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The Education of Papa John

How America's most famous pizza guy got schooled on the hazards of politics and media.

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AS THE WROUGHT-IRON GATE swings shut behind us, John Schnatter, founder and CEO of his namesake Papa John's International, eases his Cadillac Escalade up the cobblestone driveway to his estate just outside Louisville.

"Whoa!" I exclaim. "You have a moat!"

"It's no moat," Schnatter says gloomily. "It's just a pond." The pond in question flanks one side of his 22,000-square-foot McCastle. There's no drawbridge, but a small viaduct rises over the water.

We climb out of the SUV and approach the front door. "We'll do a quick tour," Schnatter says briskly. "And I'll show you the garage."

Is that why he has invited me to the house? To showcase his garage? I'd had visions of a much grander, more extensive visit.

But Schnatter, 51, is a man of singular focus. He is taking no chances today, and he is determined to get me in and out of the house in less time than it takes to deliver a pizza. He leaves the car engine running.

These are strange times for America's most famous pizza guy. Pies are flying out of his ovens. His 4,000th store opened last year. Papa John's stock has been trading at all-time highs. Yet John Schnatter feels afflicted, hunted.

He arrived at the office one morning in December and found the words WELCOME TO LOSERVILLE below his likeness on the cover of Louisville's alternative weekly. The accompanying article derided him as one of a number of "miserly CEOs with a taste for car elevators on their mansion estates, and screwing over their own employees." That was gentle compared to what comedians were saying about him and his pizza.

The trouble erupted in November after Schnatter was quoted as saying he was going to cut employees' hours to avoid having to pay for their insurance under Obamacare. Never mind that he never said any

Schnatter's mansion, just outside Louisville, features an underground movie theater and garage.



John Schnatter tosses dough
in Papa John's test kitchen.

such thing; a passing, misconstrued comment almost instantly metasized via the media and online chatter into accepted “truth.” Suddenly Schnatter found himself the poster plutocrat for corporate selfishness and greed. Papa John’s stock briefly plunged 9%, and the company faced its worst public-relations crisis.

Just when the controversy was subsiding, in January, Bill Maher weighed in with a double-barreled opinion article in the *New York Times*: “The filthy-rich founder of Papa John’s, John Schnatter, said he’d cut his employees’ hours to avoid the costs of Obamacare. This is where I’d normally suggest boycotting Papa John’s, but that’s like telling people to boycott sadness. Nobody eats Papa John’s because they like it. They eat it because Domino’s won’t deliver to crack houses.”

This is the story of the schooling of Papa John Schnatter. It’s the tale of an immensely wealthy man who has led a charmed career and thought he could dip his fingers into politics without getting singed and instead got torched. Suddenly, after a lifetime in charge, this perfectionist found himself in the terrifying position of losing control of something he not only cherishes but depends on: his reputation and image.

Like more than one figure caught in a media cyclone, Schnatter turned to one of the most accomplished practitioners of the dark arts of public relations. He and the Svengali began plotting a counterattack, engaging lawyers to pursue Papa John’s tormenters. Will their counteroffensive work?

PAPA JOHN may not be as iconic as Colonel Sanders of KFC or even Dave Thomas of Wendy’s, but he fits squarely in the tradition of fast-food founders who became the symbol of the company. After nearly three decades at the helm, John Schnatter (it’s pronounced “shnotter”) remains the driving force at the world’s third-largest pizza chain, behind Pizza Hut and Domino’s. In addition to being CEO and chairman, he is quality-control czar, protector of corporate culture, and chief spokesman.

Schnatter built his operation from scratch in 1984 with his own unique brand of relentlessness. He would fish sodden copies of customer lists from dumpsters behind Domino’s outlets, copy the patrons’ addresses, and then persuade them to try his pizza. Schnatter quickly realized that his passion gave him an advantage, helping the upstart take market share from the giants. Today Papa John’s is anything but an upstart; its empire stretches from Chile to China. Systemwide, Papa John’s company-owned stores and independent franchises employ some 80,000 people, generating more than \$3 billion a year in revenue.

Shy and prone to malapropisms—he claims he scored 200 out of 800 on his SAT verbal test—Schnatter is a surprisingly good pitchman. The best Papa John’s commercials feature Schnatter, often in a supporting role to a famous athlete or star. In one, Denver Broncos quarterback Peyton Manning “spontaneously” persuades Schnatter to give away an extra million free pizzas. Another long-running campaign spotlighted Schnatter delivering pies to regular folks with the tag line “Papa’s in the house.”

The commercials work because Schnatter comes across as likable, but more important, as an ultra-ordinary guy. This is a man, after all, whose

original goal was to make \$50,000 a year from his pizzeria. Today Schnatter’s company stock is worth \$310 million.

Like a lot of company founders, he wants to leave a legacy, to be a person whose contribution is greater than the heartburn and love handles caused by his pizza. Papa John’s has installed three gyms at its headquarters, along with walking trails and a subsidized salad bar. Around Louisville, signs of Schnatter’s largesse abound. There’s the \$1.5 million he and his wife gave to the zoo and the 55,000-seat Papa John’s Cardinal Stadium at the University of Louisville.

The construction of Schnatter’s home was perhaps his greatest act of love and obsession. The planning stretched over years, and he paid for engineering intended to ensure that the house lasts for centuries. He gave the roof a sloping style that in his mind had the flair of the French. And so it wouldn’t rile the neighbors, he made the house relatively low slung and tunneled down at great expense, putting his movie theater and garage underground.

Schnatter’s critics have tried to turn this symbol of his success into a mark of shame. And though he would never admit this, it seems to be working.

“GO LEFT.” On my first visit to Papa John’s headquarters I was confused to see the phrase printed on a senior HR executive’s walls. Had Schnatter’s recent experiences caused a political shift?

I was quickly set straight. “Go left” isn’t political—it’s intended as an inspirational motto. It was 1985, Schnatter explains, and his father had died, leaving him in charge of Mick’s Lounge, their badly indebted bar in Jeffersonville, Ind. Grieving and scared after burying his dad, Schnatter walked into Mick’s. He could’ve turned right, sat at the bar, and nursed his sorrows. Instead he veered left and took on a harder task, constructing what became the first Papa John’s pizzeria. The lesson: When in doubt, take the difficult route. *Go left.*

Nearly all the corporate maxims at Papa John’s are rooted in the founder’s life stories. So every Papa John’s executive hears the story of Papaw, Schnatter’s maternal grandfather, who built three successful businesses by sticking to the fundamentals and avoiding shortcuts and debt. And they hear the cautionary tale of Schnatter’s father, Robert, who took the opposite path and landed in bankruptcy. There are even lessons to be learned from Schnatter’s high school baseball coach, who appears at



Michael Sitrick, pictured in Schnatter's home office, is typically hired to take on PR disasters.

team-building meetings to regale employees with tales of Schnatter's tenacity as an undersized teenage shortstop.

As much as he loves being indispensable—Papa John's struggled the two times he stepped back from day-to-day management—Schnatter knows that's a weakness, not a strength. He has read the criticisms that he cultivated a coterie of sycophants and has vowed to change. He's trying to be less like a king and more like a benevolent coach. "I realized the world spins," he says, "without me having to spin it."

Out of nowhere, he rattles off statistics about his high school baseball team's winning ways. "I still have the record of the most balls caught and the least amount of errors: 105 catches and six errors. I just don't like making mistakes," he says. "That's why I find this so irritating."

I realize he's talking about his current predicament. When he screws up, he tells me, he owns his errors. What vexes him about this situation is that he still can't figure out his mistake.

T

HE SEEDS of John Schnatter's problems were planted last spring when he threw a fundraiser for Mitt Romney. Schnatter says he was roped into it as a favor for a friend, John Calipari, the coach of the University of Kentucky's basketball team.

Schnatter, a registered Republican, didn't know Romney but was impressed by his experience. The two men have pizza in common. During Romney's time at Bain Capital, the private equity firm bought a slice of Domino's. Besides, Schnatter, who donated to George W. Bush,

had grown concerned about the direction of the country under President Obama. He told employees in 2012, "The last several years have been tough on America's founding principles."

On April 19, some 300 Romney donors gathered on the back patio of Schnatter's mansion. In a 10-minute disquisition on the cultural differences of nations—secretly recorded with a camera phone—Romney managed to insult Mexico, Britain, and much of Europe. But the part of the speech that would garner the most notoriety for Schnatter was Romney's introduction.

"Who would have imagined pizza could build this!" exclaimed Romney, who, in ivory yachting pants and saddle shoes, seemed determined to cement his image as the embodiment of the ruling class. "What a home this is! What grounds these are! The pool! The golf course! You know, if a Democrat were here, he'd look around and say no one should live like this," Romney said to appreciative chuckles. "But Republicans come here and say everyone should live like this!"

The video made its way to YouTube and went viral. But with Romney serving up multiple gaffes, the Kentucky stumble was quickly eclipsed by new faux pas. Not so for Schnatter. In calling attention to his wealth, Romney had unintentionally drawn a bull's-eye on his host, putting him squarely in the middle of a national campaign.

Schnatter—the man who built a multibillion-dollar company on the image of being a regular Joe—was about to see himself recast as the Snidely Whiplash of the 1%.

I

IT STARTED WITH a benign question. During an earnings call in August, an analyst asked what impact the Affordable Care Act would have on Papa John's bottom line. Schnatter down-

played the effect, predicting it would cost the corporation about one-tenth of the average delivery charge, or 11¢ to 14¢ a pizza. He said Papa John's didn't support the new law, but its business was "about as ideal as you can get" to absorb the costs of Obamacare. It was a sober answer to a business question.

Both right-wing and left-wing media outlets latched on to the comments and began making political hay. "You will soon have to pay more for

The web exploded with articles saying Papa John's would *cut workers' hours* because of Obamacare. But Schnatter hadn't said that.

your pizza, and you have President Obama to thank for that!" declared one Fox Business News anchor. The left labeled Schnatter a hypocrite for giving away 2 million pizzas while whining about the pennies it cost to buy health care for his employees. Never mind that Schnatter hadn't actually complained. Comedian Stephen Colbert, in character as an arch-conservative, savaged the company and its product. "When you order a Papa John's pizza, it's only after you've reached a state of such desperate gnawing hunger that you would eat the ass off a raccoon that drowned in your birdbath... And now Obama expects you to shell out three extra nickels for this hot turd pie. Eat the nickels. You have your dignity."

Schnatter and his team debated the wisdom of responding. They toyed with having him appear on the *Colbert Report* in a raccoon cap but decided it was better to lie low and let the news cycle pass.

On Nov. 7, the day after the presidential election, Schnatter was in Naples, Fla., where he and his wife have a vacation home. A friend asked him to speak to students at a local college. Schnatter agreed. After a bunch of questions about his career, a student asked about Obamacare. Schnatter knew it was a sensitive topic. He proceeded gingerly.

"The good news," he said, "is 100% of the population is going to get health insurance. I'm cool with that. We're all going to pay for it. There's nothing for free. And this way I get to provide health insurance, [and] I'm not at a competitive disadvantage because I offered [it] to our employees and the other guy didn't."

Schnatter thought he was done when a *Naples Daily News* reporter asked if his business would cut employee hours to keep workers part-time to avoid having to spend money on their insurance. Schnatter deflected the question. But the reporter persisted, asking if franchise owners would reduce workers' hours below full-time. "It's common sense," Schnatter responded. "It's what I call lose-lose."

That was it. The words were hardly revelatory, and the article that revealed the statement was accurate. But the headline left the misimpression that Papa John's planned to cut employees' hours, not that franchises—which Schnatter does not control—*might* do so.

That misimpression quickly hardened into a mistake in cyberspace. Two days later the Huffington Post published an article with this headline: PAPA JOHN'S CEO JOHN SCHNATTER SAYS COMPANY WILL REDUCE WORKERS' HOURS IN RESPONSE TO OBAMACARE.

The liberal blogosphere went wild. The vengeful Republican CEO, the meme went, was punishing his employees to fulfill his own prophecy that an Obama victory would hurt workers. Schnatter's comments about Obamacare costing 11¢ to 14¢ a pizza were spun back in an endless loop, along with clips from the fundraiser. Back home with his wife,

Schnatter strained to recall saying he planned to cut worker hours. "I didn't say that," he said. As the story snowballed over the next days, he became increasingly agitated and angry. He wanted to respond aggressively and issue a press release correcting the misinformation. But his senior executives advised caution. For days the company remained silent.

By Tuesday the story had completely exploded. Everyone, it seemed, was reporting on Schnatter's campaign against Obamacare. What upset him most were the claims that he was ripping off his workers so that he could live large in his mansion, a virtual castle, which MSNBC's Ed Schultz reported had a 22-car garage. (Schultz did not return calls seeking comment.)

Papa John's phone lines were deluged with angry calls, while the company's Facebook page was filled with bilious comments. Some 20,000 tweets, mostly nasty, were posted within days.

Schnatter called his adman in Florida, Jordan Zimmerman, and told him the company's PR team was taking the wrong approach. Could Zimmerman recommend someone "with a little more teeth"? He knew just the man.

MICHAEL SITRICK'S Gulfstream-200 taxied down the runway at Clark Regional airport, across the river from Louisville. A gaunt, lupine man disembarked. The Winston Wolf of public relations had arrived. Wolf, if you recall, was the fixer in *Pulp Fiction*. Played by Harvey Keitel, he washed away assassins' splatter and gore. Sitrick, 65, cleans up the messes of companies, celebrities, and others, and he's a strategist who isn't averse to treating PR as combat. Over the years, clients of Sitrick & Co. have included the late HP chairman Patricia Dunn, Roy Disney, Rush Limbaugh, Michael Vick, Alex Rodriguez, the Archdiocese of Los Angeles, and the Church of Scientology.

To Sitrick, Papa John's troubles seemed relatively straightforward. "You need to correct the record," Sitrick told Schnatter. "Every day that goes by is not good for you."

The good news for Schnatter was that the *Naples Daily News* reporter had taped his comments—and the recording bore out his story. Sitrick and Schnatter crafted a rebuttal that would run under Schnatter's name in the Huffington Post. The piece noted that Papa John's

already offers insurance to all its part-time and full-time workers. (In fact, only 6% of its in-store workers have signed up for the insurance, which *Consumer Reports* has described as a “junk plan.” Papa John’s says that’s a typical percentage in an industry filled with young workers, often covered by their parents’ plans. The company says it is exploring alternatives and intends to change its insurance offerings in 2014.)

Over the next weeks, Sitrick operated in full-on damage-control mode. The biggest threat, oddly enough, came from YouGov, a U.K. market research firm. It released a study suggesting the controversy had badly damaged Papa John’s brand, despite the fact that a broader YouGov study—it was unpublished, but it had been given to clients such as Papa John’s—showed the opposite.

Sitrick repeatedly had to extinguish brushfires, alerting reporters to include not only the damning study but also the positive one. Despite his efforts, bloggers continued to claim that Papa John’s reputation was suffering. It was time to take the gloves off. At Sitrick’s direction, Papa John’s retained London lawyers, who notified YouGov that the company intended to sue unless the article was corrected. It would take weeks of haggling for YouGov to publicly admit that its other study showed “an increase” in the perception of the Papa John’s brand, “although it was not statistically significant.” It was a grudging concession, and it had to be wrested with threats, but for Schnatter it was satisfactory.

Sitrick fired off letter after letter. No blogger was too obscure for the PR commando, who bills his clients \$895 an hour. Nearly every news outlet corrected the record. And when journalists interviewed Schnatter, Sitrick boarded his jet and flew to Louisville to orchestrate the proceedings.

P

APA JOHN IS in the basement of his mansion with Michael Sitrick and me. It’s the climax of the chateau tour, and it has been a very quick visit indeed. Schnatter, wearing jeans and a regulation red Papa John’s shirt, has led us through an interior only slightly less ornate than Versailles. We’ve scooted past the bronze Chester Fields bald eagle, about 16 feet high.

We’ve whipped through the dining room, where Schnatter commissioned a reproduction of Raphael’s “Four Virtues.” (He rattles off his own interpretation: self-restraint, faith, accountability, and hope. I note to myself that he’s shown a lot of the first trait on this visit, though perhaps a bit less in his selection of décor and art.) We’ve zoomed through the kitchen and living room, with its soaring ceiling. We’ve raced through the basement tunnels, which are wide enough to drive a car through and are modeled on the passageways at the Bellagio Hotel in Las Vegas. They are decorated with life-size murals of the streetscape in Bologna.

Now we’re in the garage. Other than his study, it’s the only part of the house he will let *Fortune* film. The reason is clear: You couldn’t get 22 cars in here; you couldn’t fit half a dozen. There’s no car elevator, no limo turntable.

Schnatter has exposed what he sees as the media’s perfidy. He may have a 17-room mansion and four putting greens, but by God, he has only a four-car garage. I turn the videocamera on, but there isn’t much to shoot: some go-carts, bikes, and trikes for whizzing through the tunnels, a couple of cars. I rub my eyes. Is that the Escalade that Schnatter left running in front of the house? Like magic, it’s now sitting down here, waiting to whisk us away.

We drive out of the tunnel, and I’m impressed. Schnatter has learned how to get a journalist in and out of the house without incident—and yes, in less time than it takes to deliver a steaming pizza. ■