Printers. There's a product category you haven't given a lot of thought about lately. It's all about making money on ink cartridges, right?

Let's look at Lexmark. Though it's a printer giant sprung whole from the loins of IBM, Lexmark is relatively small player in the printer market compared to giants like HP, Canon, Epson and the new aggressor, Samsung.

Lexmark had 5 million inkjets sold (3.6% market share) in the 88 million unit inkjet printer market in 2010. It sold 1.7 million laser printers (only 3.7% market share) in the 46 million unit laser printer market.

Naturally you think the company needs to make the transition from inkjet to laser printers: in a few years, its inkjet printer sales will shrink to fewer than 100,000 inkjet printers and laser printer sales should rise to nearly 3 million.

Of course, the mix of the lucrative printer cartridge sales must follow the changing mix of printers over the forecast period. But less printing overall means less ink cartridges, too...

In general, printer demand is slowing, as people are increasingly happy with digital-only versions and printer-sharing (via networks and wifi) increases.

Despite that, Lexmark International reported better than expected revenue growth – up 1% year over year – in its recently announced Q3 earnings. That's not much but up is up in this economy.

In consumer, Lexmark's market share in laser printers has consistently declined in the past few years because of declining share of Dell in Lexmark's revenues and faster growth by competitors HP, Samsung and Canon. As Lexmark increases its focus in laser market, experts it to gain some share from smaller players.

In business and enterprise, increased digital consumption of information via e-readers and tablets will reduce the usage of paper and adversely affect everyone's printer & cartridges sales. Lexmark continuously loses market share in the laser printers due to increased competition from market leader HP and other players Xerox, Canon, and Kyocera.

So what's a printer company to do?

Last year in June, Lexmark acquired Perceptive Software, a leading provider of Enterprise Content Management (ECM) software and solutions, adding to its portfolio a complementary, fast growing software business aligned with its existing industry-focused value proposition.

The acquisition has allowed Lexmark to participate in the adjacent ECM software solutions market providing additional growth and a new revenue stream in software maintenance and professional services.

This October Lexmark bought Netherlands-based Pallas Athena for $50.2 million and rolled it into Perceptive Software, now a stand-alone business unit in Lexmark.

This strengthens Lexmark’s end-to-end managed print services (MPS) and business process solutions with addition of business process management (BPM), document output management (DOM) and process mining software capabilities. Pallas Athena’s software products enable a broad range of BPM capabilities, including dynamic case management and customer communications management.

Along with its Netherlands location, Pallas Athena has regional offices in UK, Germany, and Belgium. Lexmark’s acquisition of Pallas Athena will enable Perceptive Software to expand its EMEA presence-- and to leverage the printing company’s worldwide enterprise sales channels to sell software globally.

That's right: following IBM's example, the printer company is building up a software arm that will metamorphose Lexmark into...(drum roll, here...da-da!)... a software services company.

And if that happens, who knows? IBM kicked Lexmark out of the garden of IT Eden because IBM wanted to divest itself the hardware business to create a software and services paradise. Maybe now the software services giant IBM will acquire Lexmark and bring them back into the fold. Is the return of the prodigal son of printing a far-fetched idea?

What goes around, comes around...and stranger things have happened in IT.

Go Lexmark Buys Further into Software