Advance Auto Parts, Inc. (AAP) CEO Thomas Greco on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-12-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $2.1 beats by $0.05 | Revenue of $2.31B (1.63% Y/Y) beats by $10.6M

Earning Call Audio

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Advance Auto Parts, Inc. (NYSE:AAP) Q3 2019 Earnings Conference Call November 12, 2019 8:00 AM ET

Company Participants

Elisabeth Eisleben - SVP, Communications & IR

Thomas Greco - President, CEO & Director

Jeffrey Shepherd - EVP & CFO

Conference Call Participants

Michael Lasser - UBS Investment Bank

Simeon Gutman - Morgan Stanley

Seth Basham - Wedbush Securities

Christopher Horvers - JPMorgan Chase & Co.

Matthew McClintock - Raymond James & Associates

Gregory Melich - Evercore ISI

Daniel Imbro - Stephens Inc.

Christopher Bottiglieri - Wolfe Research

Katharine McShane - Goldman Sachs Group

Scot Ciccarelli - RBC Capital Markets

Elizabeth Suzuki - Bank of America Merrill Lynch

Michael Baker - Nomura

Seth Sigman - Crédit Suisse

Operator

Welcome to the Advance Auto Parts Third Quarter 2019 Conference Call. Before we begin, Elisabeth Eisleben, Senior Vice President, Communications and Investor Relations, will make a brief statement concerning forward-looking statements that will be discussed on this call.

Elisabeth Eisleben

Good morning, and thank you for joining us to discuss our third quarter 2019 results. I'm joined by Tom Greco, our President and Chief Executive Officer; and Jeff Shepherd, our Executive Vice President and Chief Financial Officer. Following their prepared remarks, we'll turn our attention to answering your questions.

Before we begin, please be advised that our comments today may include forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. While actual results may differ materially from those projected in such statements due to a number of risks and uncertainties, which are described in the Risk Factors section in the company's filings with the Securities and Exchange Commission, we maintain no duty to update forward-looking statements made.

Additionally, our comments today include certain non-GAAP financial measures. We believe providing these measures helps investors gain a more complete understanding of our results and is consistent with how management views our financial results.

Please refer to our quarterly press release and accompanying financial statements issued today for additional detail regarding the forward-looking statements and reconciliations of these non-GAAP financial measures to the most comparable GAAP measures referenced in today's call. The content of this call will be governed by the information contained in our earnings release and related financial statements.

Now let me turn the call over to Tom Greco.

Thomas Greco

Thanks, Elisabeth. Good morning, and thank you for joining us today to discuss our third quarter 2019 results. I'm proud to report another quarter of good progress towards our long-term strategic objectives. This would not be possible without the relentless dedication of our more than 70,000 team members and network of Carquest Independents. I want to take a moment to thank them for their unwavering commitment and passion for the customer.

In the third quarter, net sales increased 1.6% to $2.3 billion, and comparable store sales increased 1.2%. This is now our sixth consecutive quarter of revenue growth. Our two year stack on third quarter comp sales accelerated to 5.8% and was the strongest we've delivered in 8 years. We also expanded margins as our adjusted operating income margin of 8.9% increased 36 basis points compared to the prior year quarter. Our adjusted diluted earnings per share increased 11.1% to $2.10. Jeff will speak more about our financial results shortly.

First, I'll highlight some details around our third quarter performance. Consistent with recent trends, our Professional business was strong in the quarter. We grew in each of our Professional businesses with Worldpac and our Independent business leading the way. In addition to opening 9 Worldpac branches and adding 29 net new Independents over 2019, our dynamic assortment rollout is enabling top line improvements.

As a reminder, dynamic assortment leverages machine learning to better understand customer demand and improve the quality of our assortment. We marry lookups by location with several other variables, and we expect this will drive increased turns and profitability of our industry-leading assortment of national brands, OE products and own brand private label.

Dynamic assortment, together with Advance Pro and cross-banner visibility, enabled us to improve stock and close rates in the quarter in those categories that have been deployed. We expect to complete the deployment of our top 25 back-room categories by year-end.

Separately, we've implemented multiple enhancements to our online My ADVANCED platform, including integrated promotions and connected customer service. This includes continuing improvements to Advance Pro, our catalog for Pro customers within My ADVANCE, which now has customized versions for strategic accounts. In fact, we saw double-digit increases in My ADVANCE user sessions in the third quarter. While still early in implementation, the initiatives we've launched over the past several quarters are resulting in continued improvement in our ability to say yes to Professional customers.

Moving to DIY omni-channel. We continue to deliver impressive sales growth in e-commerce, with strong double-digit growth once again in Q3. We continue to see substantial increases in website traffic, along with steady progress in conversion rates. We know speed and convenience are critical to the omni-channel customer, and remain committed to delivering a frictionless experience.

In Q3, we improved the customer experience for buy online, pick up in store. This included enhancements in the mobile experience, such as improved order status via text messaging. We also rolled out a standardized area for order pickup in stores, close to the front door for easy access and convenience. As part of our DIY omni-channel strategy, we also made progress with our walmart.com partnership.

In Q3, we continued to build our assortment and are on track to enable additional customer fulfillment options. Since the launch of our Partnership, traffic, units and sales have accelerated each month. Notably, the majority of customers who have ordered through the walmart.com site are new to ADVANCE. Our DIY retail business remains a work in progress. In Q3, we saw pressure in transactions, which were negative in the quarter, although improved versus Q2.

In Q3, we rolled out our new Speed Perks 2.0 loyalty program following successful pilots in 2 lead markets during the first half of 2019. Speed Perks 2.0 is an important platform to help us improve DIY performance, both short and long term. Our goal here is to improve customer loyalty and share of wallet by leveraging first-party data to personalize our offerings.

Prior to launch, Speed Perks transactions were approximately 25% of total DIY transactions. This is low versus loyalty programs across broader retail. In the third quarter, we began to address this by providing new and improved benefits for our DIY customers.

In addition, Speed Perks 2.0 includes technology enhancements for our team members to see Speed Perks member status at the point of sale. Our team did an outstanding job launching the program, delivering an 80% increase in new member sign-ups, 45% growth in the number of Speed Perks transactions and improved UPT performance versus year-to-date trends. These are all important elements to the long-term success of our loyalty program.

In total, our Q3 launch resulted in sequential improvements in DIY transactions and unit sales in Q3. As part of our investment in this new program, we also saw a significant increase in reward redemptions during the quarter. While this was expected given our test market experience, the investment in our new loyalty program resulted in incremental coupon redemptions in Q3 and exceeded the lead markets. The incremental investment year-over-year was approximately $14 million in the quarter, impacting both net sales and gross margin. We expect this to abate over the next few quarters and believe this is a good investment to delight existing customers and attract new customers. I'm confident that as we sign up more Speed Perks members and increase Speed Perks transactions as a percentage of sales, we will leverage this first-party data to drive sales and share of wallet.

While this was expected given our test market experience, the redemptions during our national rollout exceeded those of the lead markets and resulted in a coupon redemption headwind in the quarter, impacting both net sales and gross margin. We expect this to abate over the next few quarters and believe this is a good investment to delight existing customers and attract new customers. I'm confident that as we sign up more Speed Perks members and increase Speed Perks transactions as a percentage of sales, we'll leverage this first-party data to drive sales and share of wallet.

To summarize our top line results by channel, Professional and e-commerce continued to perform well. And while DIY retail improved sequentially, we're not satisfied at all with our results here and remain focused on addressing traffic, loyalty and overall performance as rapidly as possible.

All channels accelerated on a two year stack basis and at a category level, we saw the strongest growth in brakes and batteries with high single-digit growth, while delivering sequential improvement in cooling, optics and engine management. From a geographic perspective, we saw the strongest growth in our Midwest, West Coast and Appalachia regions.

In addition to making important improvements in the customer experience, we continued our footprint optimization efforts in Q3 to drive profitability and cash flow as we closed or consolidated an additional 23 stores, bringing the total number to 82 stores year-to-date. We've made meaningful progress over the past 18 months to fix and/or close underperforming stores and will continue to be very disciplined in optimizing our store footprint in a market-by-market approach. All of our top line initiatives are focused on driving sales and profit per store, which is the first of 4 pillars in our margin expansion plans.

In the quarter, we completed the rollout of MyDay, enabling us to get to a single labor management system. This unified and improved system will help us staff our stores more efficiently to meet customer demand. In Q3, we also made great strides in our second margin expansion territory, supply chain. For the first time in 8 quarters, we leveraged supply chain expenses as a percentage of net sales in Q3. We accomplished this while absorbing incremental costs attributable to the work stoppage in Cookstown. While we clearly did not plan for or want the work stoppage, ensuring our long-term supply chain cost structure is competitive throughout our entire network was a critical objective in our negotiations in Cookstown. We're pleased we came to an amicable resolution, which enables us.

Separately, the consolidation and integration of our multiple supply chains is well underway. In terms of Advance and Carquest, we're now in execution mode of cross-banner replenishment as we transition stores to the most freight logical distribution center in a disciplined market-by-market approach. Substantial savings are expected here as we reduce stem miles and further optimize our Advance and Carquest DC network with a completion date of mid-2021.

In addition, the integration of Worldpac and AutoPart International is also now underway. Here, we expect additional savings and growth-related benefits to be fully captured by the end of 2020.

Finally, Reuben Slone and his team are laser-focused on improving operations across our supply chain. Execution is improving as we standardize processes, reduce turnover and improve fill rates. As we build the performance culture throughout supply chain, we expect efficiency gains to drive cost savings.

Moving on to our third pillar of margin expansion, we remain disciplined in our material cost optimization and category management efforts. Despite material cost headwinds this year from inflationary costs, we continue to work diligently with our supplier partners to mitigate increases and our pricing to cover inflation in a rational environment.

We remain focused on increasing SKU count, including expanding our offerings for late-model vehicle coverage. Additionally, we're making great progress on improving Carquest private label offerings and increasing private label as a share of our mix. I'm confident these efforts will enable top line growth on our well-respected Carquest private label brand as well as meaningful margin improvement over the next several years.

The fourth pillar of our margin expansion strategy includes SG&A productivity. Jeff will expand on other cost savings we saw within SG&A in the quarter shortly. However, I want to highlight our performance on team member safety and the benefit this is delivering across our business. Our team has been incredibly disciplined in creating a safety first culture, including building awareness through education and training programs to ensure our team members are empowered to do their job without incidents and return home safely each and every day. The detailed focus of this team is benefiting all areas of Advance, including significant improvements in our accident and incident rates. Our emphasis on safety has reduced our total year-to-date recordable injury rate by 11% and our lost time rate improved by 14% this quarter.

Importantly, our vehicle collision rate has improved by 19% year-to-date surpassing our target for the year. More broadly, I'm very proud of the progress we've made in building a performance culture at Advance this year and confident we're creating an environment where team members can excel. We're improving our competitiveness every day with a stronger, more experienced leadership team and through innovative offerings such as our Fuel the Frontline program, which rewards top-performing frontline team members with Advance stock. We've also made important wage investments in our supply chain, which has dramatically reduced turnover to ensure we are as effective and efficient as possible within supply chain. The investments we're making in our team members, inclusive of ongoing training and development, is evidenced by the continued improvement in our overall annualized average turnover, which declined by 14% in Q3 compared to year-end 2018.

I'm pleased with the progress we've made to date and look forward to sharing more details about our ESG focus as well as our people-first culture when we publish our second annual corporate sustainability and social report in 2020.

With that, I'll turn it over to Jeff for details on our financial performance.

Jeffrey Shepherd

Thanks, Tom, and good morning, everyone. In the third quarter, our adjusted gross profit was $1 billion, an increase of nearly 1% from the prior year quarter. On a rate basis, our adjusted gross profit margin of 43.9% declined by 39 basis points from the prior year quarter, primarily driven by the increase in the investment in our loyalty program and the incremental costs related to the work stoppage in Cookstown. Despite the work stoppage, we were very pleased with our ability to leverage supply chain in the quarter.

As Tom also mentioned, our investment in Speed Perks 2.0 negatively impacted gross margins in Q3. We remain confident this new program will significantly increase customer loyalty. We expect this investment will normalize over the next few quarters. Our adjusted SG&A performance was very strong at $810 million in the third quarter as compared to $814 million a year ago. On a rate basis, our adjusted SG&A as a percent of net sales was 35%, an improvement of 74 basis points compared to the prior year quarter. This was a direct result of our focus on cost controls and driven by improvements in occupancy, labor-related costs and a reduction in insurance claims from continued progress in team member safety. These excellent results more than offset important long-term investments in information technology. As we consistently communicated, we expect information technology costs will remain elevated through the balance of the year and into 2020, as we work to build new digital capabilities and fully integrate multiple technology platforms across the enterprise.

Adjusted operating income in Q3 was $205.1 million, a 5.9% increase from Q3 2018. Our adjusted OI margin rate increased 36 basis points to 8.9% in the quarter. Adjusted diluted EPS for Q3 was $2.10, an increase of 11.1%. During the third quarter, we continue to be extremely disciplined in managing our cash. This is clearly illustrated as we improved our AP ratio to 77.5%, which is an increase of nearly 530 basis points compared to the prior year quarter.

Our AP ratio has now improved 840 basis points since the first quarter of 2017. We remain laser-focused on working capital management and are confident in our ability to continue generating meaningful cash growth to drive shareholder value. Our free cash flow for the third quarter was $539 million compared to $576 million in the third quarter of 2018. The year-over-year decrease of free cash flow was primarily a result of increased capital investments to drive sustainable sales growth and continued margin expansion going forward.

Year-to-date, we increased our capital spending by 61% to $169 million. We continue to make investments in our stores, warehouse system consolidations and other information technology initiatives, such as our finance ERP system as part of our business transformation. Our leverage ratio was 2.0, which is in line with our capital allocation priorities of maintaining an investment-grade rating, reinvesting in the business and returning excess cash back to shareholders. During the third quarter, we returned nearly $340 million to our shareholders through the repurchase of 2.4 million shares of Advance stock.

In addition, I'm pleased to announce an additional $700 million share repurchase authorization. This new authorization is further evidence of the confidence we have in delivering on our sales and margin objectives as well as our ability to generate significant free cash flow and drive shareholder value. Consistent with our commitment to provide transparency with our transformation plans and expectations for this year, I want to take a moment to provide an update to our outlook for the balance of the year.

We remain confident in our ability to deliver results within the full year guidance we provided earlier this year and updated last quarter. We also recognize that the top end of our comparable store sales may now be challenging to achieve as a result of the continued investment in our loyalty program with higher-than-anticipated coupon redemptions impacting net sales and gross margin in the fourth quarter. Therefore, we believe it's prudent to narrow the top end of our sales guidance, while maintaining the bottom of our current comp sales range. Our updated guidance includes net sales in the range of $9.65 billion to $9.75 billion. Comparable store sales range of 1% to 1.5%. Our adjusted OI margin guidance is unchanged with an adjusted OI margin expansion of 20 to 40 basis points for the year. Similarly, we're confident that with the continued strength of our working capital efforts that we can deliver our free cash flow guidance of a minimum of $700 million, which we increased in the second quarter. I'm proud of what we've accomplished through the first 3 quarters and our entire team is focused on additional progress in the fourth quarter.

With that, let's open it up to addressing your questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question comes from Michael Lasser with UBS.

Michael Lasser

Tom, in your prepared remarks, you referred to some of the pillars of your long-term plan. But how do you respond to those who say, now you've had 2 consecutive quarters of gross margin degradation and you've made a lot of progress over the last few years in harvesting cost savings, so how realistic is it that you will get to a low to mid-teens operating margin over the long run, as you've outlined previously?

Thomas Greco

Well, first of all, I think the gross margin, just to give you some background on that, Michael, it's important to explain this. We had a couple of atypical elements in the gross margin in the quarter. The biggest factor within gross margin was our investments in our loyalty program. The coupon redemptions in the quarter were up $14 million versus a year ago, which is what we outlined in our prepared remarks. We knew this was going to be higher in the quarter as we planned investment behind Speed Perks 2.0, but the sign-ups and the transactions as a percentage of our total transaction significantly exceeded that of our lead market. So the coupon redemptions were more than we expected.

Over the long term, this is a very good thing. We're absolutely committed to winning in DIY omni-channel, and we haven't meaningfully invested in our loyalty program prior to Q3. The customer and team members response to Speed Perks 2.0 has been fantastic, and it positions us well for the long term. We're going to leverage the first-party data we get from Speed Perks to personalize our offerings and we expect the incremental investment on Speed Perks to subside over the next few quarters as the incremental grow. So that was a very big factor in gross margin in the quarter.

And secondly, we incurred onetime incremental costs within supply chain related to the work stoppage in Cookstown. So we don't think this -- what happened in the quarter is something that is going to have any impact on our ability to achieve our long-term margin goals, both within gross margin and in SG&A. We did -- we had a couple of atypical elements in the quarter on gross margin.

Michael Lasser

And did the launch of Speed Perks 2.0 drive incremental sales in the quarter, and this is important because the comp spread versus those others in the industry is back to widening? And shouldn't we take that as a signal that some of your efforts to close the performance gap are now slipping? And would you attribute all of that to Speed Perks 2.0?

Thomas Greco

Well, we certainly benefited from Speed Perks in the quarter, but it's difficult to say how much. With the number of increased sign-ups we had, obviously, the purchase frequency in our category is much lower than typical categories, so we'll see that over time. We also had a higher percentage of our transactions, much higher than we've seen historically and even in the lead markets. So that's going to benefit us over time because we use the data to personalize. The overall $14 million, if you do the math, that's about a 60 basis point headwind off of POS sales, right, from our total number. So that's the value of the coupon, clearly, somewhere between 0 and 60 we benefited from Speed Perks. But in the quarter, the cost of the coupons outweighed the benefit of Speed Perks.

Michael Lasser

Okay. Just to clarify that so can you help us understand how it was a net positive if you're saying $14 million hit to sales, but it drove incremental comp or incremental sales?

Thomas Greco

Yes. It's difficult to quantify the incremental sales at this point. What we've modeled is that over time the incremental revenue associated with Speed Perks is going to be significant. You're essentially increasing your member base. We started at 11 million. We added a significant number of new members in the quarter, and we had a net increase in our membership base in the quarter. We're going to increase the percentage of transactions. So we're talking about a substantial improvement in our DIY sales over time. In the short term, what you can't really measure, Michael, is how many of existing customers that were already coming in the store are now transacting as Speed Perks customers, and it's very difficult for us to break that out. But we know the value of the program in terms of the impact it has on the P&L. And over time, this is a meaningful benefit for us. We're very excited about it.

Operator

Our next question comes from Simeon Gutman with Morgan Stanley.

Simeon Gutman

My first question is for Q4. You provided a fairly wide range of comp, I think, 0 to 1.5 or 1.6, depending on the math. Can you give us a sense, I mean, there's only 6 weeks left, where we're headed so far? And then it looks like if we hold the SG&A rate from the third quarter, which may or may not be the right assumption, that gross margin could be up a decent amount in the fourth quarter, 20, 30 basis points. Can you comment on those 2 points?

Thomas Greco

Sure, Simeon. I'll let Jeff handle the second question. On the sales guide, yes, I mean, we're essentially guiding in line with what we expect. Obviously, the last 6 weeks of the year can be very volatile. But we like what we see so far, and we're well positioned to deliver it within the sales guide. As we said, we will have continued coupon redemptions in the fourth quarter. The reason is we've got a number of coupons from the original program that are still unredeemed. So once the end of the year comes into play, those are no longer available, and we'll only be dealing with the coupons from Speed Perks 2.0, so that's essentially the reason. And I'll let Jeff answer your second question.

Jeffrey Shepherd

Yes. And just to build on the gross margin, we're going to continue to see the coupon headwinds that Tom talked about. The original Speed Perks program, those coupons have a 6-month life. So those are going to roll off basically in the fourth quarter, a little bit of bleed into the first quarter, but not much. But we're still modeling those headwinds as well as the headwinds associated with commodity and tariffs. Right now, we don't see any change in the tariffs into the fourth quarter. So we still think we're going to have those headwinds. Having said that, everything we're seeing right now in SG&A is still positive, we've got excellent control in place to control our costs, consistent with what we did here in the third quarter, and we fully anticipate we'll be able to do that into the fourth quarter.

Simeon Gutman

So just to clarify that point, it sounds like there's still going to be headwinds to gross margin, but it's SG&A that if -- that will provide the leverage to the margin in the fourth quarter?

Thomas Greco

Yes. Yes, that's right, Simeon. And just to make it really clear, I mean, Speed Perks hurt same-store sales because coupons go against net sales, right? And in the quarter -- in the third quarter, that was a 60 basis point impact on same-store sales. So we might have gotten a few more transactions, but it hurts net sales on a net basis in the short term. Over time, when people return more frequently, we benefit from Speed Perks. But in the short term, it's a net sales headwind.

Simeon Gutman

Got it. Okay. And then my follow-up question, the supply chain transformation. You mentioned it briefly in the prepared remarks, Tom, can you talk about where you're in it? What you've accomplished so far? What are the tasks that are going to get done next? And then can you assess any execution risk in some of the next steps, please?

Thomas Greco

Yes. Really exciting progress on supply chain, Simeon. I think Reuben is really getting some momentum there. We've obviously -- it's begun to execute the cross-banner replenishment initiative, which is a significant productivity driver for us. It allows us to reduce stem miles to the stores and to optimize our DC network. So that's well underway. We've had the pilots in the respective red and blue networks, and we're now beginning to move stores to the relevant DC that we've got a number of those planned for the balance of this year. There'll be hundreds of them executed next year and into the front half of 2021, and we'll finish it at that point. Just in terms of raw execution, we are seeing very good progress there across all the key metrics. We are also beginning our work on a standardization of our warehouse management system that Reuben is leading. That will allow us to improve our labor management in the distribution centers.

Finally, we've begun to integrate the Worldpac and AI organizations and supply chains, including the AAI stores. So that will help us over time. So very confident in our ability to deliver the supply chain productivity that we've discussed. And we're beginning to see the benefits of it. As I said in the prepared remarks, we actually leveraged supply chain in the quarter in spite of a pretty significant cost associated with the Cookstown work stoppage.

Simeon Gutman

And just to clarify, one more follow-up on that, Tom, is we keep talking about the benefits of these initiatives won't be done until, I think, the middle of 2021. But does that mean the benefits from some of these initiatives don't show up until 2021? Or they start to show up now and rolling into next year?

Thomas Greco

Yes. We'll start to see some -- on the supply chain, we'll start to see benefits next year as we execute the DC store changes that I mentioned. In terms of the full benefits of the cross banner, the full benefit of the warehouse management system implementation, it starts to come later, but we will see benefit from supply chain next year.

Operator

Our next question comes from Seth Sigman with Crédit Suisse.

Seth Sigman

Just first on the Pro business, I think you categorized it as strong in the quarter. Can you just discuss how it performed relative to the second quarter? Did it actually accelerate? And then, I think you highlighted Worldpac and Independents as the strongest channels within, what's working there and maybe different than what you're seeing at core AAP and Carquest?

Thomas Greco

First of all, Seth, our Pro business did accelerate versus the second quarter. We had a terrific two year stack, the best we've ever seen on our Pro business, by the way, on the AAP business as well, not just the other businesses. I think that what's working well broadly inside of the Pro, is Bob bringing together all of the key elements of our Pro offering everything from the catalog, which we obviously call Advance Pro. We're getting increased usage on the catalog. People are seeing the merits of our assortment. We're executing its dynamic assortment across the enterprise, which is enabling us to improve our stock rate and close rate on key items in the back room. Cross-banner is benefiting us -- continued benefits from cross banner. So we're able to source from the various entities at higher levels than we used to in the past. So we're very happy with where our Pro business is when we look at the reported results to date. We feel good. We feel like we're performing at or above the market. And our Independent business, there, we're able to present some of the things that Bob is pulling together for the broader corporate entity here and present them with potentially new Independents who want to fly the Carquest flag, and the net benefit there we're starting to see as well. So strong conversions in the quarter on the Independent side, but also good comp sales for our Independents -- existing Independents, which is very important.

Worldpac is just a terrific business. They've got a great model. Their online platform is best-in-class. Bob has built that over many years with a terrific team out there at Worldpac. We've opened more branches this year than we've ever opened before. They're driving top line growth. They're expanding margins. They're focused on being very complementary to the broader enterprise. So there's a lot of things that are working well with Worldpac that we're taking and bringing to the broader enterprise. So I'd say, generally speaking, those are the things that are helping us on the Pro side.

Seth Sigman

Okay. That's helpful. So given some of the positive changes happening in the store, presumably that should be helping DIY also. What do you view as the fundamental challenge facing the DIY business? Obviously, online is growing for you. But just, I guess, store-level DIY, some of the challenges that you may be facing there?

Thomas Greco

Yes. I think, first of all, we did improve our transactions and unit performance in the quarter on DIY, the net sales number, as we said. Obviously, the coupons are entirely attributable to the DIY business, way down the net sales number in DIY in the short term, as we said. But I think Jason McDonell is coming in. He's our new CMO. We couldn't be more excited about having Jason here. He is focused on traffic, job one, improving our traffic inside the DIY business. He's done a lot of work in the short time that he's been here. I feel very good about the plans that are coming together for 2020. We've done a lot of work on the customer journey to develop integrated programming. I think that was an opportunity set, to your point, to make sure that the marketing that we're spending is very well integrated with the merchandising plans and the in-store execution. Speed Perks 2.0 will be a driver of top line growth next year. As we start to bring more people into Speed Perks and we start to get a higher share of transactions, we're able to personalize our offering. And we know there's a big share of wallet opportunity there.

Third, the media plans, big opportunity there. Again, Jason is working that very hard right now. We're going to shift nonworking dollars that we were spending in marketing to working, and that will drive awareness, which we made progress on last year, but we kind of stalled that 32%, and now we need to take that up because we're significantly behind the industry leader on that one.

And finally, the partnership that's developing with Walmart will start to be a factor, as we get into 2020. So there's a lot of things that are happening right now in DIY that we feel really good about as we head into next year, and it will give us what we need on the other side of the box, if you will, as Bob continues to drive the Pro business.

Operator

Our next question comes from Christopher Horvers with JPMorgan.

Christopher Horvers

So first, a couple of follow-ups. On the comp guide, what specifically is implied comp guide 4Q because if you held the 2-year stack, it would imply a bigger number than the range that was asked in the prior question? And then could you quantify how much Cookstown actually impacted gross margin?

Thomas Greco

Yes. We're not going to Cookstown, Chris. I'll just say that, obviously, it's important that we have a very, very competitive cost structure in our supply chain. So we had to do what we had to do in Cookstown, and we accomplished it. And we feel really good about where we ended up there, but we're not going to break that out. In terms of...

Christopher Horvers

Is that sustained.

Thomas Greco

No.

Christopher Horvers

Is the Cookstown sustained? No, okay.

Thomas Greco

No, no. It's -- obviously, we've had a several week work stoppage, right? So you've got all the costs associated with that, that are built up in there, and we knew we were going to have those costs in the quarter, and they ended up being where they ended up being. So in terms of the stacks, we're obviously going to continue to drive as high as a 2-year stack as we can. The big factor is the coupons, which we've talked about several times. If you also look at the 3-year stack, you'll see it more in line with the third quarter, so that's essentially where we ended up. But I think the thing to call out is the net sales, the coupon impact on net sales in the fourth quarter. Based on the lower sales number and the redemptions, it's probably going to be kind of a similar number and which is as a percentage higher.

Christopher Horvers

Got it. So just a -- so you're really looking at the 3-year, and that's what was the sort of guiding light for the fourth quarter comp guide?

Thomas Greco

That's right. That's right. I mean, we've seen -- as you know, we've seen continued improvement on that three year stack. So we're kind of focusing on that to factor out the back half of '17, which we all know was a difficult time for us.

Christopher Horvers

Got it. And then another on that -- on the DIY. Did that also accelerate despite the coupon headwind, which is about 120 basis point headwind to the comp in the third quarter on the DIY front?

Thomas Greco

Yes. It absolutely accelerated on POS sales, yes. And that's why the transactions improved, the units improved. In fact, our unit share, Chris, when we look at our relative performance on unit share through syndicated data also improved by about that similar, the relative growth improved by about 150 bps. So on a same-store basis in the most recent period, we actually held share on units, which I feel great about, and we haven't done that in a long time. So selling more units, getting more people signed up to Speed Perks, highest percentage of transactions, over time, this is going to be a good thing.

Christopher Horvers

Got it. Lastly, and then can you talk about -- Jeff, can you talk about how much LIFO was a headwind in the quarter. It was about 70 basis points in the second quarter. Do you -- was that -- where did you end up in Q3? And how are you thinking about LIFO into fourth quarter? And then into next year, really, as -- how does that play out over the year, assuming the price environment stays as it is?

Jeffrey Shepherd

Yes. So for the third quarter, LIFO was an impact of $34 million. You'll see that and we published our 10-Q later on today. Those were 100% offset by, what we call, some of the inventory-related costs, warehouse cost capitalization. We saw improvement there along with store and DC cost changes. So the net impact of that was 0. Obviously, the $34 million was a headwind in the third quarter on a stand-alone basis. The fourth quarter, I would expect to see a similar level, just given the fact that we're still in this higher rising would expect to see a similar level, just given the fact that we're still in this higher rising

cost environment. So I would anticipate that into the fourth quarter. And I do think in the fourth quarter, it's going to be more of a headwind, especially on a year-over-year basis. If you remember last year, we purchased a bunch of inventory as a result of dynamic assortment and some early buying related to the spring selling season that gave us a little bit of a headwind -- or a tailwind, and we're not going to see that again this year or this quarter for sure. So on a year-over-year basis, it's certainly going to be a headwind.

Going into 2020, if we get cost stabilization, I would expect to see a similar level of impact. As long as we continue to stabilize, we can drive down that inventory. Obviously, we'll pick up that headwind, but we're still working through our plan for 2020. We'll have a lot more detail when we talk to you next quarter.

Christopher Horvers

And so when you see similar levels, is that similar dollars so the rate impact moderates? Are you saying the rate impact should be the same over the year?

Jeffrey Shepherd

Similar dollars in terms of what we're seeing in the third and fourth quarter.

Operator

Our next question comes from Matt McClintock with Raymond James.

Matthew McClintock

Tom, you mentioned that you expect Walmart to be -- the Walmart partnership to be material next year or I don't know if you used these words, but I assume that's what you meant. Could you maybe talk a little bit about how you've improved the customer experience now that you've launched there the improvements that you have been trying to make there? And then, how far away are we before buy online, pick up in store options are available through that partnership?

Thomas Greco

Sure. Yes. Just to clarify, I don't think I used the word material. We definitely feel that it can be helpful next year. It's definitely going to be material over time. I think the big things that we've done so far is on the engagement front. We've obviously stood up the website. There's significant branding on the website for us that the Walmart team has been terrific in helping us enable, and we began to work the fitment work with them to make sure that the experience the customer has when they're buying a specific product is world-class. And I know the Walmart team is very committed to that outcome. We don't want to start adding parts and jobs when the experience for the customer isn't world-class. So that's what we're working on with them right now. We've made a lot of progress. We're adding SKUs all the time as they build fitment capability in the various categories. We're very excited about getting in-store pickup, stood up. We haven't got a firm date on that at this point, but we're shooting for the first quarter of 2020. That's the goal.

Matthew McClintock

And then kind of as a follow-up, can you maybe discuss the engagement levels that you've seen with your current improvements on the buy online, pick up in store experience?

Thomas Greco

Yes. Definitely seeing great progress there. I mean, we're getting excellent growth on in-store pickup. We're now paying the customer right away as soon as they send us their order. We're letting them know the order is ready. The team is executing extremely well and making sure that the product is ready for them when they come in the door. So we're beginning to see that. And we've had, obviously, a cold snap here in parts of the country. We can see it. We can see the benefit of the in-store pickup starting to have an impact on our overall sales because of that and increasing as a percentage of our sales. So we're very excited about the opportunity there. I know Jason is also thinking through how to engage consumers and build awareness on that capability because it's -- you can get it very quickly, and we want to make sure people know that not only can you pick them up quickly at Advance, but we'll install your battery for you, we'll install your wiper blades, we can do other things when you're there. So excited about the new capability we're building there.

Operator

Our next question comes from Gregory Melich with Evercore ISI.

Gregory Melich

I had a couple of questions. First, on the top line. Tom, you'd mentioned on the cross-banner initiatives in categories that have been converted to have Advance Pro and the cross-banner items. You've seen a nice improvement. How many of the top 25 categories have been converted already?

Thomas Greco

First of all, what we've done is we've rolled out the top 25 into stores. So it's really a case of how many stores have received it, right? So when we do it, we put all 25 categories, and we do a -- basically do a changeover in the store that we've done the top 25. So we're pretty much through all of the chain. I think we got to all of the so-called red stores by the end of the year. The blue stores come in the first quarter next year. But the top 25 will be rolled out completely by the first quarter. And I think what we said in prepared remarks is that if you take the store and product combinations, it's about 11% of the back-room sales. So that gives you a sense for it. And we're just going to continue to use this. And we're seeing a couple of points, about 2 points of growth associated with it because the items that we're adding, obviously, are contributing a lot more than the items that we're deleting.

Gregory Melich

So is it -- just to be simple on that, does that mean that if it's 11%, you're gaining 2 points of growth, so that means 20% lift in the stores when you do this in that category?

Thomas Greco

We are seeing big lifts in the categories we're doing -- we're using. Yes, that's correct. 2 points, no wait a minute. No, 2 points in the category.

Gregory Melich

Two points in the category. I just want to make sure I didn't get that goofed up. Okay, understand. And then second, inflation, I know a lot of ebbs and flows here. We hear different things from different people, anything from 150 bps to 300 bps. What is your perspective now on the amount of the pass-through of the tariffs and other cost input inflation that you've seen?

Thomas Greco

Yes. We look at cost per unit, Greg, that's the best way to measure it because when you see average ticket price in Pro, there's a whole bunch of other factors that come into play, but it's 2.5% to 3% on a per unit basis is what we're seeing.

Gregory Melich

Got it. And then last -- and Jeff, maybe more on the free cash flow side. When you guys are using the $700 million plus, how much of that is from the working capital improvements? And how much of it would be from everything else? I mean, my rough math gets to sort of $750 million, then take off CapEx of $270 million, and you get around $500 million, $550 million of free cash flow before working capital gains. Is that right?

Jeffrey Shepherd

Yes, that's right. Most of it is going to come from our working capital initiatives. If you look at what we've done, most specifically in the area of payables, we've increased that substantially. Our AP ratio is at an all-time high at 77.5%, and we think that's going to continue to improve. So the working capital, as we increase our inventory turns, that will help us as well, but we really think we're going to get the vast majority of that improvement through the working capital that we're going to -- that we're not only doing, but it's going to continue to manifest itself through the fourth quarter and into 2020. So yes, that's exactly the way to think about it.

Gregory Melich

And then lastly, on that point of the buyback a lot in this quarter, it looks like you're sort of opportunistic. How should we think about that now that you're down the 2x leverage, I guess, if you include leases, maybe 2.5, but how do you think of that going forward? Does guess, if you include leases, maybe 2.5, but how do you think of that going forward? Does this all the free cash flow come back as buyback? Or would you ever take a look at the dividend again?

Jeffrey Shepherd

Yes. I mean, dividend is something that we've talked about quite a bit. We do have the $700 million additional, so that gives us a lot of flexibility. We're still in the transformation. We still have our same investment priorities. We want to continue to invest back in the business. This year was a heavy investment year. Next year is going to continue to be a heavy investment year. Having said that, though, we want to continue to be opportunistic and the $700 million gives us that flexibility to be opportunistic as we were here in the third quarter.

Operator

Our next question comes from Daniel Imbro with Stephens Inc.

Daniel Imbro

I wanted to start on the supply chain. You guys mentioned the work stoppage, that lasted about two weeks. But as you guys progress on your supply chain rationalization from here, Tom, you mentioned those costs shouldn't continue. But in your updated long-term plan, do you think that those kind of negotiations could lead to other higher-wage pressures in your supply chain? Or how are you guys thinking about the impact into your other distribution centers from that work stoppage you had?

Thomas Greco

Yes. Good question, Daniel. I mean, obviously, that's the point. We only have 5 union facilities out of our 50-odd DCs and that's why it was important in this case to make sure that the cost structure there was competitive, so that there's no essentially sphere of influence for our nonunion sites. So we were able to accomplish that, and we feel very confident in our -- first of all, we made an investment this year, as you know, in the DC wages proactively, nothing to do with what happened in Cookstown to make sure that we reduce turn over, and Reuben's done a great job there. We've dropped our turnover basically in half in the DCs, and that's why we're getting much better execution in the DCs basically in half in the DCs, and that's why we're getting much better execution in the DCs.

We're not turning as many people. So for sure, the glide path on supply chain is very clear. The productivity agenda has been laid out, and we're executing against it. And it obviously contemplates the relevant wage increases that we need to do over time in order to be competitive. So no change there really.

Daniel Imbro

Got it. A quick follow-up to that, I guess, you mentioned turnover coming down significantly. Do you think the issue that led to the work stoppage and the eventual kind of negotiations were facility specific? Or are these pushbacks you're getting from employees and other facilities as you push more product and rationalize the supply chain?

Thomas Greco

No, very much facility specific, unfortunately, in that case. And we're committed to rebuilding the team in Cookstown. It's a great group of people. I know our leadership team has spent a lot of time with them. This was a long-standing situation that's been going on literally for years. And we owe it to our people to really do a better job of engaging with them directly, and that's the plan from here, but it's very much facility specific.

Daniel Imbro

Got it. And then last one for me, just on working capital. I think this is the fourth quarter of actual inventory dollar growth on the balance sheet as a result of dynamic assortment. As we lap over that in the fourth quarter from last year, should we begin to see inventory levels resume, they're going to trickle down as you guys work that out? Or should inventory continue to grow as you invest in parts availability?

Jeffrey Shepherd

No, I think we're going to start to see that to stabilize and then work itself down. I think -- in fact, in the fourth quarter, I think we're going to see inventory come down from where they're at today. It'd probably be in line with what we saw at the end of last year. And then as we have the dynamic assortment stabilize, we'll continue to trickle that down going into 2020.

Operator

Our next question comes from Chris Bottiglieri with Wolfe Research.

Christopher Bottiglieri

So I wanted to dig in like -- congrats on improving market share data on the DIY side. I was wondering if you held your market share in Q3 equal to Q2, what would that impact of comps have been? Like how much of the market share in DIY help your comps this quarter?

Thomas Greco

Yes, I think the change would be the relevant number, I think, there, Chris, would be about 30 bps, something like that, the improvements. So I think it's -- NPD doesn't capture everything. So to be clear, I'm just giving you the NPD number, but it's 29 categories. It's not everything in the front room, but it's a good proxy, that's the number.

Christopher Bottiglieri

Got you. Okay. That's helpful. And then, obviously, there's a lot of innovation. You're making a lot of changes. But would you -- what would you attribute that improvement in market share from? Was it Speed Perks? Was it kind of like Walmart? Was it just everything else you're doing online? Just kind of get your thoughts there.

Thomas Greco

Well, we, for sure, believe that Speed Perks contributed to improve transactions in the quarter. I mean, we saw the 150 change. Now some of that was industry related in terms of the improvement in transactions. But for sure, Speed Perks had some contribution. I think the in-store pickup was well executed. Our team is very focused on these initiatives. I mean, the Speed Perks itself, we called out the changes. I mean, we challenged the field to do a good job executing Speed Perks. In the lead market, we had a 30% increase in sign-ups. And in the national rollout, it was 80%, okay? Transactions as a percent of sales, lead market, 28%; national rollout, 40%. So I do feel the field team is executing better than they ever have. We see that in our Net Promoter Scores. That's obviously helping us. And when we launch something like in-store pickup, it's much more -- it happens faster. Our ability to get it done happens faster. So I mean, as we continue to build the initiatives, Chris, on DIY, I'm much more confident that we'll execute them well.

Christopher Bottiglieri

Got you. Okay. And then big picture, I mean, I think you're very much ahead of your peer group online, doing a lot of great work there. But I would say this industry has historically been kind of online resistant, which, frankly, I learned the hard way in the last couple of years. But big picture, where do you see the online presence in this category growing over the next several years? Are you making a calculated bet that online penetration picks up? Or is this -- this is where you think you could be most differentiated? Any thoughts that would be helpful.

Thomas Greco

Well, absolutely, we expect it to pick up. I mean, if I -- and I'll still think about online, Chris, as Pro as well, right? It's not just DIY. So your Pro experience, we've got, obviously, Worldpac, which is primarily all online, right? Then you have the AAP business, which is much lower. I think, on average, were something like 38% of our Pro orders come in through online platform. So we expect that number to go up. And obviously, that has, over time benefits for us because we're not on the phone, handling the customer over the phone. So that number goes up each year. We see that number going up each year. On the DIY side, we've certainly quantified what we believe the online penetration is going to be. We think it grows substantially, both ship to home and buy online, pick up in store over time. And that's why we want to make sure the buy online pickup in store experience is world-class because that's where we think we can really differentiate ourselves.

Operator

Our next question comes from Kate McShane with Goldman Sachs.

Katharine McShane

I wondered if you could talk a little bit about what you're seeing with labor costs versus the improvements you were able to make in the labor-related costs during the quarter? And is this a dynamic we can see for the next several quarters?

Thomas Greco

Yes. We've done a really good job, Kate, managing wage deflation. We talked about supply chain earlier on the call that we did make an investment there. And that was intended to reduce the turnover inside of supply chain. Meanwhile, on the store side, which is, of course, the majority of our people, we have a unique program that no one else in the industry has, which is Fuel the Frontline. We're now up to 18,000 grants of company stock. We are absolutely convinced that this is lowering our turnover meaningfully in the key jobs that we have. That's the General Managers in our stores, the Customer Account Managers, the commercial parts pros and the can so -- DMs rather. So those 4 comprise 15,000 people. They're critically important for our company. We want the very best parts people in the industry, and those 4 jobs are central to the success. So we make sure that we're highly competitive there, and we've seen our turnover drop across the Board there. So to me, that's the best acid test, if you will, on how you're compensating your people and the type of roles you're providing. And while we're still seeing inflation, obviously, in wages, and we've got states that are increasing minimum, we contemplate all of that as we package our value proposition, employee value proposition together and we use the Fuel the Frontline to really augment that so we can keep our best people.

Operator

Our next question comes from Scot Ciccarelli with RBC Capital Markets.

Scot Ciccarelli

So we've talked a lot about kind of Speed Perks this morning and how is $14 million drag both sales and gross profit in the quarter. But can you help us better understand why the sales and gross margin drag would actually decline as the membership and usage of the program grows because I thought that was the implication?

Thomas Greco

Yes. The biggest factor is, we still have outstanding coupons unredeemed from the original Speed Perks, Scot, and they'll basically be gone by the end of the year. So that's a big factor because we're redeeming not only the coupons from Speed Perks 2.0, but from the original program. So as the year ends, those coupons are no longer eligible. They basically expire. So as we get into 2020, we'll see that subside, but we contemplated it for the fourth quarter. And as we get into 2020, we start to see incremental revenue. We see more frequency, people come back more often. We sign more people up. And by the way, we have people -- less people leaving. We're seeing improvement across the board on each one of those. You think about how do I attract new members, how do I graduate members from one tier to the next tier and how do I retain existing members. And the way we measure that, Scot, is did somebody transact in the past year. So we saw an 80% increase in new. We saw significant improvement in our retention of the people that were in Speed Perks. And then, obviously, we're trying to graduate people up the tier. So that's the intent. And what you'll see is revenue going up. With everything we've modeled, everything we've seen in the lead market, the revenue will be going up and the cost will be coming down.

Scot Ciccarelli

Got it. So in other words, you have 2 parallel programs where you're kind of getting hit, but only one kind of revenue source. And then over time, that first piece kind of goes away, and then you're going to just have a higher contribution margin on incremental sales as you build that base?

Thomas Greco

Yes. I mean, the pure Speed Perks program, the math on the pure Speed Perks 2.0 is very attractive. It's just in this interim period. We knew coming into the back half of the year that we were going to have to deal with these existing unredeemed coupons from the original program, which now you've got a whole bunch of awareness to them, and there was a lot of them out there.

Operator

Our next question comes from Liz Suzuki with Bank of America.

Our next question comes from Liz Suzuki with Bank of America.

Elizabeth Suzuki

Can you talk about the monthly trajectory of comps? Are there any particular months in your quarter that they were significantly better or worse because I know it can be a bit volatile or more so for Advance versus some of your peers, just given your geographic exposure?

Thomas Greco

Yes. There wasn't a huge swing, Liz, as there have been in the past quarters. I think it started out very strong in kind of our northern geographies and then it did tail off in our northern geographies. And of course, now in the last week, we've seen that bounce back. So if you think about our periods: 8, 9, 10, 8 and 9 were better than 10. It's not unusual for us to see that, especially in the northern geographies. And when we called on our top performing areas, west Coast, Midwest, we were a little challenged in the back end on -- in the Northeast and Great Lakes, which is, again, up in those northern locations.

Elizabeth Suzuki

Great. And just sort of longer term, I mean, can you explain some of the bigger gaps in your margins versus peers on gross margin, in particular, just mix aside versus DIY versus Pro. Just can you talk about some of the low-hanging fruit on the margin side that over time you think you can get closer to some of your peers?

Thomas Greco

Yes. Well, we've called out four key territories, Liz, that we're executing against. So sales and profit per store, where we're making good progress, we started this journey at $1.5 million. We want to get to $1.8 million. And then there's a number of initiatives to drive profit per store, including everything that you would expect inside the 4 walls of our stores themselves. The supply chain is a very big factor. We talked about that earlier on the call. We're executing against the initiatives there. The category management piece is one that we're excited about. We're standing up, essentially a strategic pricing capability next year, and we've made a pretty big investment in the new pricing engine, which is going to allow us for regional pricing and an adaptive pricing approach to omni-channel that's going to deliver a seamless customer experience. We're also driving private label. Our customers are really responding well to Carquest. I wish we could roll it out faster, to be honest. We've got a number of categories that we're initiating now that we're going to continue to drive that, but private label as a percent of sales is a big opportunity for us. So inside of category management, you've got the ongoing material cost optimization. You've got strategic pricing. You've got a private label as a percent of sales.

And then in terms of SG&A, I feel great about where we are. There's a number of initiatives underway there. You saw the performance in the quarter. You're going to continue to see that going forward. And then there's the ERP system that Jeff is executing against for finance, where essentially a lot of the SG&A initiatives or about the integration of the company, which is now well underway, okay? We are integrating the company in many places. We've already done workday in terms of HR systems. We're in the process of ERP, talked about warehouse management systems. And Sri Donthi, who is our Chief Technology Officer, is doing a lot of things in the IT world to bring the systems together.

Elizabeth Suzuki

On the private label point specifically, I mean, what percentage of your sales is that now? And how big do you think that can ultimately get?

Thomas Greco

Yes. I mean, we're in -- it depends how you look at this and we really have different categories where we see big opportunities there. But we think we're well underpenetrated versus peers. I know that there's been a lot of commentary on that. But when we do the benchmarking, we feel that there's an opportunity for us to significantly grow private label as a percentage of sales. And I think this year, we're up about a point, Liz, but there's still a lot of room to grow in terms of percentage of sales.

Operator

Our next question comes from Mike Baker with Nomura.

Michael Baker

Two questions. One, if I'm right about my math, it looks like the fourth quarter, the midpoint of the guidance, if you just use sales and the implied operating profit, it looks like you're looking for an operating profit. Increase is better than you've done year-to-date. I get about 60 basis points at the midpoint. And I guess, related to that, an improvement in the operating profit dollar growth. Is that right? And if so, why should the fourth quarter margins on a year-over-year basis look better than they have year-to-date?

Jeffrey Shepherd

Yes. No, I think you're directionally correct. Again, we know we're going to have headwinds in the gross margin. We're going to be working very hard to overcome those. We ideally like to see a positive gross margin comp from a rate basis year-over-year. But a lot of the efforts that we're seeing within SG&A, we talked about standing up the MyDay being able to leverage labor in the fourth quarter. Fourth quarter, it's a volatile quarter. But what we've seen so far going into the quarter, we think we can get a significant amount of leverage in terms of the SG&A that's really going to drive that growth on a year-over-year basis.

Michael Baker

Okay. So it's in the SG&A side?

Jeffrey Shepherd

And then don't forget about supply chain. Look, we leveraged slightly. And that included these onetime costs that we're not going to see again in the fourth quarter. So our expectation is that supply chain is going to continue to leverage in -- even more significantly in the fourth quarter.

Michael Baker

Okay. Understood. And then one more, if I could. Just on the Speed Perks. Are you -- is this just a catch-up in terms of the offering to customers relative to your competitors? Or are you now getting more aggressive in prices? It's always been -- the space has been thought of as being very rational in pricing, but you're talking a lot about a new loyalty program and presumably better for the customer. So where are we in pricing the space? Are you getting more aggressive versus peers? Or are you just catching up to them?

Thomas Greco

Yes. I think it is a rational environment. Let me start by saying that, but we do feel we have the best offer in the industry. There's a number of drivers to that, Mike, that we feel pretty good about, and the receptivity has been fantastic. I mean, our team members are incredibly enthusiastic about it. They're talking to the customers about it. They can see the -- we've allowed them to see the status of the customer on the point-of-sale system. So they're talking it up in the stores. We think we can get the percentage of transactions up significantly. If you benchmark versus broader retail, we are very low. And it's important that we have that first-party data. We want to know what kind of car somebody drives. We want to know what -- everything about that person in terms of what they're buying in our stores. And today, we have a lot of customers that come in where we don't know that. So this is our opportunity to get them into the program and make our offering much more sticky. So that's the intent behind it, that's what we saw in the lead markets and that's what you're going to see us do.

Michael Baker

Okay. So effectively, you're getting more people to sign up by giving them a better offering?

Thomas Greco

Yes. Our offer is, we believe, the best in the industry right now. We do.

Michael Baker

And so is there the risk that others follow you in terms of that offering?

Thomas Greco

Yes. I can't comment on what others are going to do. I just feel that our program is one that can really help us get the first-party data we need to drive share of wallet with existing customers. We know that they don't buy all of their auto parts needs in our stores. That's the fact. We've got a very clear picture on the various levels. We've got 3 levels within the platform. We have our elite members. We have our VIP. We have our club members, and we have a pretty good idea of what our share of wallet is in each of those tiers. And the goal, obviously, is to drive more people up -- graduate people up the ladder so that their share of wallet increases.

Operator

Our next question comes from Seth Basham with Wedbush.

Seth Basham

I just had a couple of follow-up questions, diving into gross margins a little bit more deeply. First of all, in terms of the supply chain leverage in the quarter, a, would you care to quantify? And b, could you give us some color as to where it's coming from? Is it from freight rates or fewer stem miles, et cetera?

Thomas Greco

Yes. It was relatively minimal. Granted, we did have the cost of the work stoppage that we called out that was in the number and we still leverage. So I feel pretty good about it. So if I take that cost out, we actually did pretty well. It's really across the board. I mean, we're executing better in the DCs. I think we're managing our turnover much better in the DCs, as we said, and that allows us to get our piece -- unit piece per hour, all of those picking, packing, receiving, all of those things that need to be done flawlessly, we're making progress on. Clearly, we are starting to see benefits by optimizing our fleet. We're going to see much more of that over time. As we start to get to cross banner, that's where you're going to see the big numbers come out. We have fewer distribution centers now. I mean, we're now up to -- we've announced a total of four.

We still got Armonk facility to close in the balance of this year, early part of next year, but that will be four or less buildings, right? So you've got all of the reduced costs associated with that. I think we're working much better across the banner. So Reuben is looking across all of the banners of AAP to figure out how to be more productive in terms of how we move things around. We move a lot of auto parts around in this company. So moving around less is going to save us money. So finally, safety is improving inside of our buildings. That doesn't show up necessarily in supply chain, but it's important. It shows up in SG&A. So I think the productivity agenda for supply chain is what we feel really good about. And I think we're starting to see the benefits from.

Seth Basham

Got it. That's helpful color. And just other piece of gross margin I was interested in is the impact from mix shift to the online channel. First, any category mix shift that you experienced this quarter?

Jeffrey Shepherd

Yes. We did see headwinds associated with mix, and we look at it sort of 2 different ways. One is the channel or banner mix. And as expected, we continue to see the shift from DIY to Pro. To your question on the product mix, we did see it in 2 categories: one was in batteries and the other was in wipers. And the first one was just a mix within the category. The second one was just broader of volume out of the category, which is a very high-margin category. So that's what we saw in terms of category mix.

Seth Basham

Got it. And did either of those mix shifts impact your gross margins more or less than last quarter?

Jeffrey Shepherd

They're about the same.

Thomas Greco

And just to add one thing on that, Seth. I mean, obviously, the question came up earlier, but we fully contemplate all the mix changes that are going on inside the industry as we guide and look at our go-forward plans, whether that's our long-term plan or 2020. So all of the shift to online, the shift to Pro, the shift to large customers and Pro, those are all contemplated, and we end up netting out is our -- from that. So those are known headwinds that we believe are going to happen one way or the other.

Operator

Thank you. This concludes the question-and-answer session. I would now like to turn the call back over to Tom Greco for closing remarks.

Thomas Greco

Well, thanks, everyone, for joining us today. As you heard this morning, we're going to continue to work diligently to execute our strategic objectives, and we're confident we're putting the necessary steps in place to deliver growth in the balance of 2019 and beyond. We recognize we still have work to do, particularly in DIY, but we believe we're on the right path to succeed. I'm proud of the team we have at Advance, and I'm grateful for our team members' unrelenting focus on saying yes to the customer, while creating significant long-term shareholder value growth. Before we conclude, and in honor of Veterans Day yesterday, I want to take a moment to thank our veterans from all branches in the military for their service. It goes without saying that we're all deeply indebted for their sacrifices, including our more than 6,000 Advance team members, who previously served. We're honored to partner with several organizations to recruit, support and engage with service members, including building homes for heroes, the USO and hiring our heroes. We're committed to fully further the partnership with these great organizations working together to support our veterans. Thanks for joining us this morning, and we look forward to sharing our fourth quarter results and 2020 outlook with you in February.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.