepreneur and had started, then sold, two businesses in university. He had extensive experience in marketing after interning as a marketing manager for Execulink Telecom and consulting for the Toronto Argonauts of the Canadian Football League. After graduating from the Ivey Business School with an Honours in Business Administration degree, Miller turned down several offers to accept a role as a Business Foundations Lecturer at Western University. He then moved into small business consulting for a short period, then later returned to teach at Western's affiliated colleges.

When Miller returned to his parents' in McGregor to help care for them, he taught once a week at Brescia College. Having a less complicated schedule and an increasing passion for entrepreneurship, Miller wanted to start his first brick-and-mortar business.

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[2] McGregor, Ontario, is located approximately 20 kilometers south of Windsor, Ontario.
[3] Advance booking was required outside of prime-time slots.

Miller worked hard to be the first business to enter the escape room market in Windsor, and he did not want to remain in the industry when it inevitably reached a plateau. He had hoped to sell the business one day for a sizable deposit to buy his own house and transition back into more teaching.

INDUSTRY

Windsor was a short drive to Detroit, Michigan — less than 3 kilometers. The proximity to the U.S. resulted in frequent cross-border trips by tourists and Windsor and Detroit residents. The higher value of the U.S. dollar relative to the Canadian dollar, along with a lower legal drinking age, helped drive a thriving tourist industry in Windsor, centering around Ceasar's Windsor Casino. With a population of 210,980, an average median income of $73,440 and an unemployment rate of 6.6%, Windsor was beginning to see a resurgence.

Initially started as point and click computer games in the 1990s, escape rooms went from virtual to reality in 2007 when the first escape room opened in Kyoto, Japan.[4] Since then, the industry had quickly grown with hundreds of escape rooms emerging across North America, becoming a popular group activity.[5] Most escape rooms were independently owned and operated. This gave customers a unique experience wherever they went, and a wide variety of rooms to choose from. Most escape room companies limited groups to one-hour, gave a maximum number of hints, and charged between $25 and $30 per person.[6] With the traditional escape room no longer considered a novelty, industry players often turned to innovative themes, high-quality sets, and the integration of technology to remain an exciting experience for customers.[7] Demand was highly unpredictable, and it was unknown if innovations would be sufficient to retain the popularity of escape rooms.

COMPETITION

Hidden Trails

Opening in October 2015 in Windsor, Ontario, Hidden Trails became a popular location for escape room enthusiasts.[8] See Exhibit 2 for competitive industry ratios. The company prided themselves on their dedication to offering high quality puzzles and storytelling, rather than focusing on décor. Hidden Trails relied heavily on Trip Advisor reviews to entice groups, and as a result of their success, they opened a second location down the street from Enigma to expand their reach.[9] At Hidden Trails, each group only had one hour to solve the puzzles to exit the room, and they were allowed a maximum of three hints. There were no cameras installed in the rooms, so employees were unaware of a group's progress once they started their session.

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[4] Anecia Ascalon, "The history of Escape Rooms (2021), *The Escape Game*, March 31, 2021, https://theescapegame.com/blog/the-history-of-escape-rooms/.
[5] Sally French and Jessica Marmor Shaw, "The unbelievably lucrative business of Escape Rooms," *MarketWatch*, July 21, 2015, .https://www.marketwatch.com/story/the-weird-new-world-of-escape-room-businesses-2015-07-20.
[6] Groups could vary between two and 12 people.
[7] Angela Bolchinova, "5 Trends in the Escape Room Industry and How to Make the Most of Them," *Regiondo*, March 24, 2023, https://pro.regiondo.com/blog/escape-room-industry-trends/.
[8] *Hidden Trail*, https://www.hiddentrail.co/.
[9] Trip Advisor was an online service used to plan living accommodations and activities for vacations. See https://www.tripadvisor.ca/.

Ape Escape

After attending Enigma for many months, a group of six regulars wanted to create their own escape room business at Tecumseh Mall, close to downtown Windsor. Although they had yet to start, Ape Escape had gained a steady following on social media and often campaigned about their grand opening. Having completed an abundance of escape rooms before, the owners of Ape Escape strongly believed they could construct the ideal experience.[10] Their aim was to create a family friendly environment with exciting themes and challenging puzzles.

Big Time Entertainment

Recognised as one of the largest family fun gaming centers in Southwestern Ontario, Big Time Entertainment was growing into one of the most popular locations for groups to attend.[11] Although they did not have any games similar to escape rooms, they had a variety of attractions, such as laser tag, billiards, arcade games, go-karting, and more. Big Time Entertainment also had a full menu for people to eat and stay longer, as opposed to other similar facilities that did not have this feature. They offered combined package deals for groups and had specialty nights with various discounts.

CUSTOMERS

Many families and friend groups would often look for fun and affordable places for entertainment or exciting weekend activities. With the popularity of escape rooms growing, many individuals enjoyed selecting from the variety of independently owned businesses. Groups selected a room based on its theme, while also taking the level of difficulty into consideration. Adventure-based rooms had a broader appeal and were more commonly selected by families, as they were suitable for all ages. With the popularity in horror films expanding, however, there was an increasing demand for haunted themed rooms, which included spooky décor and music, and even jump scares. Customers also anticipated for the room to be solvable, ready upon arrival, and clean when they began. Participants often appreciated receiving hints and guidance when needed, since groups would often get stuck at on a step or clue, leading to a frustrating experience.

ALTERNATIVES

Status Quo

Although Enigma experienced a recent decrease in sales, Miller understood that this was a common part of a company's life cycle. Knowing all businesses experience slow periods, Miller wanted to determine how Enigma would perform without major changes and costs. He felt Enigma could conservatively get 18 groups per week for an average price of $23 per player.[12] After looking at past bookings, the average group size that attended Enigma consisted of four people.

[10] "APE Escape Windsor," Facebook, https://www.facebook.com/APEEscapeWindsor/.
[11] Windsor's destination for fun. Big Time Entertainment. (2023, July 8). https://big-time.ca/.
[12] Enigma operated 50-weeks per year.

For the next fiscal year, banking fees would increase by 0.1% of sales. Miller estimated labour costs to be $35 per group. With the expansion of "The Pharaohs Tomb" room, rent would be $1,800 per month, although utilities were expected to remain the same percentage of sales. Miller had set the marketing budget to $100 per month to save costs. Enigma estimated all other expenses would be the same dollar amount as the last year.

Without pursuing a new strategy, Miller could remain more focused on teaching and his family. Although he wondered if following the status quo for escape rooms would be enough for sales to remain similar to last year's. See Exhibits 3 and 4 for past financial statements.

Groupon

Groupon was becoming a popular method for the public to find attractions and entertainment within their city.[13] Businesses would post tickets for their services at highly discounted prices on Groupon's website. People could then search through all of the offerings and purchase tickets through Groupon. In exchange for utilizing their reach, Groupon took a 50% cut off sales made from purchases through their site.

Groupon expected companies to offer a 35 – 50% discount to customers. Miller decided to give a 40% discount to groups booking through Groupon. He estimated that the Groupon exposure would increase bookings to 125 groups per month overall based on their competitor's findings.

Horror Room

As returning groups did not attempt the same room twice, it was difficult to retain customers after they solved a room. Most of Enigmas' rooms were adventure based and family-friendly, but Miller thought following the trend of horror themed rooms could appeal to older audiences and spike sales in October for Halloween.

One of Enigmas' employees, Colin Goodhue, had a connection to CG Realm, which was a local role-player-game and hobby store. Hidden Trails initially had a deal with CG Realm to expand into the basement of Enigma's building, but the deal fell through. This opened the opportunity for Enigma to rent the space and open a horror themed location.

Since the basement already lent itself to the horror theme, Miller believed that the set up costs would be significantly cheaper than the others, and he planned to construct three new rooms with a small reception area. Each escape room would require approximately $1,800 in supplies and $3,200 in manual labour. The reception area materials were $400 and the new tech equipment was $4,000. CG Realm planned to charge $950 a month for rent with all utilities included on a one-year lease agreement. To highlight the new location, Miller wanted to increase the marketing budget by an additional $350 per month for the months of September and October.

The new horror themed location would not be operational until the start of September, since Miller and his team needed to design new puzzles and construct the rooms accordingly. Once it was open, Miller expected to book 75 groups per month from November – June, but he anticipated 24 groups per week from opening until the end of October.

Knowing fear-based rooms attracted a smaller audience, Miller was concerned that the additional sales would not sufficiently cover the start-up costs quickly. He wanted to determine how long it would take to pay back the initial investment before taking CG Realm's deal.

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[13] "Look Forward: We've Got Your Back," *Groupon Merchant*, https://www.groupon.ca/merchant/.

Advertising Campaign

Having increased control over the social media platforms of Enigma, Haggert recently produced short trailers displaying each escape room they offered. Although the videos helped hook people on social media, Miller considered broadening their delivery methods and the possibility of displaying the video trailers in the community.

Lakeshore Cinemas was located in the most affluent neighbourhood of Windsor Essex County. It offered local businesses the opportunity to show two-minute commercials before each film in all 10 of its theater rooms for $600 per month. If the first month went well, Miller could sign-up for a full year. Having previously worked at one of their locations in secondary school, Miller estimated 8,400 people per month in foot traffic across all of their theatre rooms. Capturing the audience's attention would be crucial for success, and Miller wanted to see how many groups were needed to cover the commercial costs.

Sell the Business

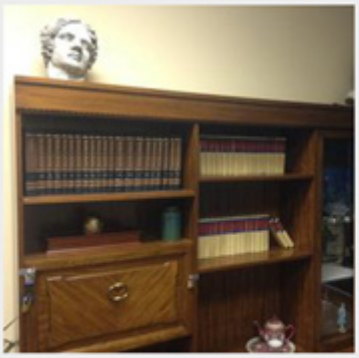
Miller wanted to assess the price of his business and the best time to sell it. If there were not any buyers for Enigma, Miller also considered closing it, then selling off the assets to pursue other ventures. Western University's affiliate approached Miller about returning to lecture in the next academic year. While there were no guarantees past the end of the term, Miller expected the contract to be worth approximately $55,000 from September to April.

DECISION

Miller sat back in his chair and realized he was in an enigma himself. With many options available to continue the business or to accept that it had run its course, Miller knew he had numbers to crunch while the clock was counting down and without any hints left.

EXHIBIT #1

ENIGMA ESCAPE ROOMS LTD.
EXAMPLES OF ROOMS



THE PROFESSOR'S OFFICE
FOR GROUPS OF 3-8

THE JUNGLE
FOR GROUPS OF 4-10

THE PHARAOH'S ROOM
FOR GROUPS OF 2-4

EXHIBIT #2

ENIGMA ESCAPE ROOMS LTD.
SELECT INDUSTRY AND COMPETITOR RATIOS

	Hidden Trails	Industry Data
Net Profit to Sales	55%	65%
Return on Assets	12%	15%
Debt to Equity	0.43:1	0.23:1
Current Ratio	1.2:1	1.4:1
Age of Payables	34 days	23 days
Sales Growth	23%	17%

EXHIBIT #3

ENIGMA ESCAPE ROOMS LTD.
STATEMENTS OF EARNINGS
(for the year ending June 30, 2016)

Revenue		**% of sales**
Sales	$104,418	100%
Operating Expenses		
Banking and Credit Card Fees	$1,748	1.7%
Rent	15,000	14.4%
Office Supplies	11,145	10.7%
Insurance	1,194	1.1%
Fuel	1,380	1.3%
Website	716	0.7%
Miscellaneous	3,654	3.5%
Wages	24,057	23.0%
Utilities	2,560	2.5%
Depreciation	6,003	5.7%
Total Operating Expenses	$67,457	64.6%
Net Income Before Tax	$36,961	35.4%
Income Tax (10.5%)	3,881	3.7%
Net Earnings	**$33,080**	31.7%

EXHIBIT #4

ENIGMA ESCAPE ROOMS LTD.
STATEMENTS OF FINANCIAL POSITION
(as at June 30, 2016)

ASSETS

Current Assets:	
Cash	$21,809
Prepaid Rent	1,017
Total Current Assets	**$22,826**
Long-Term Assets	
Professor's Office Décor	$2,321
Accumulated Depreciation	870
Net Professor's Office Décor	$1,451
Jungle Décor	$11,426
Accumulated Depreciation	2,380
Net Jungle Décor	$9,046
Pharoh's Tomb Décor	$8,536
Accumulated Depreciation	711
Net Pharoh's Tomb Décor	$7,825
Tech Equipment	$5,442
Accumulated Depreciation	2,040
Net Tech Equipment	$3,402
Total Long-Term Assets	**$21,724**
Total Assets	**$44,550**

LIABILITIES AND EQUITY

Liabilities:	
Accounts Payable	$1,471
Taxes Payable	4,113
Net HST	4,552
Total Liabilities	**$10,136**
Equity:	
Common Stock	$1,334
Retained Earnings	33,080
Total Equity	**$34,414**
Total Liabilities and Equity	**$44,550**