

TRAVEL MANAGEMENT

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Annual Airline Negotiations Review: Truth and Consequences

The only thing you can count on within the airline industry is that things will change. New players, price wars, commission caps, net fares, ticketless travel, Internet discounts, wholesaling, bulk purchases—all may affect an organization's travel program.

Airline negotiations are often part of a corporate travel program, and all players should share in its success. In June, **RRTM** issued a targeted survey on airline/hotel/car rental negotiations. Thirty-six travel professionals responded to our 1999 negotiation survey and provide the basis for this report as we look at success rates, negotiating tools, types of airfares negotiated, discounts, and services obtained. In the September issue of **RRTM**, we will address hotel and car rental negotiations.

entertainment expenses. The majority, 55%, has T&E expenses between \$5 million and \$20 million. Annual airline expenditures are provided in Table 2 where we see a 20-percentage point increase (68%) in organizations with air expenses more than \$5 million. A significant decrease is noted in percent of respondents reporting expenditures of less than \$1 million, 3% versus 21% in 1997. Nearly one-third (29%) of respondents report annual airline expenditures of \$1 million to \$5 million.

Table 1
Total Annual
Travel & Entertainment

Amount	1998
\$1-5 million	6%
\$5-10 million	29%
\$10-20 million	26%
\$20-30 million	11%
\$30-40 million	8%
\$40-50 million	3%
More than \$50 million	17%

About the Respondents

Table 1 outlines total annual travel and



Table 2
Annual Airline Expenditures

Percentages						
Amount	1993	1994	1995	1996	1997	1998
Less than \$1 million	5%	7%	8%	7%	21%	3%
\$1-5 million	39%	47%	37%	43%	31%	29%
More than \$5 million	56%	46%	55%	50%	48%	68%

Editor's note: While it may not be surprising that 68% of respondents have airfare expenditures in excess of \$5 million as airfares rapidly spiral towards the stratosphere, understand, when using this report, that this sample has a larger number of high-budget respondents than last year—although more comparable to years past.

Respondents report that airfare is 44% of their total travel and entertainment expenditures.

RRTM COMMENTS: *According to Runzheimer data, airfare, as a percent of total travel expenditures, has ranged between 40% and 47% over the past 8 years. Naturally, as business consolidation occurs and overall pricing rises, actual dollar amounts tend to be higher.*

Effective negotiations are necessary to curb this significant portion of your total travel expenditures. Unfortunately, not all organizations have enough volume to entice an airline to the negotiating table, resulting in more serviceable deals for fewer travel buyers. However, this rule has been successfully tested by several firms whose travel activity is focused on few, but highly competitive, city pairs. Also, some airlines—notably American—have shown a willingness to entertain concessions in return for higher market share. The key to such negotiations is solid data on traffic and a demonstrated willingness to change traveler habits.

Negotiation Success and Frequency

Travel managers report higher success rates with airlines than with hotel or car vendors (Table 3). Compared to

last year's survey, successful airline negotiations have increased seven percentage points. This success/frequency ratio (62% versus 47%) is promising because it indicates a more competitive airline market; consequently, airline negotiation is well worth time and effort expended.

Table 3
Frequency of Negotiations in by Vendor Type and Relative Success Levels

Vendor Type	Most Frequent		Most Successful	
	1997	1998	1997	1998
Airline	45%	47%	55%	62%
Hotel	33%	41%	23%	22%
Car rental	22%	12%	22%	16%

RRTM COMMENTS: *Airline competition for high-yield corporate traffic is intensified; they have publicly declared they want to milk this cash cow for all that it's worth—a behavior characteristic of a softening demand situation. An airline's average business travel yield is 30 cents-per-mile. In comparison, all other air travel (including business) represents an average yield of 13 cents-per-mile—with leisure travel accounting for about 7-8 cents of total. Clearly, you are critical to an airline's survival and profitability.*

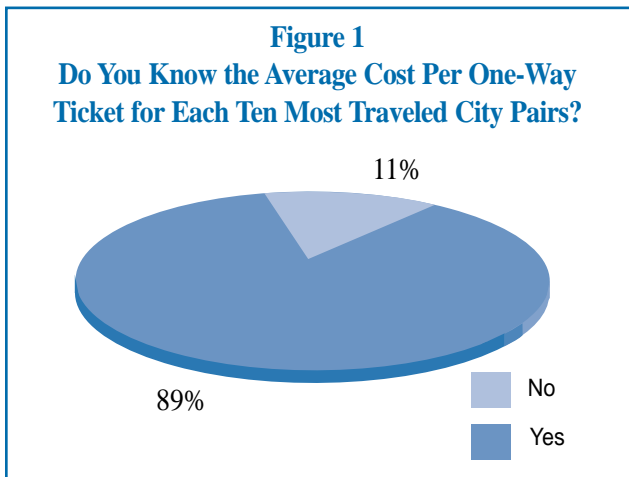
Volume commitments to airlines are essential to effective airline negotiations. However, volume is not constant and difficult to measure accurately. It is important that corporations stress percentage of business a carrier can expect versus other carriers and provide "required proof" of opportunity for gains in market share. How? Data and knowledge of:

- Top city-pairs
- Average ticket price by city-pair
- Number of tickets issued per fare category
- Dollar and traffic volume per carrier, per route
- Allocation of airfare between domestic and international travel
- Evidence of previous success in changing share if available

Data can be secured through charge card reports, agency management reports, internal expense reports, and internal tracking systems.

Corporate Travel Database

One hundred percent of astute travel professionals were able to identify their most frequently traveled city-pairs. In addition, 89% of respondents, as shown in Figure 1, knew their average one-way cost for each city pair.

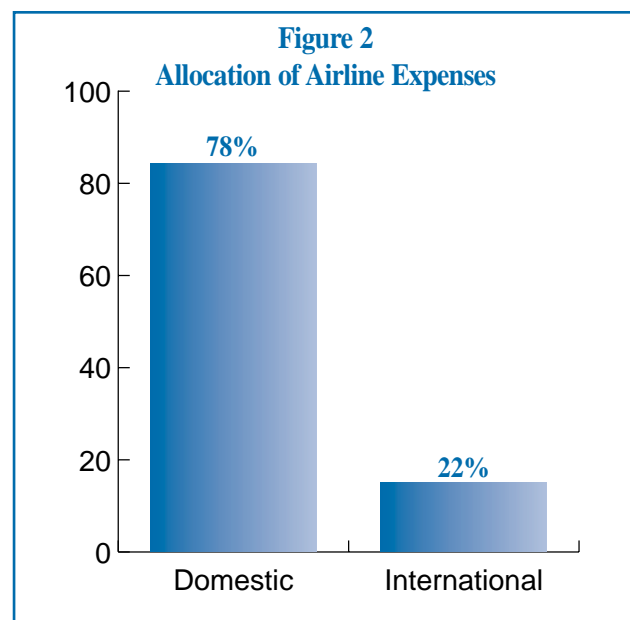


RRTM COMMENTS: Obviously, travel managers have done their homework and aced the test! Through tracking and evaluating corporate travel patterns, you will gain a better understanding of corporate culture that will provide assistance in selecting a suitable airline partner. As airlines move away from system discounts to city-pair discounts, a solid understanding of travel patterns is an absolute requirement for negotiating.

Airlines are typically less generous with fare concessions if a city-pair has high load factors—it would be illogical to reduce fares on full planes. Even if you have a system wide agreement because your travel is concentrated in a hub city, greater benefit may come from picking candidates with adequate frequency but less dominance on key routes.

RRTM RECOMMENDS: Ask your agency or charge card company to generate city-pair reports excluding deeply discounted fares atypical to the majority of your traffic, for example, Saturday night fares. Your objective is to bring a reasonable fare proposal to the table—one that will not be immediately rejected. Also, be sure to analyze your traffic patterns by day of week; if your travelers stay away from peaks—Monday AM, Friday PM, and Sundays—you will be a more attractive customer than a company who insists on getting special rates when flights will be full anyway.

Figure 2 depicts allocation between domestic and international travel expense. Domestic travel accounts for just over three-fourths (78%) of airfare expense. To put total airfare expense into perspective, 1998 percentages represent an average 30,070 round trip tickets, with a median figure of 8,692.



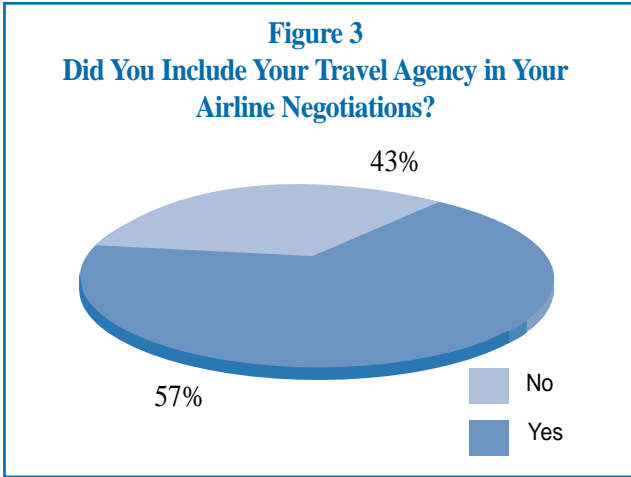
As expected, international expense accounts for a higher percentage of total air travel, now nearly one-fourth (22%) of airfare expenses. Companies with substantial international travel often land more lucrative deals with airlines, as international travel tends to be more competitive. International volume will not only attract airline attention but may enhance bargaining for domestic routes.

Contacts Involved in Negotiations

Local sales representatives continue to be first choice for travel managers seeking to negotiate preferred deals (71%) as shown in Table 4. Regional sales managers are also contacted (63%), as well as staff specialists (23%). Negotiators were more hawkish in 1998 and in many cases (23%) went straight to the top, as airline vice presidents were regarded as logical first point-of-contact. This increase may be indicative of perceived lack of empowerment and skill level of sales representatives.

RRTM COMMENTS: *Many airlines have given sales representatives authority to negotiate limited “boilerplate” packages, usually less generous than might be possible with customized deals. Typical example is a 20% net fare systemwide; as a general rule, this is a better deal for the airline than paying commission.*

The majority of respondents (57%) include their travel agencies in airline vendor negotiations (Figure 3).



RRTM COMMENTS: *Although an agency can provide tremendous assistance in preparing for negotiations, we believe an airline may be less approachable if your agency sits at the table during the bargaining.*

Substance of Negotiations —What Kind of Fares?

Ninety-four percent of respondents indicate they or their travel agency successfully negotiated reduced fares. Table 5 clearly endorses that most travel managers, 72%, negotiate “all fares.” Over two-fifths of respondents, 44%, negotiate specific city-pairs, while a dramatic increase (13 percentage points equating 25%) is seen in specific flight negotiations. Meetings as a whole are consistently seen as viable negotiated fares with group travel at 35%, ad hoc meetings (31%), and training meetings (31%). New to our survey this year is specific fare negotiations, representing nearly one-fifth (19%), of 1999 survey respondents' negotiations.

Table 4
Travel Manager’s Contact During Negotiations

Contact	1993	1994	1995	1996	1997	1998
Local sales representative	70%	69%	69%	67%	71%	71%
Regional sales manager	60%	57%	61%	64%	64%	63%
Airline vice president	17%	17%	10%	16%	15%	23%
Staff specialist	21%	17%	16%	23%	10%	23%
Other	*	*	*	*	*	3%

Totals exceed 100% because of multiple answers.
*Data not available

Table 5
Types of Airfares Negotiated

Type	1993	1994	1995	1996	1997	1998
All fares	43%	41%	41%	43%	82%	72%
Specific city-pairs	38%	39%	40%	54%	35%	44%
Group travel	42%	34%	36%	41%	37%	35%
Ad hoc meetings	22%	11%	9%	11%	35%	31%
Training meetings	35%	28%	32%	36%	33%	31%
Specific flights	6%	9%	11%	9%	12%	25%
Specific fares	*	*	*	*	*	19%
Off-peak travel	4%	2%	5%	4%	12%	16%
Totals exceed 100% because of multiple answers.						
* = Not Asked						

RRTM COMMENTS: Equally important as where you travel is when you travel. If Saturday night stays and/or non-standard travel times are a part of your corporate culture, understand these fares may drag your average fare down to a level an airline will not be able to match on more conventional flight times. Nonetheless, increased traffic on non-standard flights may increase your negotiating power.

Keep in mind, airlines have a justifiable objection to travel agencies' software designed to describe events that are not really meetings and therefore should not be recognized as qualified for group fares. Airlines offer group discounts as an incentive to attract business they might not otherwise secure—grouping unsuitable and unrelated reservation records and calling them a meeting is basically dishonest.

The average discount obtained off normal coach fares is shown in Table 6. The highest percentage discount, 27%, is realized on specific flights, a significant increase when compared to 18% in 1997. The percent saved on specific city-pair fares has remained somewhat static at 24%. Specific fares, again new to this year's survey, yields an average 15% discount.

RRTM COMMENTS: Specific fares, applicable to certain flights or days of week, often help airlines by diverting traffic from one departure to another. While an airline can sell seats at almost any price on 4PM to 5PM departures any afternoon, their 6PM and later departures often have empty seats. A smart tactic is to gain a fare for one of these later departures and encourage travelers to standby for an earlier flight if they can arrive at the airport ahead of time.

Table 6
Discounts Off Normal Coach Fares Obtained With Airline Contracts

Before April	1996	1997	1997	1998
On specific flights	10%	10%	18%	27%
On specific city-pairs	17%	17%	25%	24%
On all fares	13%	11%	17%	23%
For training meetings	20%	21%	17%	23%
For group travel	18%	19%	18%	20%
For ad hoc meetings	10%	9%	13%	18%
On specific fares	*	*	*	15%
On off-peak travel	9%	8%	15%	9%
Totals exceed 100% because of multiple answers.				
* = Not Asked				

Soft-Dollar and Service Benefits

Figure 4 shows that 71% of respondents negotiate with airlines to obtain special “soft-dollar” benefits, averaging \$167,143; the median benefit results in \$40,000. This dollar amount represents 11% of air travel expense.

Types of services obtained are outlined in Table 7. Trend

data show a steady increase in percentage of respondents negotiating and winning “soft-dollar” benefits. Top services obtained include: upgrades to first/business class (85%), premier frequent flyer status (81%), and free tickets (73%). Management information reports plummeted to 4% compared to 25% in 1997. Runzheimer suspects that special management reports have now become a standard expectation in most agency agreements, not a negotiable or “soft-dollar” benefit.

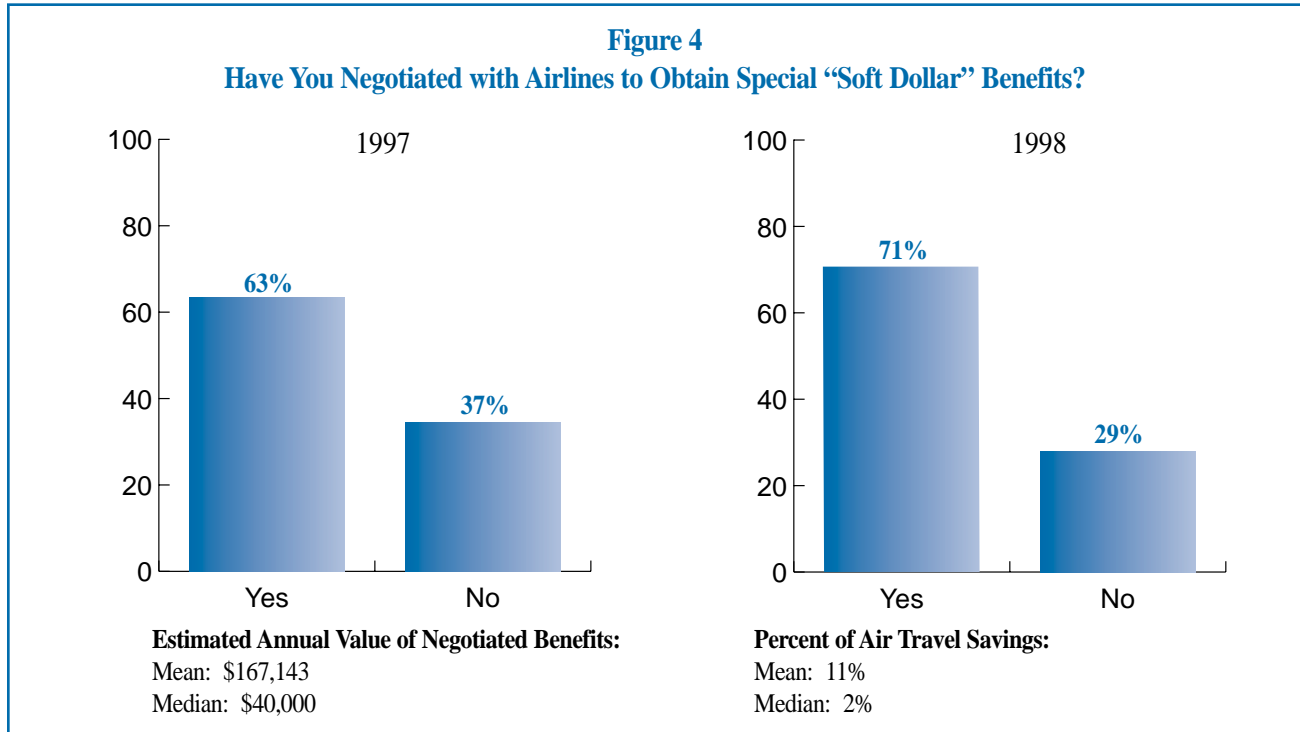


Table 7
Soft-Dollar Services Obtained Through Negotiations

Type of Service	1993	1994	1995	1996	1997	1998
Upgrades to first/business class	54%	48%	84%	79%	83%	85%
Premier frequent flyer status	*	*	68%	72%	85%	81%
Free tickets	57%	58%	66%	56%	68%	73%
Airline club memberships	30%	24%	40%	44%	65%	54%
Drink coupons	*	*	*	*	*	46%
Waiver of advance purchase restrictions*	*	37%	34%	45%	35%	
Waiver of Saturday stay restrictions	*	*	24%	19%	20%	35%
Special wait list clearance	26%	21%	40%	35%	48%	35%
Management information reports	6%	6%	21%	18%	25%	4%
Credit terms	4%	1%	5%	4%	3%	4%
Other	#	#	#	#	#	8%

Totals exceed 100% because of multiple answers

* = Not Asked # = Data Not Available

RRTM COMMENTS: *Extra convenience or comfort during travel may not be regarded as an important benefit to an organization, but impact on travelers is easily visible. Amenities, such as free upgrades and premier frequent flyer status encourage travelers to comply with policy and to use preferred suppliers.*

As airlines prosper, they tend to cut back on promises that become impractical when loads are heavy. In addition, self-confident airlines expecting continued profit tend to offer more low-fare sales to leisure markets to gain incremental revenue, pushing loads higher. Soft-dollar concessions provided by airlines generally reflect moderate incremental cost but are highly valued by decision-making executives and travelers.

RRTM COMMENTS: *Barter equity was designed to circumvent IATA (International Air Transport Association) prohibition of customer discounts. Now that this cartel's power has been weakened by actions of U. S. Department of Transportation, many subterfuges are no longer necessary. For example, many organizations published "tour folders" to justify "extended conferences" where small groups of people or individuals would travel to an "event" that was not really an event, but a business project. Airlines winked at this practice if they wanted the traffic.*

The jury is out—50% of respondents feel international negotiations to be more difficult than domestic negotiations, and 50% do not.

International Airline Negotiations

Figure 5 shows that over three-fifths of respondents, 65%, have undertaken international airfare negotiations. Table 8, page 8, outlines types of international services obtained through negotiations. Only a few short years ago, international laws mandated that published fares be adhered to and percentage-based discounts were difficult to obtain. In 1998, 65% of surveyed travel managers indicate they successfully negotiated percent discounts, a 24 percentage point increase compared to 1997. Barter equity, at 32%, has dropped 18 percentage points.

RRTM COMMENTS: *Because London is the most popular overseas destination, most companies seek discounts or fare concessions on London traffic. Fares to London are typically higher than mainland Europe and many airlines will route you to London via Amsterdam or Brussels at lower cost than flying direct, sometimes with savings as much as \$1,000 a ticket. As with Friday afternoon traffic domestically, London demand is high enough to support premium fares, so London concessions are usually dependent on your using that airline to other, less popular destinations.*

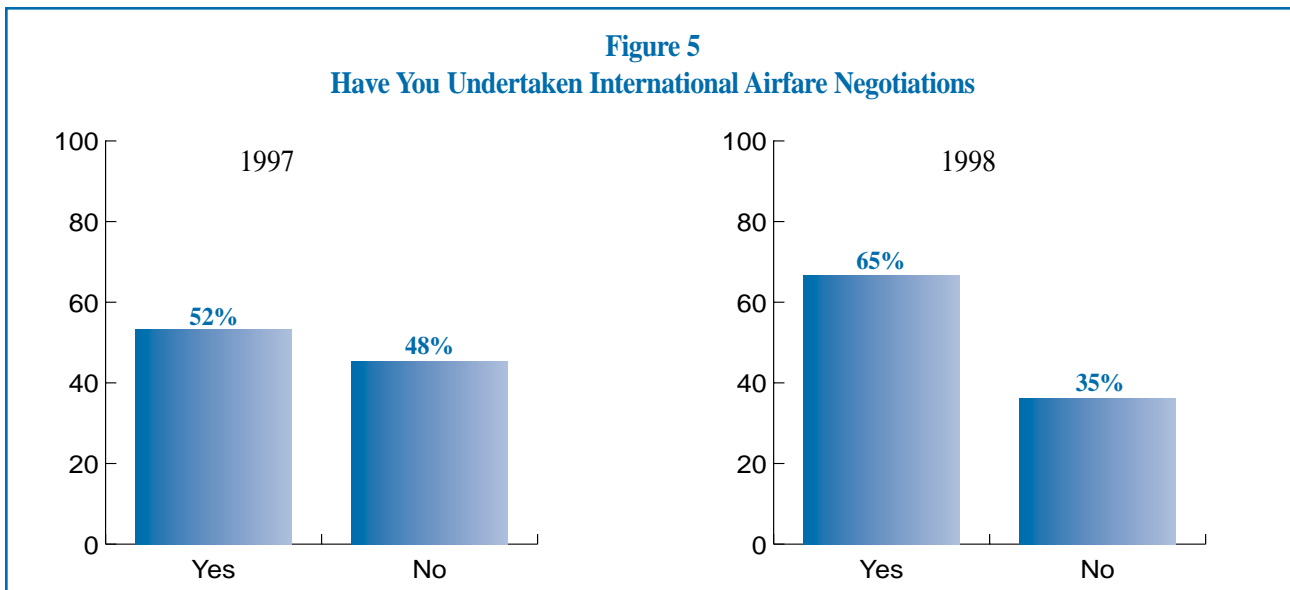


Table 8
International Special Benefits Obtained

Type of Service	1993	1994	1995	1996	1997	1998
Percent discounts	39%	30%	53%	47%	44%	68%
Upgrade coupons	35%	34%	47%	46%	65%	53%
Premier frequent flyer status	*	*	27%	26%	38%	53%
Barter equity	*	*	47%	42%	50%	32%
Special wait-list clearance	13%	13%	27%	26%	41%	32%
Airline club membership	17%	6%	18%	22%	35%	26%
Waiver of advance purchase restrictions*	*	*	12%	14%	12%	11%
Waiver of Saturday stay restrictions	*	*	6%	5%	12%	5%
Ticket coupon books	1%	1%	3%	1%	3%	5%

Totals exceed 100% because of multiple answers
* = Not Asked

Travel managers who believe international negotiations to be more difficult cite the following:

- Airlines are more protective of European fares
- Foreign carriers are not as mature as U. S. carriers in negotiations
- There are more airline restrictions as to what can be offered
- Much of international travel includes more than one carrier
- There is little consistency between airlines
- Too many variables

Conclusion

As Figure 6 illustrates, the majority of respondents, 57%, are satisfied with their company's airline negotiations—very positive feedback!

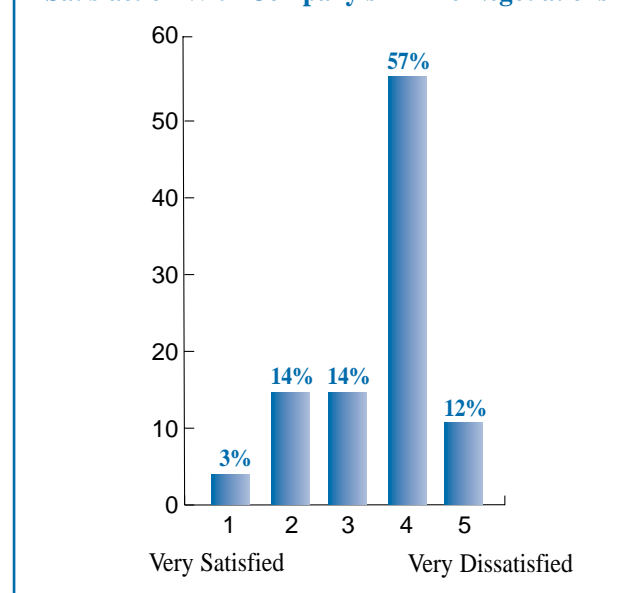
RRTM RECOMMENDS: *We advise that you begin negotiating with a single carrier on one city-pair—the quickest way to ruin a deal is to play one carrier against another.*

Remember basic principles of negotiation:

- *Seek a win-win agreement*
- *Care about your supplier's profitability*
- *Understand your volume structure*
- *Know your travelers*
- *Recognize your corporate power structure*
- *Establish a target price before negotiating*

“The value of all things contracted for is measurable by the appetite of the contractors, and there the just value is that which they be contented to give.” Thomas Hobbes

Figure 6
Satisfaction With Company's Airline Negotiations



The Insider

The editor of *RRTM* had the pleasure of interviewing three travel managers attending our Travel Management Seminar in Nashville, TN this past April. The following dialogues incorporate their difficulties, solutions, and/or successes.

Company A - Restaurant Industry

Air Volume \$2.5 million

Total Travelers - 200

This fast-growing company has both a domestic and international policy, having entered the international arena in 1998 and currently represented in five countries. International travel represents 10% of total travel. Hotel rates are negotiated specifically by city—internationally, they use hotels as suggested by one of their vendors. Thus far, this process is working quite well.

Company A moved to an in-house rent-a-plate system in 1998. Prior to rent-a-plate, they used 2-3 agencies. However, they did not feel agencies were providing any value-adds; in addition, costs were questionable. Travelers now feel they receive better attention. Beyond all travel-related questions, this travel management department answers all traveler questions, e.g., where, when, and what time is my next meeting? Department's preferred mode of communication is telephone—more personal. They do, however, e-mail itineraries to travelers.

Trip authorization is department-based—anything over \$350 must be approved. Lowest convenient fare is enforced, as well as use of hotels with which they have negotiations. Car rental policy is liberal with mandated use of mid-sized vehicles. Overall, compliance with travel policy is good.

A handful of travelers prefer to use the Internet to make their own travel arrangements, assuring themselves additional frequent flyer benefits on Southwest. Travelers are allowed this option, although travel manager feels they will win this small group over to their side in very near future.

RRTM COMMENTS: *In this day of fees, agency performance should be closely scrutinized. In this scenario, movement to rent-a-plate has provided a solution to a perceived problem. This travel department seems to be meeting needs of both management and travelers—a somewhat strict policy lightly sprinkled with a few liberal concessions. An important element is communication—on a personal level. Travelers can feel comfortable calling their travel department, knowing their travel department is willing to respond to traveler questions. This travel manager is confident enough to allow travelers to “test the waters” knowing they will ultimately swim to shore. When compliance with travel policy is regarded as good, something is working. And who wins? Everyone.*

Company B - Consulting Industry

Air Volume - \$7 million domestic, \$3 million international

Total Travelers - 500-600

Company B is experiencing tremendous growth within firm, as growth within state is rapidly increasing. Travel manager is new to position having migrated as an expense manager from the relocation side of organization.

This company currently uses one travel agency—service has never been monitored. New blood in travel area has created a sensitive situation as organization now monitors that lowest, convenient fare is provided, and checks that approved vendors are being used for negotiated city-pairs. As 75% of travel costs are billable to company's clients, obtaining lowest fare is very important in order to pass savings on to clients. Travel manager is considering use of two other agencies—also on the docket is consideration of self-booking, possibly on site.

Duration of trips is typically short; however, some involve 3-6 month stints, some extending to years. Trip authorization is not required. Internet and Intranet are used extensively throughout company.

Travel manager has 100% support of chief financial officer and travelers (she is actually doing legwork on behalf of CFO). Travel manager intends to evaluate traveler satisfaction with airline, agency service and performance. Recent policy revision was based on reputable benchmarking data. Bottom line: savings to company will, at a minimum, cover travel manager's salary and significantly benefit company.

RRTM COMMENTS: *A travel manager's dream—direction and buy-in from CFO to challenge current processes for betterment of company. Although new to travel, this manager has done her homework—traveler surveys, applying benchmarking data to policy, and review of agency services.*

RRTM RECOMMENDS: *Before making radical changes to policy, consider your current partnership with travel agency—does agency have a clear understanding of your expectations? If lowest, convenient fare and approved vendor utilization are paramount, agency should assist in educating travelers, and provide monthly status report. As contracts are re-negotiated or amended, outline your expectations and work together to meet this objective. Written agreements are essential to a successful partnership.*

Company C - Automobile Industry

Air Volume - \$90 million domestic, \$25 million international

Total Travelers - 43,400 corporate card issued domestic travelers

This industry giant has a 5-year global contract with one travel agency (on-site), and as one might surmise with such a vast number of business travelers, a stringent travel policy. Use of lowest fare is required; however, traveler has option to decline and opt for non-stop flight. Company negotiates with two car rental companies and traveler must

take lowest rate. Negotiations with several hotel chains is the norm—Marriott chain reigns supreme. Travelers arrange travel via designated agency using e-mail or rapid fax.

Non-compliance is on the decline—"non-compliance report is not nearly as thick as it used to be." Travel manager feels this is due to better communication. Company has a corporate home page with an unlimited amount of data relevant to policy and procedures; excellent e-mail system; and agency is also instrumental in educating travelers. In addition, "agency has begun to provide better management reports." "Where have they been?"

Revision to policy is on the horizon including mandated use of lowest airfare, eliminating use of non-stop flights if fare is higher. Complaints are expected, but historically this manager has found education is remedial.

A success story for this travel manager is consolidation of group meetings. Previously had no idea what costs were, whether meeting for 5 or 500. Through consolidation, company has saved an "incredible amount of money."

Goal? One-stop shopping.

RRTM COMMENTS: *We all realize that lowest fare is not necessarily most convenient. A first thought to elimination of non-stop flights may be empathy for harried business travelers. In reality, airlines have become "hub-driven" and passage on a non-stop flight is becoming increasingly difficult to obtain—and not necessarily more expensive. (I have added this to my file entitled "Airline Pricing- An Enigma Perpetuated.")*

This company has provided several lines of communication enabling travelers easy access to travel policy rulings and procedures. Runzheimer is in total agreement with this travel manager that decline in non-compliance is most likely due to better communication—communication and education are essential to a successful travel program.

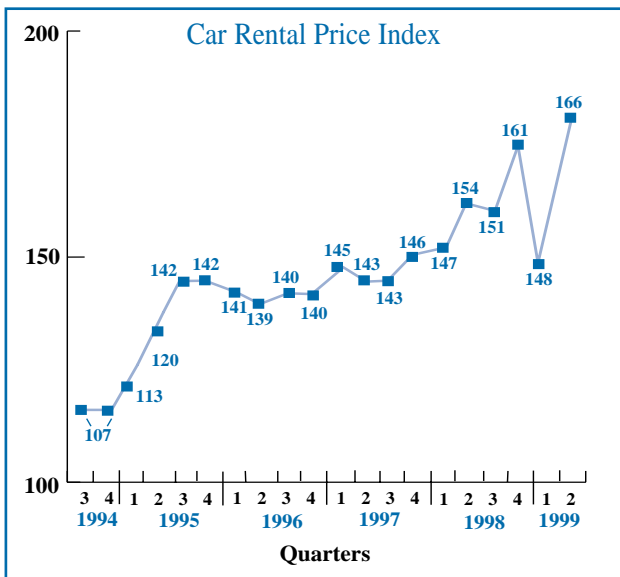
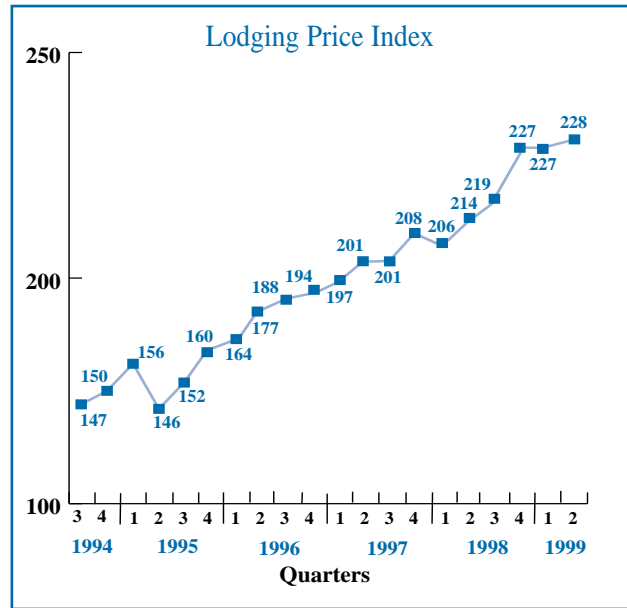
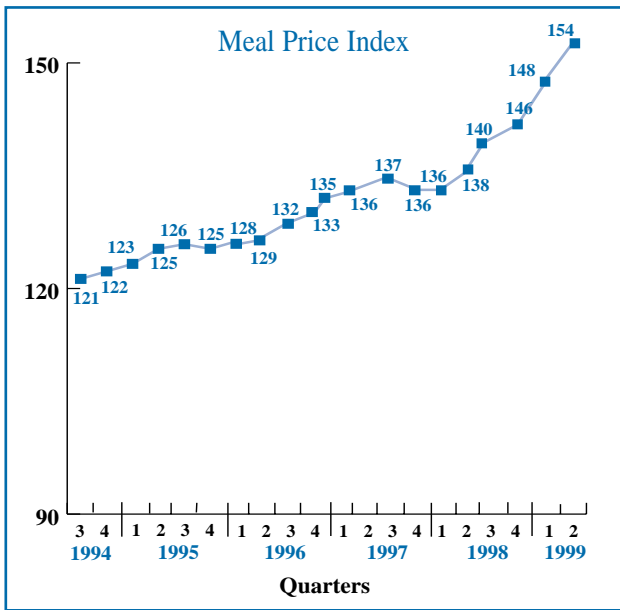
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Domestic Business Travel Price Index

Meal, Lodging and Car Rental Indices - Second Quarter 1999

Movements of three (non-airfare) key business travel cost indices are tracked below. Compared with first quarter 1999, meal prices increased 3.6%. Car rental prices increased 5.5%, and lodging prices increased 0.4%.

Analyzed over 12 months, meal prices increased 11.8%, lodging rose 6.6%, and car rental increased 8.3%. ▲



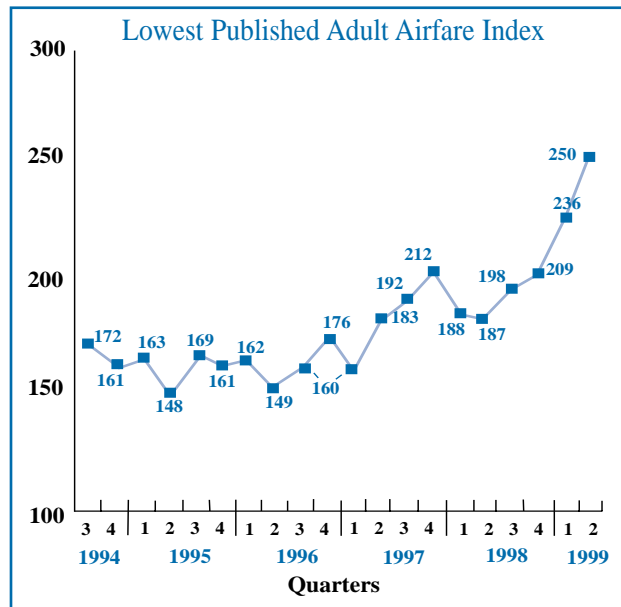
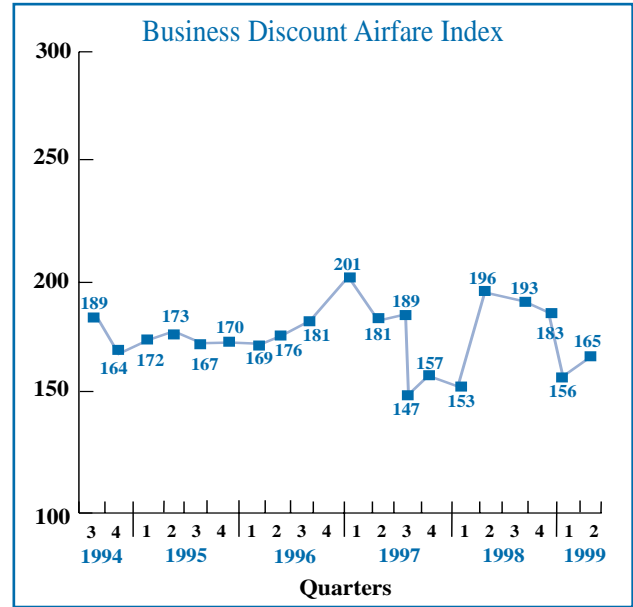
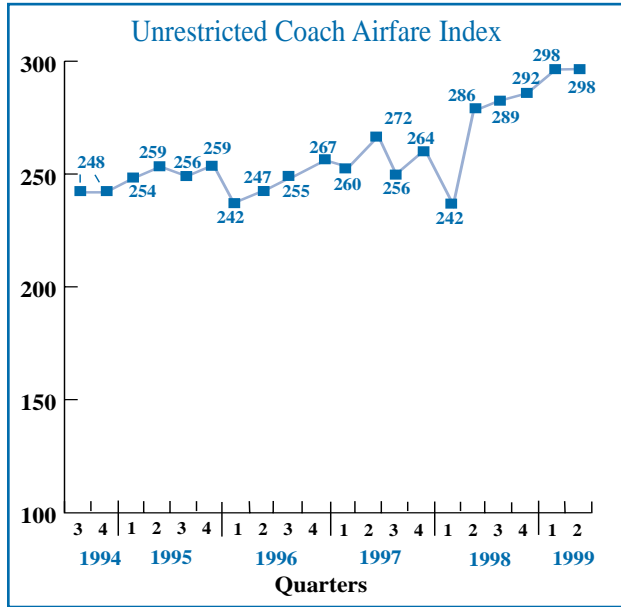
Runzheimer Domestic Business Travel Price Index meal, lodging, and car rental rates are taken from *Runzheimer Guide to Daily Travel Prices*, and are based on three-day business trips. The base year (1988) equals 100. The total Travel Price Change is figured from a weighted average of the components (airfares, lodging, meals, car rentals), and reflects recent trends in business travelers' meal, first class lodging, and car rental purchases. Index numbers are rounded, and percent changes reported are based on pre-rounded numbers.

Domestic Business Travel Price Index

Airfare Indices – Second Quarter 1999

Unrestricted coach, business discount, and lowest published adult fares are tracked below. Compared with first quarter 1999, unrestricted coach fares increased 0.1%. Business discount fares rose 5.6%, and lowest published adult fares increased 6.1%.

Analyzed over 12 months, unrestricted coach fares increased 4.3%. Business discount fares fell 15.7%, and lowest published adult fares increased 34.0% ▲



Basis: Average round-trip airfares between 20 heavily traveled business city pairs. The Domestic Business Travel Price Index reflects business travelers' airline ticket purchasing habits. The base year of the index is 1988, equaling 100. Index numbers are rounded, and percent changes reported are based on pre-rounded numbers. Domestic airfares provided by Amadeus Global Travel Distribution.