

Case studies

The Epic Escape Room: Choosing the Best Option for Growth

Deirdre Dixon¹, George H. Tompson¹, Raymond Papp², Abigail R. Hall³

¹ Department of Management, University of Tampa, ² University of Tampa, ³ Department of Economics, Bellarmine University

Keywords: escape room, team building, small business, case study, strategic planning

<https://doi.org/10.53703/001c.28163>

Small Business Institute Journal

Vol. 17, Issue 1, 2021

As Mary Smith finished washing the lunch dishes, she looked out the kitchen window and her son and daughter were engaged in a “battle.” Her daughter had just begun taking dance lessons and her son, a new karate student, appeared to be practicing his defense karate moves on his sister. Mary wanted to spend more time with them, but she had a lot on her mind. At the beginning of 2020, she was facing an inflection point in the strategy of her small business. The most recent upgrade to her product and service design was still not completed, payroll was going to be a challenge again this month and the kids were growing and demanding more and more of her time.

Mary owned and operated Epic Escape Rooms, a single-location escape room in Tampa, Florida. She was also considering how to become a more successful franchisor. At the same time, she had developed a reputation as an excellent designer of escape rooms, and she realized she could sell her designs to other companies in the industry, or, she could focus on owning and operating a chain of her escape rooms. Escape rooms were a growing trend in the entertainment industry. Participants worked in teams to “escape” from a locked room by solving myriad puzzles and problems to obtain clues. Escape rooms were highly suited for team building, leadership development, enhancing communication, and problem solving. They had been successful with corporate groups, professionals such as teachers and nurses, as well as people seeking a fun and challenging experience. The revenue and customer growth over the past four years had been astounding, despite the many challenges to set up a successful location. This case study investigates a local escape room company and the issues facing the owners: expand its number of locations, continue to franchise, or simply offer consulting and advice to prospective and existing businesses. Students are asked to assess each of the options and then develop a strategic plan for the owner.

INTRODUCTION

As a form of recreation and entertainment, escape rooms were still a fairly new phenomenon. The trend in the U.S. began in San Francisco in 2012, and the industry grew rapidly from 2012–2020 (Nicholson, 2015). According to Mallenbaum (2018), there were only about 22 escape rooms in the U.S. in 2014, but by the summer of 2017, there were almost 2,000. At the end of 2019, there were more than 2,350 escape rooms (Spira, 2019). Despite the yearly growth, 261 escape rooms closed in 2018, and 247 more in 2019. Given that only about 50% of small businesses survive for five years, according to the Small Business Administration, this amount of “churn” is not out of line, given the number of new businesses created since 2014 (Otar, 2018). Regionally, escape rooms were seeing different levels of popularity with California, Florida, Texas, Pennsylvania, and New York having the largest number of escape rooms (Spira, 2019).

ESCAPE ROOM INDUSTRY

Escape rooms integrated gaming, puzzles, critical thinking,

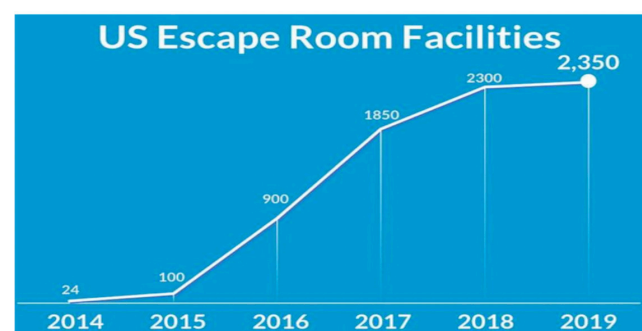


Figure 1. Escape Room Facilities

Source: Spira (2019)

teamwork, and adult learning. The goal was to escape a locked room, usually within 60 minutes, by solving puzzles and completing tasks to obtain clues needed to escape. Groups of people often worked together or competed to see who could escape the fastest, thus building teamwork and enhancing problem-solving abilities. The room clues were never straightforward and usually required more than one

person to decipher. Sometimes, if players were stuck, they could ask the game maker for clues. Depending on the establishment, clues may deduct time in the room.

Many corporations encouraged employees to participate in escape rooms, including nurses in training (Adams et al., 2018; Strickland & Kaylor, 2016). By focusing on adult learning, communication, teamwork, and problem solving, participants could enhance these desirable skills through interactive, real-time activities (Bellow, 2019).

ESCAPE ROOM CUSTOMERS

Escape rooms exhibited remarkable appeal to multiple demographics. Nearly 40% of players were over the age of 21. About 14% were families with parents and younger children, and 19% of players were under 21. Escape rooms were also frequently used as a date night for couples. Some 72% of escape rooms had specific programs aimed at corporate team building (Agarwal, 2018).

Unlike many of the other areas of the gaming industry, both men and women were attracted to escape rooms, with 71% of the teams being mixed gender (Nicholson, 2015), and about an even number of all male and all female groups. Different types of groups played these games with a breakdown shown in Figure 2.

While the supply of rooms grew rapidly, many consumers remained unfamiliar with them. Participation in escape rooms seemed to appeal to people who enjoyed puzzles like crossword, Sudoku, and video games. Compared to those traditional puzzles, escape rooms offered a longer, team-based, immersive experience.

HISTORY OF ESCAPE ROOMS

Escape rooms began in 2007 in Japan and quickly spread to the U.S. in 2012 (French & Marmor Shaw, 2015). Precursors of escape rooms were thought to be role-playing games (e.g., Dungeons and Dragons), treasure hunting games, and even interactive theater games like haunted houses and simulated murder mystery dinners. Debuting in 2007 by SCRAP Entertainment in Kyoto, Japan, escape rooms quickly expanded throughout Asia and Europe before similar patterns emerged in North American markets (Hagerty, 2017).

ECONOMICS OF THE INDUSTRY

Escape rooms were relatively low-cost to establish, and customers typically paid between \$25 and \$30 per person to play. Americans spent approximately 4% of their pre-tax income (\$3,200) on “entertainment” in 2017. This level of expenditure represented a 10% increase over the previous year (U.S. Bureau of Labor Statistics, 2018). Entertainment may be categorized in several ways. Most individuals considered “entertainment” as a more passive activity in which a person enjoyed a product or service as opposed to directly participating in an activity (Pine & Gilmore, 1998). More active forms of entertainment, including immersive experiences like dance classes, cooking classes, and escape rooms, have seen increased popularity (Harris Group, 2016).

Active or immersive forms of entertainment were partic-

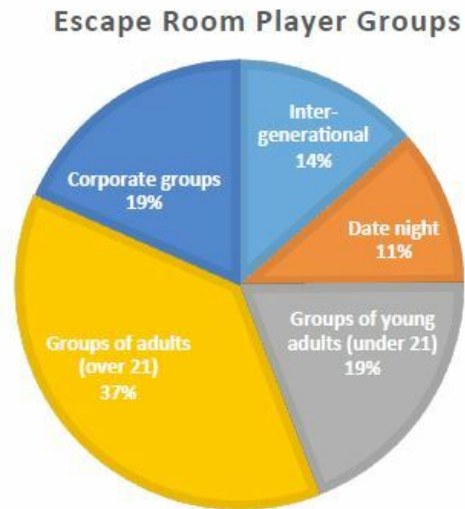


Figure 2. Classification of Groups

Source: Nicholson (2015)

ularly popular among millennials (those under 40). With an approximate purchasing power of \$600 billion and on the cusp of their peak earning years, millennials represented an important market for retailers of all varieties (Fry, 2020). They overwhelmingly preferred to spend their entertainment dollars on “experiences” and immersive entertainment. In surveys, some 78% of millennials said they would choose to spend money on an experience over a desirable good (Harris Group, 2016). It is within this broader context of active, immersive entertainment that escape rooms have gained popularity. As interactive entertainment in which individuals work with one another to find clues, solve puzzles, and complete particular tasks in order to “escape,” these businesses offered the experiences that millennials craved. They wanted engaging and immersive consumption experiences that focus on shared experiences (Ashworth & Page, 2011; Brunner-Sperdin et al., 2012; Kolar & Čater, 2018; Taheri et al., 2017). Empirical studies confirmed that “shared fun is doubled fun” (Gajadhar et al., 2008).

The CEO of Puzzle Break, Nate Martin opened his first escape room in Seattle in 2013 using a personal investment of \$7,000. He recouped this investment within a month, and the business earned \$600,000 in revenue in 2015. Other businesses have found similar success (French & Marmor Shaw, 2015).

Most escape room businesses were owned outright with less than 5% operating as part of a larger franchise (Agarwal, 2018). In addition to a growing number of escape room businesses, those firms already operating scaled up their operations since their opening. Research based on owners of companies found that some 80% of escape room businesses had two to four “missions” or rooms set up with different puzzles for consumers (Agarwal, 2018). About 18% had five to eight missions, and the remaining 4% had nine or more mission options. Some eight of every ten escape room operators surveyed indicated they had added at least one mission since opening and just over half had expanded their operating hours, indicating the businesses had the ability to work effectively—and be profitable—on a number

of scales (see Agarwal, 2018). In addition to scale, there were remarkable differences in the operating times of escape room businesses—with a nearly equitable division in the number of businesses open less than 40 hours per week, businesses open between 40 and 60 hours per week, and businesses open more than 60 hours per week.

EPIC ESCAPE ROOM

Mary Smith and her husband Edward Smith opened Epic Escape Room, an escape room in the Ybor City neighborhood of Tampa, FL, in January 2017. They were happy with the financial results so far, but Mary really wanted to grow the business. It was not successful enough to support their two full-time careers and their family.

Mary believed there were several ways she could improve the strategy of Epic Escape Room. However, she was not sure which option (or combination of options) to pursue. “I love owning my own business, but I am especially passionate about escape rooms. I like everything about it: solving puzzles, designing puzzles, and helping customers have an awesome experience. I can’t decide which priorities should be the most important!” She believed she had at least three options for growing the business. She could increase the capacity utilization of the current location, focus on selling escape room designs and puzzles to other owners, or emphasize franchising her business model to other potential owners.

Mary believed, “Our competition is not only just different escape rooms, but also groups who want to go out bowling or to a movie. I have to challenge and entertain them and make them want to come back.” Although it was a relatively young industry, annual conferences for individuals interested in escape rooms had already emerged. Mary explained, “When I was in Chicago at the last conference, I realized that 80% of the people there are looking to buy a franchise.”

By early 2018, there were different generations of escape rooms, as the concept had transformed and evolved over the past decade. It was not enough to just provide a few puzzles for the group; advanced operators had electronics built in with LED lights and laser mazes included in their escape rooms.

CURRENT STRATEGY AND PERFORMANCE

As of June 2018, Epic Escape Room had sold seven franchises, for about \$25,000 each. Mary provided franchisees with almost everything to start their business. The package included a website design and designs for three rooms the franchisees could build into their business. The franchisee would have to find a location and pay for the escape room to be constructed. Unlike many franchises, there was no fee for a shared advertising budget, but franchisees were obligated to pay 20% of their gross revenue as a franchisee fee, payable monthly.

To help with brand recognition, Mary required each franchisee to use common terminology. The name of each franchised room began with Epic Escape Room, then had a name of the theme. Examples included Epic Escape Room: Friends, Epic Escape Room: Sherlock Holmes. It was great

to earn the revenue and the respect when she sold a franchise, but there were downsides to franchising. Mary talked about her business being hurt when one of the franchisees did not keep up her standards, “It was another Epic Escape Room location that I had sold, but they did not keep up with their website or anything online. When customers had a bad experience there, they would post a bad review on my site, which obviously hurt my business even though that was not my location.”

Mary believed, “According to my research and interviews other owners, normal gross revenue for a successful escape room is \$600K annually.” Epic Escape Room had about \$48K monthly gross revenue and about \$14K operating expenses. During 2018, the business had about 8,000 players. The Smiths reinvested most of the money (about \$18K per month) and were happy with turning a profit of about \$16,000 per month.

In a typical month, Epic Escape Room ran at about 70% capacity utilization. It was usually closed on Mondays and Tuesdays because those were slow days but would open for corporate events, which had seen increased bookings. Summers tended to be very slow.

Mary also had investigated working with the community. It was important to her to give back. “I even have my team volunteer at one community event per month, things like Ronald McDonald House, because I believe in the importance of the community coming together.” To do her part, Mary tried to partner with businesses in the area, “Our neighborhood is an eccentric, unique place and the small businesses can help one another.” She planned to link prizes for those getting out of rooms with different restaurants close to her location. She was often asked where to go to eat after groups finished the escape rooms, and she often sent them to small restaurants in the area.

A wizard at creating puzzles, Mary also was adept at designing escape rooms for others. She found that she could sell her designs for at least \$1,400 per room. Mary realized that she was good at the designs, and it kept her rooms fresh and clients coming back to solve the puzzles in her new rooms.

Besides Mary and Edward, Epic Escape Room employed four part-time college students and paid them \$10.50 an hour. The employees were more like family than employees, and Mary often cooked meals for them. When she hired people, Mary looked for emotionally intelligent students and people who could multitask and handle stress. Customers came to escape rooms for fun and recreation, but many of them were very competitive and took their hobby seriously. They could be very demanding customers. Also, some customers could become extremely frustrated when they were unable to solve puzzles or make progress finding clues. In those circumstances, employees needed to have a calming and reassuring approach for interacting with customers. Mary did not have to worry about hiring very often, however, as most of her employees had been with her since the business opened. Mary believed that the front desk person was the most important because “they welcome the guests and keep it all together with the clients.”

THE FUTURE DIRECTION OF EPIC ESCAPE ROOM

Mary was proud that the company was increasing its profits almost on a monthly basis, but she was unsure of how to focus her time strategically. Mary asked, “95% of this business is marketing, but in which direction? I have over 700 followers on Facebook, but how can I best leverage them?” She was torn between increasing the utilization rate and then opening a second location, focusing on creating a more professional franchising system, or selling room designs to companies on a national scale.

Mary was the face of Epic Escape Room, while her husband Edward did more of the back-office day-to-day work. She was responsible for room design, pricing, set up, and franchising. She felt pressure to expand, but in what direction?

She wanted to ensure the business was a viable one for her family of seven children. She had sold seven franchises to other Epic Escape Rooms around the area (not in direct competition), some of whom were successful, some not. Her skills included designing the rooms, and she had had several escape room owners come to her for help in inventing new themes which she then sold to them. Although Mary loved every aspect of the business, she was worried about what direction she should focus on in the future. “I’m not sure

which way I can increase the business to make the biggest impact,” she said. The escape room experiences were becoming more prolific, and she wanted to make sure Epic Escape Room stayed viable. Her lease for Epic Escape Room space was coming up in November, and the escape room annual conference was coming up at the beginning of next year. By the end of this year, she needed to have a clear strategic direction of what to focus on to successfully grow the business. She gave herself six months to decide what business ideas she could pitch to others at the annual conference. At the moment, she was pursuing all three options (running her escape room, selling franchises, and selling designs), but she knew the lack of focus was reducing her dedication to each option. She could not keep spreading her time and energy across all three options. Mary was struggling with which option, or combination of options, would be best for her. She needed to come up with a viable solution soon since her daughter was eager to begin dance lessons and her son had just started taking karate and would need a uniform and lessons and cash flow was tight at the moment. She knew she had to focus on her family, but her business also needed her immediate attention.

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EPIC ESCAPE ROOM: CHOOSING THE BEST OPTION FOR GROWTH INSTRUCTOR'S MANUAL

OVERVIEW OF THE CASE

Escape rooms are an attractive set of team-based games in which players utilize surrounding clues and results from puzzles to perform functions. Each themed room has the main objective of achieving the specific goal of escaping from the room in a designated amount of time (Nicholson, 2015). The introduction of escape rooms within the United States launched in San Francisco in 2012 and increased to 367 over three years (*History of Breakout Rooms: How a Point-and-Click Video Game Started a Revolution*, n.d.).

Epic Escape Room, an escape room located in Tampa, FL was launched in January 2017 by owners Mary Smith and her husband, Edward Smith. Although Mary and Edward were satisfied with the financial outcomes, the two had the desire for potential growth. Mary is the decision maker for the couple since she knows the brand day-to-day. Mary concluded there were ways of improvement; however, the fundamental challenge was which option, or combination of options, were the ideal strategy. Should she expand the capacity utilization in the current location, shift gears and concentrate on designing her own escape rooms for owners, or focus on modifying her business into a franchise for other possible owners? The option that the couple selects is critical in expanding the business while also maintaining the company's overall financial results.

SUGGESTIONS FOR USING THIS CASE

Epic Escape Room is a strategy case which can be used for both undergraduate and graduate students. It is suitable for many business disciplines including management, entrepreneurship, finance, and introduction to business classes. It could also be used for higher level business strategy and strategic management classes with appropriate discussion. Upon completion of the case, students will gain expertise in both strategy and critical thinking. Students will immerse themselves in strategic planning as they rethink both utilization of time and direction of a business attempting to make money and have a meaningful impact.

LINKAGES TO THEORY

A strengths, weaknesses, opportunities, and threats (SWOT) analysis is a way to help organizations create awareness of the factors involved in making a business decision (Schooley, 2019). After doing a SWOT analysis, students can have a better picture of the company strategy, where it is, and what it should do when deciding to explore new initiatives.

The second theoretical concept that is essential for this case is Porter's 5 Forces. This powerful tool looks into the competitive rivalry, supplier power, buyer power, threat of substitution, and threat of new entry in the competitive environment (Chappelow, 2020). Students will be able to understand the competitiveness of a business environment

while identifying a strategy's potential profitability.

Third, students in management can look into the industry foresight for Epic Escape Room. Many leaders aim to use industry foresight "to gain an understanding deeper than the competitors, of the trends and discontinuities—technological, demographic, regulatory, or lifestyle—that could be used to transform industry boundaries" (Pralhad & Hamel, 1994, p. 80). Organizations that have industry foresight are better positioned to form a strategy that influences future trends, which can establish a leadership spot in the marketplace. Students will also be able to examine what will happen to escape rooms in the future, along with what the economic trends will say about it.

Finally, a key to this case is for students to recognize that all escape rooms pursue an unusual business model for at least three reasons. The unique nature of the industry is the first discussion question.

PEDAGOGICAL IMPACT

Players must work together in escape rooms, and thus win or lose as a team. In such an environment, the learning outcomes necessitate active learning, and players engage each other by using prompts and artifacts to solve the puzzles and bring the escape room to life. According to Nicholson (2018), "Escape games are based on solving puzzles and accomplishing tasks. Unlike many screen-based games that are based around hand-eye coordination or board games that are based on strategy and luck, escape games are built around using the mind to solve challenges. They are a natural match to the learning environment of the classroom and the types of activities that students already do, and can result in more engaging educational games" (p. 1).

According to Duggins (2019), true learning happens when participants immerse themselves in what they learn—this is especially evident in gaming and experiential education. Students become more engaged by active learning compared to passive reading. Gamification, game-based learning (GBL), and experiential learning are necessary to appeal to today's younger learners. Active learning is also appearing in many corporate environments, business schools, and nursing programs (Adams et al., 2018; Eukel et al., 2017). In universities, instructors must present information in meaningful and engaging ways with students that have grown up with technology, video games, and in network structures (Duggins, 2019).

A high percentage of participants report they are more engaged and motivated when gamification and active learning are incorporated into teaching methods (Çeker & Özdaml, 2017; Chapman & Rich, 2018; Faiella & Ricciardi, 2015; Patrício et al., 2018; Wise et al., 2018). The escape room has aspects of both gamification and game-based learning (GBL). While game-based learning can be seen as learning during the process of playing or gaming, gamification utilizes game features and thinking for increasing motivation and enhancing problem solving (Bellow, 2019; Çeker & Özdaml, 2017; Chapman & Rich, 2018). More than just providing a fun activity to occupy a few hours, escape rooms are being used for team-building exercises as well as to actively teach creative and group problem solving (Alderton, 2018).

RESEARCH METHODOLOGY

The material presented in this case is real; none of the information has been modified, but the names have been changed to make the case anonymous. The primary research method for gathering information about Epic Escape Room began with a face-to-face meeting with the owner, Mary, after two of the authors had been customers of the business. The meeting was at the original Epic Escape Room location. There were a total of five different meetings with Mary, her husband, and her employees. One of the authors was also able to work at Epic Escape Room and run the game for a four-hour day, in the back with the cameras. All together, the time spent at Epic Escape Room doing the interviewing and spending time at the job site was 22 hours.

LEARNING OBJECTIVES

After studying this case, students will be able to:

1. **Develop** a Strengths, Weaknesses, Opportunities, and Threats (SWOT) analysis to solve the expansion problem and identify the pros and cons of each alternative.
2. **Evaluate** the internal and external environment of Epic Escape Room (what are the opportunities and drawbacks? How are they interconnected, and how do they affect one another?)
3. **Develop** a recommendation for Mary as to how she should proceed with Epic Escape Room and develop these recommendations in a way that invites conversation and problem solving.

SUGGESTED ASSIGNMENT QUESTIONS

1. What are the unusual features of this industry? What are the implications for creating strategy in this environment? (LO2, LO3)
2. Create a SWOT analysis for Epic Escape Room (LO1)
3. Determine and evaluate Epic Escape Room's internal and external environmental factors (LO2)
4. Which opportunity is the most feasible for Mary in order to make the most profit? (LO3)

ANSWER TO QUESTION 1: WHAT ARE THE UNUSUAL FEATURES OF THIS INDUSTRY? WHAT ARE THE IMPLICATIONS OF CREATING STRATEGY IN THIS ENVIRONMENT?

Almost every industry has features or characteristics that distinguish it, and students should practice identifying how any particular industry differs from others. Industry characteristics are important because they often constrain or influence decision-making norms by the managers in the industry.

First, while most businesses cherish repeat customers and hope to create brand loyalty, customers almost never return to solve the same escape room a second time. An avid bowler might return to his favorite bowling alley a few times per month. However, once a person "solves" an escape room, there is almost no reason to return. So, a successful escape room must always pursue new customers in-

stead of retaining existing customers. Of course, an escape room can be renovated and redesigned to offer a new experience. For the owner, however, it is difficult to know when to close a room and replace it with a new challenge. Second, escape rooms appeal to a narrow niche of customers. People who like solving puzzles, are not fearful of feeling "trapped," and are self-reliant enough to believe they can succeed in a challenging intellectual environment. Third, escape rooms are a craze or fad hobby that is clearly in the growth phase of the industry life cycle. How long will it remain popular? Laser tag, indoor trampoline arenas, indoor skydiving, and indoor axe throwing are examples of entertainment fads that might have similar revenue trajectories as escape rooms. Industry revenue is growing, and many new entrants are joining the industry. Existing companies are trying to erect entry barriers to lower the threat of new entrants. There is also a "churn" whereby weak businesses fail. Weak businesses are attracted to the industry because it has low entry barriers, it is trendy, and there are stories of successful entrepreneurs who have become very profitable. The first trade association (<https://escapegame-samerica.org>) for the industry was started in January 2017, indicating that there is starting to be some governance and design convergence for the industry.

The second part of the question is more difficult: "What are the implications for creating strategy in this environment?" There are probably many good answers to this question. One way to approach the question is how industries differ at different stages of the industry life cycle. For example, in the growth stage, there is no obvious dominant design for products and services, inconsistent expectations from customers (because they are unfamiliar with the industry), little regulation, and a vast variety of product and service offerings. An uncomfortable example comes from indoor trampoline parks. The first one opened in the U.S. in 2004, and by 2014, there were estimated to be over 300. There was little standardization and lots of innovation. There were also many injuries to customers because there was no regulation and inconsistent safety standards. CBS News (2019) reported there were about 18,000 ER visits in 2017 due to injuries in trampoline parks. In response, some state governments are now regulating the parks, and the International Association of Trampoline Parks requires better safety equipment and more expensive insurance coverage. Escape rooms are not dangerous, but the point is that in new industries, there are no real experts, so there are often huge variations in how companies compete with each other. This characteristic can make competitors very unpredictable.

"As industries move through the life cycle, variety decreases" (Miles et al., 1993). During the growth stage, entrepreneurs should seek to be standard setters instead of followers. This is not the time to use extensive benchmarking and imitating, but to create an engaging and unique experience for customers of the escape room.

ANSWER TO QUESTION 2: CREATE A SWOT ANALYSIS FOR EPIC ESCAPE ROOM (LO1)

A strengths, weaknesses, opportunities, and threats (SWOT) analysis composes a list of the internal strengths

Table 1. SWOT Analysis for Epic Escape Room

<p style="text-align: center;">Strength</p> <ul style="list-style-type: none"> • Mary has unique puzzle-creating skills that she can leverage • Mary has thought of diverse ways of expanding her business • Ybor is an eccentric, unique location • Mary has good connections with Ybor's business community • Escape Rooms are a growing industry • Highly profitable due to American's interests in entertainment • Mary has good connections with Ybor's business community 	<p style="text-align: center;">Weakness</p> <ul style="list-style-type: none"> • Selling escape room designs may give her competition more of an advantage over her business • The location already has 70% utilization, which only leaves 30% room for growth • Franchising to other owners that do not do well reflect badly on her business
<p style="text-align: center;">Opportunity</p> <ul style="list-style-type: none"> • Mary's connections with the Ybor's business community which she can use to help promote Epic Escape Room • Use new age/digital marketing strategies to reach new customers • Have her employees (college students) advertise Epic Escape Room on campus • Work with college organizations to host escape room events • Being bought out by a Franchise • Unlimited number of new themes, games, and clues 	<p style="text-align: center;">Threat</p> <ul style="list-style-type: none"> • Market saturation of escape rooms • Selling her designs will give competitors an advantage • Franchisees will not take care of her business which would threaten the image of her business • High cost to establish new locations • New entrants could hurt market share

and weaknesses within a company, along with opportunities and threats that exist outside the company. The purpose of a SWOT analysis is to have managers think about anything that could have an impact on the success of a decision or project. In the end, these points can help managers refrain from making costly errors and determine the best possible route for accomplishment (Laidre, 2011). [Table 1](#) shows an outline for a SWOT analysis for Epic Escape Room.

ANSWER TO QUESTION 3: DETERMINE AND EVALUATE EPIC ESCAPE ROOM'S INTERNAL AND EXTERNAL ENVIRONMENTAL FACTORS (LO2).

There are a variety of events or situations that arise that alter the way a business performs. These situations can have a negative or a positive effect on a business and are referred to as environmental factors. The two main types of environmental factors include internal environmental factors and external environmental factors. Internal environmental factors take place within an organization and tend to be easier to control than external environmental factors. External environmental factors exist outside of the organization and are more difficult to foresee and control. They also tend to be more dangerous for an organization because they are uncertain, and preparing for them is complicated (*Internal and External Environments of Business*, n.d.). Below is a summary of Epic Escape Room's internal and external environmental factors.

INTERNAL ENVIRONMENT

Internal environmental factors are events that occur within an organization. Epic Escape Room's internal environment has opportunities that include creating a new business concept that leverages Mary's puzzle-creating skills. By doing this, Mary can make something that falls into the same NAICS code as an escape room, which is considered NAICS code 71, arts, entertainment, and recreation. This could include alternatives such as scavenger hunts and puzzle races. If Mary pioneers her own ideas, she could focus on being more of an entrepreneur. Another opportunity includes using her employees as a way to bring in new customers. This

can be done by giving them items with a company logo on it so that they become a walking advertisement. Referral programs could also be used to bring in potential clients by creating a word of mouth that tracks customer behavior. One major drawback within the internal environment is the cost. No matter what Mary decides to do, there is still the question of how much it will cost and constructing a cost-benefit analysis to determine if it is worthwhile and/or feasible. Additionally, Mary must guarantee that all employees she hires are equally reliable as her current ones. If they are not, Epic Escape Room could receive negative feedback from customers who were not completely satisfied with their visits.

Within any industry, there are a variety of guidelines that play a critical role in determining whether the organization will be successful. These guidelines, otherwise known as key success factors (KSFs), are characteristics that companies should pursue in order to stay competitive within their industry. While expertise in KSFs will not guarantee success for the firm, the absence of KSFs does demonstrate that the company will not be competitive for a lengthy period. Three main KSFs for companies within the NAICS code 71 include location, quality of creativity, and customer experience. Escape room businesses gain an advantage through being located in a central position that is in close proximity to other local attractions. By doing this, consumers will not have to travel long distances in order to participate, which would benefit and attract more participants. Since Epic Escape Room is located in Ybor, a central location for Tampa locals, they rank well in this category. On the other hand, creativity includes the ability to design a room that would gain repeat customers. Each room must have a "wow factor" to attract many visitors so that players are interactive throughout the process. Successful escape rooms stem from the work of enthusiastic players, and since Mary has passion in every room design, Epic Escape Room also ranks high in this category. Customer experience is described as the impression the business leaves with customers, which results in how they view the brand. Mary believed in the importance of the community coming together. She had investigated working with the Ybor community as it was impor-

tant to her to give back in multiple ways, such as doing one community event per month. Also, after groups finished the escape rooms, groups would ask for her advice on where to eat, and she would send them to small restaurants in Ybor. The combination of these factors allows Mary to score very high in this KSF.

A VRIN (valuable, rare, inimitable, and non-substitutable) analysis is used to determine which capabilities could be core competencies and lead to a competitive advantage. A valuable capability is one that neutralizes threats and exploits opportunities, a rare capability is one that not many firms possess, an inimitable capability is one that is hard for other firms to imitate due to reasons such as complexity, and a non-substitutable capability is one where there is no equivalent resource that could be used in its place (VRIN Barney, 2018). Since Mary creates each escape room design herself, Epic Escape Room is a valuable resource because each room is highly differentiated. This allows the perceived value for the business by customers to be high. This ranking is also similar for rareness. Although the number of escape rooms in the U.S. has grown recently, many consumers remain unfamiliar with them, and the industry is still growing. Also, the employees of Epic Escape Room are considered rare as Mary looked for emotionally intelligent students and people who could multitask and handle stress. All components of escape rooms are costly to imitate because every design is personalized with specific details that would be difficult for one to duplicate. Finally, escape rooms are moderately rated regarding non-substitutability because consumers can conveniently find other art and entertainment activities that fall within the same genre. Examples of these include scavenger hunts and entertainment parks.

EXTERNAL ENVIRONMENT

External factors occur outside of the organization and tend to be more difficult to predict and control. Epic Escape Room's external environmental factors have opportunities that include working with other businesses to come up with creative ways of gaining new customers. This could be done by partnering with complementary businesses. By doing this, Epic Escape Room can team up with companies that have a similar customer base but are not direct competitors. Building beneficial relationships with complementary businesses allows each partner to construct unique customer opportunities, which results in improved customer experiences and better brand awareness. This can lead to rapid growth, market expansion, and higher profits (Grey, 2017). Mary could then strategize on how to target customers, which could drive new business to each other. Epic Escape Room's location can also be considered a positive external factor. Ybor is located in a very busy part of Tampa that invites locals and tourists. Mary can leverage or outsource some sort of digital marketing activities to attract new community members. On the other hand, there are some drawbacks within Epic Escape Room's external environment. To begin, escape rooms have become very common over the past three years. While the demand for new designs from consumers has increased, so has the popularity of escape rooms. This leads to an increase in competition for Mary.

She must be aware of this and continuously have unique designs that outweigh her competitors. Furthermore, if Mary were to decide to franchise her business, she must make sure that each location is excellent. Having one bad location can cause negative views from customers, which would make the company look bad overall.

Another beneficial way to decide opportunities and threats within any industry is through Porter's Five Forces, a tool that examines an industry's competitiveness. The five forces include competitive rivalry, bargaining power of suppliers, bargaining power of customers, threat of substitute products, and threat of new entrants (*Porter's Five Forces: Understanding Competitive Forces to Maximize Profitability*, n.d.). Each force is ranked as low, medium, or high and can be determined by which areas are opportunities and/or potential threats. In order to have good competitive rivalry, Epic Escape Room must use resources to create a unique customer value, which allows them to surpass their competition. Since each escape room is personally designed by Mary, Epic Escape Room's competitive rivalry is considered to be low. Bargaining power of suppliers does not have much to do with Epic Escape Room as Mary supplies all of the products for each room herself and does not rely on products from different buyers. Customers tend to search for products that give them the most value. This can come from factors including price, quality, and service. Epic Escape Room's bargaining power of customers is high because the switching costs for consumers between firms is low. Also, since the popularity of escape rooms is increasing, so are the number of customers. The threat of substitutes for Epic Escape Room is similar to non-substitutability in the VRIN analysis since consumers can conveniently find other art and entertainment activities that fall within the same code. While it may not be an escape room, it can still be a different form of entertainment activity. The threat of new entrants for Epic Escape Room is very high. The trend within the U.S. has been growing steadily. In fact, over three years, the number of escape rooms increased by ten times, and these numbers are predicted to continue growing. These new entrants will most likely correlate with an increase in competition as well.

Changes in the political, economic, sociocultural, technological, legal, and environmental factors present challenges in many industries. While the escape room industry does not currently have any political or environmental factors, there are still multiple factors that do influence success. To begin, the recognition of escape rooms directly correlates with the economic factors. As mentioned before, the popularity of escape rooms has increased drastically over the past few years. This rapid increase allowed for additional revenue for owners. Also, escape rooms give people the chance to enjoy time with family and friends without the use of the internet or phones. This can be considered a sociocultural factor because it forces participants to interact for a set time. Escape rooms also have the choice to use technology. Some companies use videos to introduce players to the theme, whereas others will have a person explain the situation. Furthermore, it is common for locations to watch players through surveillance cameras so that they can act as needed if anything goes wrong. Lastly, before starting in a room, most companies make all players sign some sort

of waiver stating that there is some risk of injury. By signing the waiver, each participant states that they understand and agree to the conditions. Some companies also have some kind of liability insurance that covers players if injured on the premises.

ANSWER TO QUESTION 4: WHICH OPPORTUNITY IS THE MOST FEASIBLE FOR MARY IN ORDER TO MAKE THE MOST PROFIT? (LO3)

FRANCHISING

In order to make the most profit, Mary can focus on modifying her business into a franchise for other possible owners. As of June 2018, Epic Escape Room sold seven franchises for a total of around \$175,000. If Mary sets a standard of creating and selling a certain amount of franchises per year, this amount could easily increase in that she receives 20% of each franchisee's gross yearly earning. She could also utilize her puzzle-creating skills to design different layouts for each location. One major drawback of having a franchise stems from the risk of each franchisee not keeping up to her standards, which could hurt her business in the long run. Mary must assure that the management team at every location is motivated, and she should treat them all as if they were a part of her team. This would lead to a better management environment overall, which will most likely lead to higher sales.

Furthermore, the demand for individuals interested in franchising escape rooms is high. In fact, Mary mentioned that when she attended a conference for individuals who were interested in escape rooms, 80% of the people there were searching to purchase a franchise. Mary could capitalize on this high demand to her advantage. As of now, her profit is \$16,000 per month, but this number could increase significantly if she decides to franchise. She could also have these franchises located in various parts of Tampa or Florida. Ultimately, Mary has the opportunity to use the power of franchising as a way to build strong customer loyalty. This will attract more customers and keep her current clients committed.

INCREASING UTILIZATION

Another option for Mary includes expanding capacity utilization in the Ybor location. A capacity utilization rate cannot be higher than 100%; however, the ideal rate is said to be 90%. Currently, Epic Escape Room has a 70% capacity utilization. This is because Epic Escape Room was usually closed on Mondays and Tuesdays because those were slow days, but they would open up for corporate events, which had seen increased bookings. Summers tended to be very slow.

Mary could capitalize on increasing utilization by offering some sort of discount or promotion during slow peri-

ods to escape room player groups with the highest percentage of interest. Currently, groups of young adults that are under 21 are tied at second for the highest classification of groups that use escape rooms. This group primarily represents a majority of college students. Mary could provide a discount for students that are interested in signing up for an escape room if they show a valid school ID or come during the slow days when they are out of school for summer and winter breaks. By lowering prices or offering some sort of discount, the popularity and demand will increase. Generally speaking, capacity utilization tends to go hand in hand with product demand. By engaging in promotional activities, the production rate will see an increase, which leads to maximum capacity utilization. This can also have a positive effect on the yearly profit for Epic Escape Room by a significant amount.

PERSONAL DESIGNS

The last opportunity for Mary stems from her concentrating on designing her own escape rooms. The case mentions that Mary states she loves everything about escape rooms, from solving them to designing the puzzles. At Epic Escape Room, Mary is responsible for room design, pricing, set up, and franchising. One of her skills includes designing the rooms, and she has had several escape room owners come to her for help in inventing new themes, which she then sold to them. She found that she could sell these at \$1,400 per room. Mary realizes that she is good at the designs, and it keeps her rooms fresh and clients coming back to experience her new rooms. Also, Mary's personal designs could include advanced games that have electronics built in with LED lights and laser mazes.

Financially speaking, Epic Escape Room has about \$48K monthly gross and about \$14K operating expenses, and they had about 8,000 players last year. Mary reinvested most of the money and was happy with turning a profit of \$16,000 a month. In order to break even with her current profit, Mary would have to design around 11 escape rooms per month since each room design is sold for \$1,400. This will be something that Mary needs to keep in mind if she does decide to take that route because if she designs anything less than that number, she would be losing profit by making this decision.

EPILOGUE

In the end, Mary received an offer from someone to buy Epic Escape Room that she could not refuse. She has decided to go back into the corporate world until she figures out her next entrepreneurial venture!

Submitted: March 01, 2020 MST, Accepted: September 11, 2021 MST



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