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Meals on Wheels

Regional Meal Costs and Managing Meal Expenses

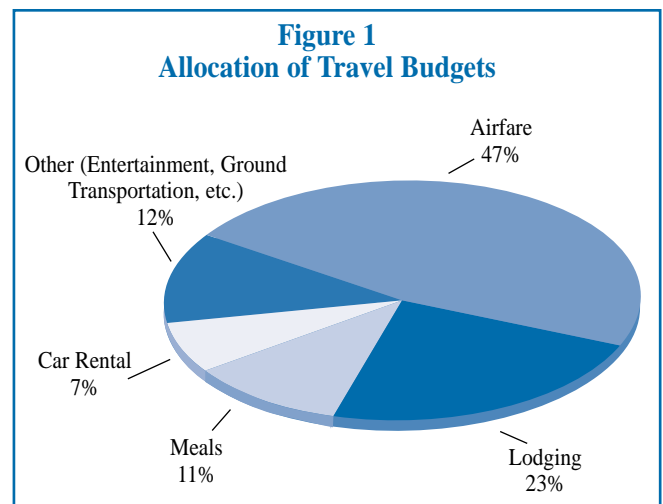
Undisciplined business travelers may have a tendency to view business dining as a perk—a necessary perk to weary travelers, away from families, friends, and comfortable surroundings. However, meals are simply an ancillary cost of doing business and companies should set meal spending guidelines as they do for other categories of business travel expenditures—air, hotel, and car rental.

According to Runzheimer's *Survey & Analysis of Business Travel Policies & Costs, 9th Edition*, meals represent 11% of a corporate travel budget—the third largest category of spending, ahead of car rental (7%), and entertainment (5%);

Figure 1. Companies are often remiss in addressing meal expenses—supervisors approve and, perhaps sporadically, question traveler's meal expenses. Auditing and tracking of meal costs are more frequently the responsibility of accounting or a company controller's office. This group reconciles meal expenses, processes reimbursements, and

tracks spending for tax purposes, a troublesome chore because of limited deductibility of reimbursed meal expenses. But who's minding the store? These departments or personnel are not likely to be instrumental in coaching travelers on harnessing spending on meals.

Although companies would rather rely on travelers' prudence than set caps and guidelines on meal costs, overspending on dining and entertainment is a chronic area of abuse. Expensive meals may be misrepresented as expense of entertaining clients, or excessive alcohol intake may likewise be skillfully concealed.



These factors, as well as tax considerations (loss of deductibility from 80% to 50% effective January 1, 1994), attest that companies should set meal spending guidelines. In addition, recognizing geographic meal cost differences is fundamental.

This month's newsletter addresses regional differences in meal costs, and recommends ways to assist in managing meal expenses.

Regional Costs

Just as costs of housing, transportation, taxation, and goods and services vary from city to city, so also do costs of meals—a component of goods and services. The Goods and Services Index of most expensive U.S. locations is

represented in Table 1. The Index represents average prices for each location, and includes sales tax. The Index is based on a marketbasket of approximately 150 items within ten categories: food-at-home, **food-away-from-home**, tobacco, alcohol, household furnishings and operations, clothing, domestic services, medical care, personal care, and recreation; and on spending patterns of a middle income U.S. family of four. Standard City, U.S.A., an average cost location, equals 100.0.

Based on the Goods and Services Index, it is not surprising business travelers pay most to dine in New York (Manhattan), Washington, DC, and Chicago (Table 2). The three-meal total in Manhattan averages \$79.90, whereas that same total is only \$29.70 in Macon, GA (Table 3).

Table 1
1998 Goods and Services Index

| Location | Goods and Service Index |
|--------------------------|-------------------------|
| New York, NY (Manhattan) | 131.9 |
| Honolulu, HI | 116.2 |
| Washington, DC | 112.5 |
| San Francisco, CA | 110.0 |
| San Jose, CA | 109.8 |
| Chicago, IL | 109.3 |
| Boston, MA | 109.1 |
| Philadelphia, PA | 108.0 |
| Los Angeles, CA | 107.5 |
| Buffalo, NY | 107.5 |

Table 2
Average Meal Costs in Most Expensive Locations

| Location | 3-Meal Total |
|--------------------------|--------------|
| New York, NY (Manhattan) | \$79.90 |
| Washington, DC | \$71.30 |
| Chicago, IL | \$55.95 |
| Pittsburgh, PA | \$55.50 |
| San Francisco, CA | \$55.45 |
| Seattle, WA | \$54.85 |
| Boston, MA | \$53.05 |
| San Jose, CA | \$51.30 |
| San Diego, CA | \$51.05 |
| Miami, FL | \$50.70 |

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Table 3
Average Meal Costs in Least Expensive Locations

| Location | 3-Meal Total |
|----------------|--------------|
| Macon, GA | \$29.70 |
| Huntington, WV | \$30.20 |
| Waco, TX | \$30.80 |
| Wheeling, WV | \$31.25 |
| Fort Wayne, IN | \$31.40 |
| Gary, IN | \$31.60 |
| Canton, OH | \$31.70 |
| Johnstown, PA | \$31.85 |
| Reading, PA | \$32.00 |
| Fayette, NC | \$32.15 |

Table 4
Average 3-Meal Costs for City, Suburban, and Non-Metropolitan Areas of Selected U.S. States*

| Area | 3-Meal Total |
|-------------------------------|--------------|
| Northern California | |
| San Francisco | \$55.45 |
| San Francisco Suburbs | \$43.90 |
| Non-Metro Northern California | \$40.40 |
| Illinois | |
| Chicago | \$55.95 |
| Chicago Suburbs | \$44.70 |
| Non-Metro Illinois | \$38.05 |
| Massachusetts | |
| Boston | \$53.05 |
| Boston Suburbs | \$41.70 |
| Non-Metro Massachusetts | \$36.15 |

*The meal costs shown above reflect prices for breakfast, lunch, and dinner at restaurants within hotels and business areas, and include all applicable taxes and a 15% gratuity. All data is gathered by Runzheimer International and published in the *Runzheimer Guide to Daily Travel Prices*.

The region of a state in which travelers stay can affect meal prices (Table 4). Generally, meal prices are higher in a city than in surrounding suburbs. Moreover, travelers conducting business outside a metropolitan area will experience even lower meal costs. For example, travelers who stay in downtown Boston will pay higher prices for three meals than travelers who stay in the suburbs. Furthermore, business travelers outside the Boston metropolitan area, for example in Springfield, will experience even lower costs.

Many travelers will skip a meal when hurried or to be frugal, or perhaps opt for fast food. Prices vary, even for such consistent items as fast food. Conditions such as the strength of local economy, wage structures, and degree of competition all affect what consumers pay. The fast food prices noted in Table 5, page 4, are based on a 1/4 pound cheeseburger, large fries, and medium soft drink, and represent prices at fast food restaurants within greater metropolitan areas. Sales tax is not included.

These prices are typically inflated at airport terminals where travelers often grab a quick meal as a substitute or appetizer to the ever-shrinking in-flight meal services.

How Travel Managers Can Control Meal Costs

In 1999, travel managers can expect a 3.5% increase in meal costs, according to Runzheimer's Business Travel Forecast (May 1998 issue of *RRTM*). The following actions will assist in controlling meal costs.

- Install a per diem program.
- Strengthen expense reporting procedures.
- Enforce more stringent receipt requirements.
- Increase communication with travelers/supervisor.
- Add more specific policies and procedures.
- Disallow certain expenses.
- Enforce use of existing per diems or standard guidelines on meal expense.

Table 5
Fast Food Prices in Selected Locations Nationwide

| Location | Fast Food Price |
|-------------------|-----------------|
| New York, NY | \$5.68 |
| Honolulu, HI | \$5.16 |
| Washington, DC | \$4.97 |
| San Francisco, CA | \$4.83 |
| Boston, MA | \$4.82 |
| Seattle, WA | \$4.82 |
| Phoenix, AZ | \$4.71 |
| St. Louis, MO | \$4.49 |
| Atlanta, GA | \$4.48 |
| Boise, ID | \$4.44 |
| Los Angeles, CA | \$4.37 |
| Chicago, IL | \$4.36 |
| Miami, FL | \$4.30 |
| Denver, CO | \$4.28 |
| Dallas, TX | \$4.27 |
| Memphis, TN | \$4.20 |

- Encourage use of vendors with whom special rates have been negotiated.
- Add meal costs as part your hotel negotiations.

Types of expenses disallowed could include:

- Meals over a certain dollar threshold.
- Liquor, even with meals.
- High-priced restaurants.

How Travelers Can Control Meal Costs

Aside from bringing a bag lunch or going hungry, here are some ways travelers can reduce meal costs:

- Refrain from meals in hotel dining rooms, typically most expensive.
- If staying in a suburban hotel and renting a car, take advantage of the multitude of eating establishments in the suburbs.
- Find out where locals go—generally the best food at a reasonable price.
- Review destination dining choices online as part of the pre-trip planning process.
- Ask other experienced travelers where they frequent.

Reimbursement & Guidelines

Statements about meal reimbursement and guidelines should be contained in written travel policies. Meal expenses are generally reimbursed in one of two ways—based on actual expenses or per diem amounts (Table 6). If actual meal expenses are reimbursed, it would be wise to establish limits on acceptable amounts.

Table 6
How Companies Reimburse Meal Expenses

| Methods | Percent of Respondents |
|--|------------------------|
| Actual Meal Expenses are Reimbursed: | |
| no guidelines given | 32% |
| travelers receive guidelines | 42% |
| up to a maximum “cap” | 18% |
| Flat Meal Expenses are Reimbursed: | |
| regardless of actual expenses | 8% |
| *Based on Runzheimer’s <i>Survey & Analysis of Business Travel Policies & Costs, 9th Edition</i> . | |

Companies are often hesitant to implement meal caps or per diem amounts because they anticipate adverse reactions from travelers. However, Runzheimer research indicates that travelers spend about the same on meals whether reimbursed

for actual expenses or subjected to caps or per diems. Per diems can offer advantages to companies and can impart cost savings in terms of administration. Per diems:

1. **Comply with existing tax laws.** Use of federal government per diems position companies in excellent standing with the IRS. When using these per diems, companies need not require receipts from travelers.
2. **Reduce administration.** Corporate paperwork is reduced or eliminated—time spent reconciling and auditing is diminished. Furthermore, the prevailing question of what is a “reasonable” expense is completely removed. No W-2 needs to be issued if GSA per diems are used; if others are, then a W-2 must be issued for miscellaneous income and a traveler must maintain a diary as proof of actual consumption.
3. **Treat all travelers equally.** Travelers are provided the same per diem; skepticism and petty jealousies related to rank are eliminated.
4. **Assist in budgeting expenses.** As the average daily meal cost per trip is known, forecasts and budget performance analysis are much easier to attain.
5. **Benefit travelers.** Travelers who elect a more modest meal can pocket any excess dollars tax-free when the per diem is the same or less than that of the federal government limit. Travelers who relish an occasional extravagance have the opportunity to fund it by cutting back a bit on other meals. In addition, new and transferred employees won’t have to go through a “learning curve” in understanding what company culture considers reasonable.
6. **Aid in negotiation with food and beverage vendors.** Specific amounts allotted per trip help identify specific costs—this is particularly true in meeting planning.
7. **Allow companies flexibility in adding or cutting meal expense budgets.** Vendor agreements do not have to be

altered when a company adjusts a per diem amount. If your company intends to implement a meal per diem program, it would be advantageous to hold a formal meeting with your travelers to explain benefits to the company and ensure that spending patterns are not likely to change significantly. Change is easier to accept if an individual is part of the process and allowed a chance to voice concerns. Sources of per diem information are noted in Table 7.

| Table 7 Source of Per Diem Travel Expense Guidelines of Respondents with Meal Expense Guidelines | |
|--|-------------------------------|
| Method | Percent of Respondents |
| Internal (historical) cost data | 30% |
| Federal government reports or data | 32% |
| <i>Runzheimer Guide to Daily Travel Prices</i> | 32% |
| Other external sources | 8% |
| Arbitrary (no source) | 32% |
| <small>*Based on Runzheimer <i>Survey & Analysis of Business Travel Policies and Costs, 9th Edition</i> *Totals exceed 100% because of multiple answers.</small> | |

Identifying spending patterns is the first step in implementing any meal program. Once known, travel managers can create policies in line with travelers’ spending habits, unless they are exceedingly extravagant, thus decreasing resistance to the new program.

To help track and identify spending patterns, and to facilitate reimbursement processes, companies should require the following information about meal expenses on reimbursement forms:

- Cash register or charge card receipts should accompany all claims to discourage “creative” reporting.
- Meals should either be broken out from hotel folios in a traveler’s expense report or should be separate charge card purchases.

- Travelers' individual meals and entertainment meals should not be bundled.
- When entertainment is involved with an employee's meal, name of company and person being hosted, as well as purpose for the session, should be reported as entertainment, not as meals, preferably noted on either the charge card receipt or hotel folio where the meal is itemized.
- No meals included as part of another purchase, e.g. seminar that includes meals, or free breakfast with a hotel room, should be reported separately.

In general, business meals should not be more extravagant than those normally consumed at an employee's own expense. Runzheimer recommends that companies develop spending guidelines for traveling employees and devise a meal expense control program which allows flexibility for cost differences among individual cities.

Travelers' actual meal expenses should not be reimbursed by measuring them against a single nationwide per-day meal allowance, but against average meal prices at destinations to which they are traveling.

Excerpts of Sample Travel Policies

Here are sample meal reimbursement policies showing various degrees of clarity and effectiveness. The last sample is a Runzheimer-recommended policy that states requirements simply and references an objective data source for meal reimbursements.

Sample 1

The company reimburses employees for reasonable meal costs rather than providing a meal allowance. For this reason, it is the employee's responsibility to use discretion in keeping meal costs in line with acceptable

business practices.

Meals for more than one employee should be reported as entertainment.

What is the definition of a reasonable meal cost and what is acceptable business practice? This policy begs excessive spending.

Sample 2

Reimbursable meals include:

Individual Meals

When the traveler is in an overnight travel status.

These are recorded in the breakfast, lunch, or dinner areas of the expense account sheet.

Business Meals

Business meals must be held under conditions conducive to a business discussion (other than nightclubs, sporting events, parties, or other major distracting influences).

They must involve a person with whom the employee could reasonably expect to conduct business.

Business meals may include banquet dinners or luncheons, professional meetings, meetings with prospective employees, or business people other than company employees.

What constitutes a business meal is quite evident. However, "anything goes" seems to be indicative of this policy. This doesn't really answer the question, "How much?"

Sample 3

Meals purchased by an employee traveling on company business are reimbursable expenses. The objective of the policy is to enable travelers to have good quality meals at a reasonable cost depending on the locations visited and circumstances involved. The reported cost of meals

includes taxes and tips or service charges, as applicable. Show the number of meals purchased and the total cost of meals, by date, evidenced by proper documentation. Provide an explanation of the number of meals reported on any given day is greater than the number expected based on:

Arrival and/or departure times shown on transportation tickets for the day;

Activities of the day such as entertainment, business meeting and/or seminar which would normally include meals.

Do not seek out expensive restaurants because you are on an expense account. Select restaurants that are reasonably priced for the locality.

Improving, although confusing . . .

Sample 4

Internal Revenue Service Requirements

The organization is required by U.S. Internal Revenue Service to provide auditable records regarding travel and entertainment activity. Following rules are specific, not subject to waiver:

Corporate tax deductibility of reimbursable employee meals is limited to 50% of expense.

Report all reimbursable employee meals exceeding \$75 (U.S.) with an original charge card receipt or original cash register receipt. Note: The organization requires receipts for all expenses exceeding \$25.

This policy reflects compliance to IRS rulings, but little else.

Recommended Text for Meal Policies

Travelers away from home will be reimbursed for meals purchased in restaurants and other eating facilities, consumed at normal meal times in that geographical area. In our Appendix is a table of average standard meal costs in our principal destinations supplied by Runzheimer International and updated annually; travelers are expected to keep their personal meal expenses within those guidelines. For locations not listed, travelers should use GSA per diems as a guideline; these are also listed in the Appendix.

Travelers, when eating meals in hotels, should use their corporate charge card to pay for meals so that expense is not bundled with room rates. This will reduce accounting costs and facilitate reimbursement processing.

Supervisors of travelers must carefully review meal expenses before approving reimbursement, because meal expense and entertainment are subject to limited tax deductibility as business expenses.

Upcoming Issues:

- **Business Travel Forecast**
- **Niche Market Vendors**

Entrees

New research has recently been completed on business meals. The study by the **Travel Business Roundtable** indicates that:

- One-fifth of business meal users are self-employed;
- More than two-thirds of business meal spenders have incomes of less than \$60,000 and 37% have incomes below \$30,000;
- Low- to moderately-priced table service restaurants are the most popular types of business meals, with the average check equaling less than \$20. These types of meals are popular throughout the U.S., with 50% occurring in small towns and rural areas.

Based on the recent study, new approaches to increasing the tax deductibility of business and travel meals have been considered, such as crafting legislation that would increase deductibility for small business users and the self-employed. This proposal is similar to the provision in the Taxpayer Relief Act of 1997, which provided a gradual phase-in to 80% deductibility of business meals for individuals whose hours of service are limited by the federal government (i.e. truckers and airline employees). The definition of a small business would also mirror a provision in the 1997 tax bill, which defined small businesses as companies averaging under \$5 million in annual gross receipts for the last three years.

The **Travel Business Roundtable (TBR)** was established in 1995 by travel and tourism industry leaders who recognized the need for an organization to educate legislative leaders—on the national and state levels—of the importance of the industry to the nation's economy.

Today, more than 70 members (or their functional equivalents) are members of **TBR**. They represent the largest businesses in the travel and tourism industry, including hotels, restaurants, airlines, travel service companies, rental car companies, information technology providers, cruise lines, theme parks, trade publications, and visitors' bureaus. For more information on **TBR**, visit their Web site at www.tbr.com.

Defining Travel Expenses

Generally, deductible travel expenses are the ordinary and necessary expenses that you incur while you're away from home in pursuit of your trade or business. In order to claim travel expenses as deductions, you must keep adequate records and be able to prove the existence, amount, and business purpose of your expenses.

Meal costs: The cost of dining alone is a deductible expense only if your business trip is overnight or long enough to require that you stop for sleep or rest. (Of course, if you entertain business guests at home or away you may be able to deduct the cost, if you meet the usual deductibility rules for meals and entertainment). In any case, you can deduct only 50 percent of the cost of the meals.

A special exception to the 50 percent rule applies to workers who are away from home while working under Department of Transportation regulations. This group of workers includes air transportation employees, interstate truck and bus drivers, railroad employees, and merchant mariners. For these workers, meals will be 55 percent deductible in 1998 and 1999, 60 percent deductible in 2000 and 2001, 65 percent deductible in 2002 and 2003, 70 percent deductible in 2004 and 2005, 75 percent deductible in 2006 and 2007, and 80 percent deductible in 2008 and thereafter.

Standard meal allowance: Assuming that you are traveling away from home for the required length of time, you may elect to deduct half of a Standard Meal Allowance (SMA), rather than half of the actual cost of your meals, laundry, cleaning, and tips.

The standard meal allowance for 1999 is \$30 a day for most areas in the U.S. Some locations in the U.S. are considered high-cost areas and qualify for higher rates of \$34, \$38, or \$42 per day. These per diem rates are updated periodically to reflect regional inflation and are published on the Internet at <http://policyworks.gov>. Note that these sources also list a per diem rate that includes lodging as well as meals and incidentals, but this combined per diem is generally not available to self-employed people.

For travel in areas outside the continental U.S., you must use federal per diem rates that are published monthly by the government. The foreign per diem rates can be purchased from the Government Printing Office and are also available on the Internet from the State Department at <http://www.state.gov>.

Numbers At A Glance

A Reference Guide of Helpful Names, Numbers, & Web Sites

Air Transport Association

1301 Pennsylvania Avenue,
NW, Suite 1100
Washington, DC 20004
Phone: (202) 626-4172
Web site: www.air-transport.org

American Hotel & Motel Association

1201 New York Avenue N.W.
Suite 600
Washington, DC 20005-3931
Phone (202) 289-3100
Web site: www.ahma.com

American Society of Travel Agents

1101 King Street
Alexandria, VA 22314
Phone: (703) 739-2782
Web site: www.astanet.com

Economist Intelligence Unit

111 West 57th Street
New York, NY 10019
Phone: (212) 554-0600
Web site: www.eiu.com

European Travel Commission

1 Rockefeller Plaza
Room 214
New York, NY 10020
Phone: (212) 218-1200
Web site: www.visiteurope.com

Hospitality Sales & Marketing Association

1300 L Street NW
Suite 1020
Washington, DC 20005
Phone: (202) 789-0089
Web site: www.hsmmai.org

Institute of Certified Travel Agents

Box 812059
Wellesley, MA 02482-0012
Phone: (781) 237-0280
Web site: www.icta.com

International Air Transport Association

2000 Peel Street
Montreal, PQ CANADA H3A 2R4
Phone: (514) 874-0202
Web site: www.iata.org

International Airlines Travel Agent Network

300 Garden City Plaza
Suite 342
Garden City, NY 11530
Phone: (516) 747-4716
Web site: www.iatn.org

National Air Transportation Association

4226 King Street
Alexandria, VA 23302
Phone: (703) 845-9000
Web site: www.faa.gov

National Business Travel Association

1650 King Street, Suite 401
Alexandria, VA 22314
Phone: (703) 684-0836
Web site: www.nbta.org

National Tour Association

5466 East Main Street
Lexington, KY 40508
Phone: (606) 226-4444
Web site: www.ntaonline.com

Pacific Asia Travel Association

Operation Headquarters
Unit B1, 28th Floor Siam Tower
989 Rama I Road
Pratumwan, Bangkok 10330,
THAILAND
Phone: (011) 66-2 658-2000
Web site: www.pta.th.com

Runzheimer Travel Reports

Runzheimer Park
Rochester, WI 53167-0009
Phone: (414) 767-2200
E-mail: marketing@runzheimer.com

Smith Travel Research

105 Music Village Boulevard
Henderson, TN 37055
Phone: (615) 824-8664
Web site: www.str-online.com

Travel Industry Association of America

1100 New York Avenue
Suite 450
Washington, DC 20005
Phone: (202) 408-8422
Web site: www.tia.org

U.S. Department of Transportation

Kendall Square
Cambridge, MA 02142
Phone: (617) 494-2450
Web site: www.gis@bts.gov

U.S. Travel and Tourism

U.S. Department of Commerce
Washington, DC 20230
Phone: (202) 482-4028
Web site: <http://tinnet.ita.doc.gov>

World Tourism Organization

Capitan Haya 42
Madrid 28020, SPAIN
Phone: (011) 34-1 571-0628
Web site: www.world-tourism.org

International Business Travel Price Index

First Quarter 1999

Index Increases 1.2% from 4th Quarter 1998

Runzheimer's International Business Travel Price Index increases to 198 for first quarter 1999.

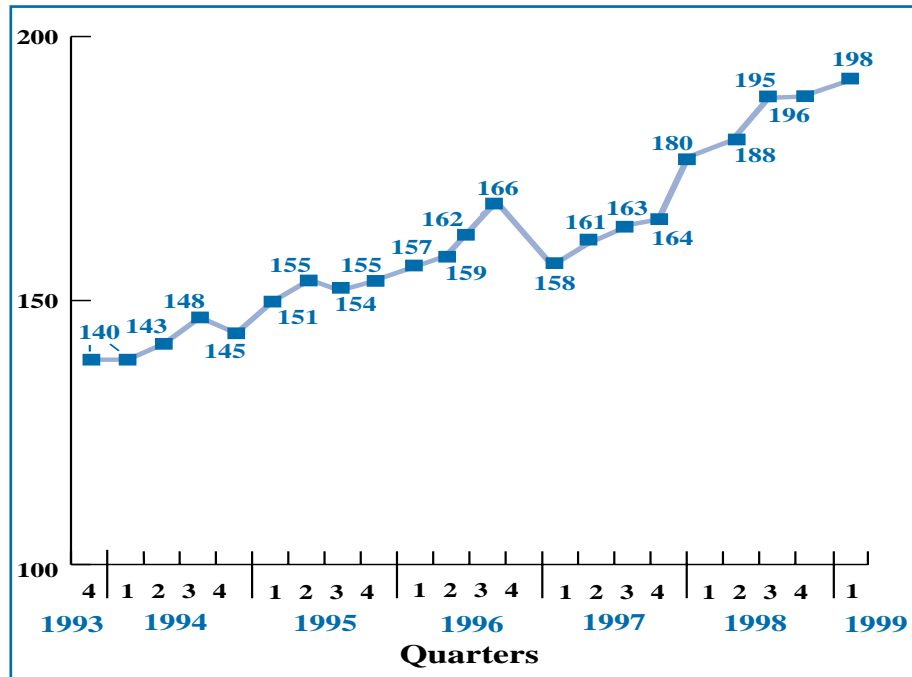
1st Quarter 1999

Travel Price Change
from 4th Quarter 1998

Total: +1.2%

Components

Airfares: +0.5%
Lodging: +3.1%
Meals: +4.4%



The index consists of a weighted average of three key cost areas: airfare, meals, and lodging. The airfare portion of the index includes 20 city-pairs, with origination in North America, and travel to key cities outside of North America. The destination cities cover five continents. Runzheimer based the city selections on their prominence within their region of the world and their desirability as business destinations, as determined in part by survey data from *Runzheimer's Survey & Analysis of Business Travel Policies & Costs*. We have rounded the index numbers shown in the graph, but the percent changes to the left of the graph are not rounded.

Hotel and meal data are based on hotels and restaurants frequented by North American business travelers overseas. Lodging and meal costs are based on 5 nights of lodging and 6 days of meals (breakfast, lunch, and dinner).

Runzheimer's International Business Travel Price Index is designed to give the North American travel manager the ability to evaluate the movement of international travel costs quarterly, and to anticipate any impact to his or her travel budget.

▲ Airfare portion of Index provided by Amadeus Global Travel Distribution.

Domestic Business Travel Price Index

First Quarter 1999

Index Decreases 6.9% from 4th Quarter 1998

Runzheimer's Domestic Business Travel Price Index decreases to 192 for first quarter 1999.

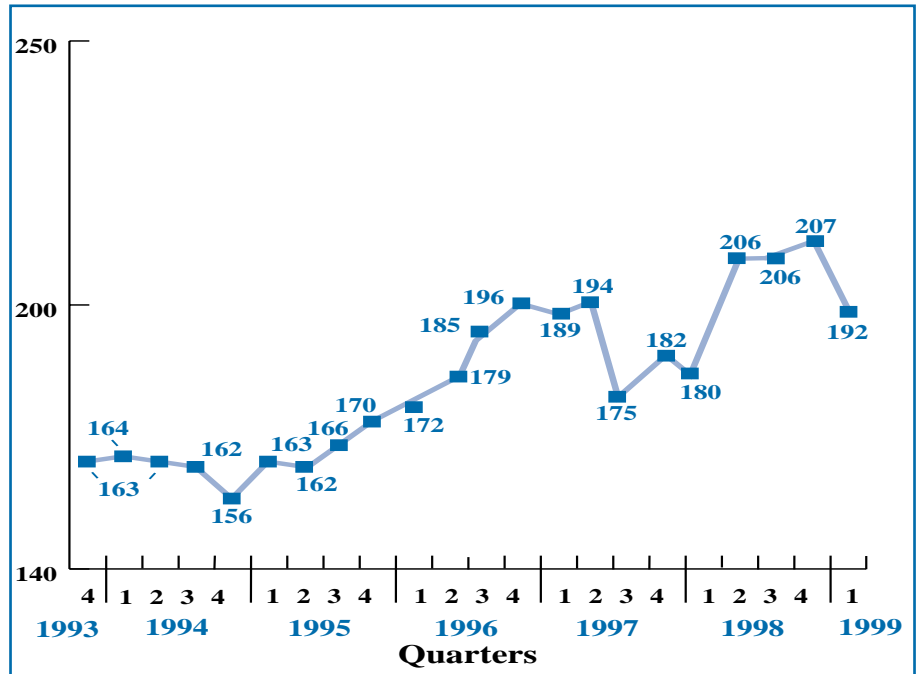
1st Quarter 1999

Travel Price Change from 4th Quarter 1998

Total: -6.9%

Components

Airfares: -14.6%
Lodging: -0.1%
Meals: +1.9%
Car Rental: -2.1%



Basis of the index through Fourth Quarter 1993 is: Average roundtrip business discount airfares between 20 heavily traveled business city-pairs, as reported in an airline reservation system; per diem and car rental rates for three days from the *Runzheimer Guide to Daily Travel Prices*. The base year is 1988, equaling 100. The total Travel Price Change is figured from a weighted average of the components (airfares, lodging, meals, car rental). The Runzheimer Domestic Business Travel Price Index reflects recent trends in business travelers' airline ticket-purchasing habits.

From Fourth Quarter 1993, after much of the airline industry significantly altered its fare structure, the basis of the index remains unchanged with the following exceptions: The airfare portion of the index is determined by combining "business discount" airfares (which are calculated in the same way in which they were calculated prior to Second Quarter 1992) and "actual coach" fares (i.e., those reduced-rate fares designed to appeal to travelers who had formerly purchased "full coach" or "Y-fares" prior to the restructuring. Note that "actual coach" fares are not necessarily "Y-fares" because some of the airlines have maintained the "Y" designation on some of their fares in markets where travelers are able to purchase "actual coach" tickets at considerably reduced prices. However, in markets where "actual coach" fares are not offered, "Y-fares" are included in the calculation of the index). Note also that the index does not take into account the effects of any losses of negotiated corporate discounts that companies are likely to have experienced. ▲

*Airfare portion of index data provided by Amadeus Global Travel Distribution