



Our Take:

OG's Point-of-View On Best-Seller Business Books

August 2007

In This Edition We Review

The Black Swan

The Impact of the Highly Improbable

Nassim Nicholas Taleb
Random House, 2007

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A Little Background

The author, Nassim Nicholas Taleb, describes himself as an “essayist, belletrist and researcher only interested in one single topic, **chance (particularly extreme and rare) event.**”

He is currently the Dean's Professor in the Sciences of Uncertainty at the University of Massachusetts at Amherst. His interest in understanding the unpredictable grew from his years on Wall Street, trading derivatives.

The back cover quote from Tom Peters proclaims:

“There's more about the ways of the real world between the covers of *The Black Swan* than in the contents of a dozen libraries.”

The Harvard Business Review says:

“The book itself is a black swan: a rare, unusual, and oddly lovely thing.”

As of this writing, *The Black Swan* has appeared on the New York Times Bestseller List for 10 weeks in a row.

Much of Taleb's book addresses the foibles of assuming that by using logical, well-thought-out models based on past experience, we can determine the success of future endeavors. And as a marketing services company, we use a number of models to help our clients to build more successful marketing programs and improve their return on marketing investment. So we were particularly drawn to the counter-intuitive premise of *The Black Swan*.

The Basic Premise

The title of the book refers to the discovery of black swans in Australia. Until this discovery, experience derived from the sightings of millions of swans led people to believe that all swans were white. Yet one observation made that widely-held belief invalid.

Taleb uses this account to describe a number of highly improbable current events. A few of the notable examples he cited include:

- The terrorist attacks on 9/11
- The stock market crash in 1987
- Hurricane Katrina
- The Pacific tsunami in 2005

He also identifies three principal characteristics of these highly improbable events:

- They are unpredictable
- They have substantial impact
- They are explained, after the fact, in order to make them appear less random and more predictable

Taleb spends considerable time describing our innate need for logical, rational reasons when faced with black swan events. And how this is a very human response to help explain, predict and give the ‘assurance’ of our control over future events.

His premise is that our world is far too unpredictable for logical, rational theories, historical accounts and storylines to be of value. He contends that generally-accepted (often unquestioned) truths are in fact fallacies. And that problems are inevitable when these type of fallacies become the basis for future planning and predictions.

Taleb does not, however, suggest that we completely ignore the use of logic-based predictions. His real issue with logic-based predictions is our over-dependence on theories and stories to make predictions. Taleb argues forcefully that a reliance on experimentation, experience and clinical knowledge is much more valuable in making predictions.

Where We Agree

On the OG website, we've codified our belief about the importance of measurement. It reads as follows:

Measurement provides actionable feedback.

Feedback provides the basis for innovation.

And innovation fuels marketing success.

With this thought in mind, it is not surprising that we agree with many of the suppositions in *The Black Swan*. Our basic belief that marketing success is inherently related to one's ability to measure it harmonizes with Taleb's overall premise. In fact, in an age where a number of more theoretical, and/or qualitative marketing approaches are under question, we are enthusiastic about the clinical, fact-based approach Taleb recommends in his book.

Our Top 10 Quotes from *The Black Swan*

Listed in no particular order:

- "We react to a piece of information not on its logical merit, but on the basis of which framework surrounds it, and how it registers with our social-emotional system."
- "The way to avoid the ills of the narrative fallacy (fitting a story around a series of facts) is to favor experimentation over storytelling, experience over history and clinical knowledge over theories"
- "...I am not dismissing the idea of risk-taking, having been involved in it myself. I am only critical of the encouragement of uninformed risk taking."
- "Plans fail because of what we called tunneling, the neglect of the sources of uncertainty outside of the plan itself."
- "Planning may come with the package of what makes us human, namely, our consciousness."
- "Do not try to avoid predicting – yes after this diatribe about prediction I am not urging you to stop being a fool. Just to be a fool in the right places. What you should avoid is the unnecessary dependence on large-scale, harmful predictions-those and only those."
- "Trial and error means trying a lot"
- "...when you have a very limited loss, you need to get as aggressive, as speculative, and sometimes 'unreasonable' as possible."
- "Do not waste your time trying to fight forecasters, stock analysts, economists and social scientists, except to play tricks on them."
- "This idea that in order to make a decision you need to focus on the consequences (which you can know) rather than the probability (which you can't know) is the central idea of uncertainty."

OG's 1-9 Rating

Using the 1-9 measurement scale, OG gives *The Black Swan* a 7.

We definitely see how *The Black Swan* is a hit. The book and its core idea are built on time-tested principles. It has a terrifically simple and inarguable premise. The title for the book comes from a wonderfully memorable story. It's counter-intuitive, provocative and engaging.

Or said another way, it's a well-crafted piece of intellectual mind-candy.

But while we fundamentally agree with so much of the book, we found it too focused on theoretical abstractions and philosophical approaches to predictability. And at times, *The Black Swan* digressed into offbeat yarns and commentaries on many of the world's most renowned philosophers. These distractions unfortunately left us with a bit of an "aftertaste" from the intellectual mind-candy.

We wish there had been more of a balance (and credit) given to practical, predictive models and business applications. In our opinion and experience, virtuous cycle feedback systems like Loopz® Marketing are just as valid as the empirical approaches presented by Taleb.

The solution to better business predications is not in describing or making either/or choices, it's about using and blending every predictive approach we can. Only then will we be able to (finally) decode the DNA of marketing.