FORM & FUNCTION

OPERATING MODEL DILIGENCE

Why Professional Services Needs a Fifth Diligence Workstream

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THE INFLECTION

01 Executive Summary

Technology due diligence wasn't always part of an acquisition.

Twenty years ago, buyers spent relatively little time evaluating software architecture, technical debt, or cybersecurity. Those areas became formal diligence workstreams because technology became increasingly central to supporting delivery, the ability to scale, and enterprise value. Buyers recognized that financial statements could not fully explain whether a software company would continue to scale after the transaction closed.

Professional services firms are approaching a similar inflection point.

As artificial intelligence changes how services are sold, delivered, and managed, the operating model is becoming one of the strongest determinants of future enterprise value. Yet today's diligence process still evaluates services firms primarily through historical financial performance, current pipeline, commercial positioning, and legal or technical risk.

Increasingly, the question investors need answered is not whether the company performed well historically, but whether its operating model can support the growth, profitability, and organizational scale assumed in the investment thesis.

This paper argues that Operating Model Diligence should become a standard workstream for professional services acquisitions.

THE GAP

02 The Missing Layer in Today's Diligence Process

The diligence process surrounding professional services acquisitions has become increasingly sophisticated over the past two decades.

WORKSTREAM	WHAT IT EVALUATES	STANDING
Financial	Historical performance and the quality of earnings.	ESTABLISHED
Commercial	Market attractiveness, customer relationships, and the sustainability of future growth.	ESTABLISHED
Technology	The scalability, security, and long-term viability of the underlying infrastructure.	ESTABLISHED
Legal	Contractual obligations, representations, and regulatory exposure.	ESTABLISHED
Operating model	***The question none of the other four is explicitly designed to answer.***	PROPOSED

Collectively, these workstreams provide investors with a comprehensive understanding of the business they are acquiring. Yet there remains an important question that none of these disciplines is explicitly designed to answer.

— THE QUESTION

> How does the business actually convert an opportunity into a project, and deliver profit to the business, and is that operating model capable of supporting the investment thesis?

For many professional services firms, the answer cannot be found in a financial statement, a pipeline report, or an organizational chart. Instead, it exists in the collection of management disciplines that determine how work moves through the organization, how decisions are made, and how leaders respond as the business grows.

This distinction has become increasingly important because enterprise value in a professional services business is rarely constrained by market demand alone. More often, it is constrained by the organization's ability to convert demand into profitable, repeatable delivery. Two firms may report similar historical growth, EBITDA margins, and client retention while possessing dramatically different capabilities to forecast demand, manage capacity, maintain delivery quality, or preserve margins as they scale.

Those differences are difficult to identify through traditional diligence processes, yet they often become the defining factors in whether the investment ultimately achieves its expected returns.

Operating Model Diligence is intended to evaluate precisely these characteristics. Rather than reviewing the performance of individual departments, it examines the management system that connects commercial execution, delivery, finance, and executive decision-making into an operating model capable of sustaining growth. To answer the specific question - if the business triples the number of clients or projects in the next two years, what will break?

THE SHIFT

03 Why AI Changes the Importance of the Operating Model

Artificial intelligence is changing the economics of professional services in ways that extend far beyond productivity.

Much of the early discussion surrounding AI has focused on reducing the time required to perform work. Research, analysis, documentation, coding, and content creation can increasingly be completed with significantly less effort than even a few years ago. Those efficiency gains are real, but they are only one part of the story.

As the cost of execution declines, the characteristics that distinguish one services firm from another begin to shift.

Clients have historically paid for expertise that was difficult to access. Increasingly, they will pay for the ability to apply that expertise within the context of their business, make better decisions, and deliver measurable outcomes. Those capabilities depend less on the productivity of individual consultants and more on the effectiveness of the operating model that supports them.

OPERATING CAPABILITY		WHAT IT PRODUCES
FORECASTING **Disciplined forecasting processes**	→	HIRING **Hiring decisions made with greater confidence**
RESOURCE PLANNING **Mature resource planning capabilities**	→	DEPLOYMENT **Talent deployed more effectively as demand changes**
OPERATIONAL DATA **Timely operational data in leadership's hands**	→	EARLY WARNING **Pricing issues, delivery risks, and margin issues identified before they become visible in financial results**

Conversely, organizations that continue to rely on fragmented systems, manual reporting, and founder intuition may find that AI simply exposes operational weaknesses that previously remained hidden beneath strong demand.

In many respects, AI increases the importance of operational maturity rather than reducing it. As routine execution becomes easier to automate, enterprise value shifts toward the quality of organizational decision-making. The operating model becomes the mechanism through which those decisions are consistently made.

THE SCOPE

04 What Operating Model Diligence Evaluates

The objective of Operating Model Diligence is not to determine whether a business is well managed in a general sense. Rather, it seeks to understand whether the operating mechanisms that support growth are sufficiently mature to sustain the financial and strategic assumptions underpinning the investment.

AREA OF EXAMINATION	THE QUESTIONS IT ASKS
Commercial	How commercial opportunities move through the organization. Is the sales pipeline managed through a disciplined forecasting process, or does future revenue depend primarily on executive judgment? Does leadership have confidence in projected demand, or are hiring and investment decisions made reactively?
Delivery	How effectively the organization can translate sales into profitable execution. Are capacity constraints anticipated before they affect client delivery and revenue pull through? Is utilization understood as an operational planning tool or merely reported after the fact? Can project profitability be measured while work is still underway, allowing corrective action to be taken before margins erode?
Financial processes	Forecasts should anticipate future performance with a relatively high degree of accuracy. Pricing decisions should be informed by an understanding of delivery economics.
Decision-making infrastructure	The executive operating cadence, the consistency of key performance indicators, the quality of management reporting, and the underlying operational data supporting those decisions.

As AI becomes more deeply embedded within professional services organizations, this foundation will increasingly determine whether advanced analytical capabilities produce meaningful business value or simply automate existing workflows.

Taken together, these elements represent far more than a collection of operational best practices. They constitute the management system through which enterprise value is created and sustained.

THE ACTION

05 Bringing Operating Model Diligence Into the Transaction Process

As Operating Model Diligence becomes a more important part of evaluating professional services businesses, investors and advisors need a practical way to incorporate it into the transaction process. The work should complement existing diligence while bringing a more focused perspective to the operating capabilities that ultimately support growth, profitability, and enterprise value.

Operating Model Diligence can be applied on either side of a transaction, providing investors and sellers with a more complete understanding of the business before a transaction is completed. Form & Function supports this work through focused buy-side diligence and sell-side readiness engagements designed specifically for professional services businesses.

Form & Function brings an operator-led perspective to this work. Our approach is grounded in experience leading, scaling, and evaluating professional services businesses, combined with a structured assessment of the systems, processes, data, and management practices that determine how those businesses perform.

Operating Model Diligence

BUY-SIDE

A focused buy-side workstream alongside existing financial, commercial, legal, and technology diligence. The objective is to identify operating constraints that may affect the assumptions being underwritten, distinguish between issues that represent material investment risk and those that can become value creation opportunities, and provide a clearer view of the priorities that should carry forward into the post-close plan.

FOR
Private equity investors

TIMING
Pre-close

Sell-Side Readiness

SELL-SIDE

The same perspective applied earlier in the process. Rather than waiting for buyers to uncover questions around scalability, forecasting, delivery economics, management infrastructure, or operating maturity, we help sellers understand where those questions are likely to emerge, address the most important gaps, and more clearly demonstrate how the operating model supports the company's growth and enterprise value story.

FOR
Investment bankers and management teams

TIMING
Ahead of process

In either case, the objective is not to add another diligence exercise to an already complex transaction process. It is to provide greater confidence in an area that has historically been difficult to evaluate: **whether the business behind the financial results is built to deliver what comes next.**

Continue the conversation.

To discuss how Operating Model Diligence could support an upcoming transaction, reach out at **hello@form-function.co** or **contact Form & Function**