INGENIERIA INDUSTRIAL
UNIVERSIDAD DE CHILE

Abstract

This study analyses the existence and relative importance of financial services segments in retail firms using segment level data of over 1800 firms in 38 countries for the period 2000-2003. The results at country level suggest that financial intermediation in the retail industry is positively related to financial development and banking regulation. This lends support to the hypothesis that a more regulated banking sector, that is, with higher capital costs, increases the competitiveness of retailers, therefore expanding their offering of financial services. When analysing the results at a firm level, they show that the lower the profitability of the banking sector and the stronger its regulation, the larger the retailer's financial segment. The analysis also shows that retail firms with a large financial business unit exhibit higher profitability and leverage. This would imply that retailers do not choose to diversify as a response to limited growth opportunities in their own industry, but rather to seize a highly profitable opportunity, and that their ability to raise (presumably inexpensive) capital might explain their comparative advantage in the financial segments they serve.