TSG LAB AG — USE CASE 3

Smart Watch NFT Integration with Smart Contracts

Embedding Decentralized Identity and Autonomous Contract Logic into Luxury Timepieces

NFC | NFT | SMART CONTRACTS | LUXURY | SECONDARY MARKET

info@tsgag.com | tsgag.com

01 Executive Summary

> TSG Lab AG's Smart Watch NFT Integration platform embeds NFC-enabled cryptographic chips directly into luxury timepieces, linking each to an on-chain NFT serving as the watch's immutable digital identity — encoding specifications, manufacturing provenance, ownership history, service records, warranty status, and insurance coverage.

The luxury watch market (USD 55 billion globally) faces a counterfeiting problem estimated at USD 4.5 billion annually. Traditional authentication methods are increasingly inadequate against sophisticated counterfeiters. Smart contracts autonomously manage the entire watch lifecycle: activating warranties upon first sale, scheduling and verifying service intervals, automating ownership transfers, and enforcing royalty payments. The pre-owned market (USD 20+ billion, growing at 8% annually) is transformed — every prospective buyer can verify authenticity, ownership legitimacy, and complete service history in seconds.

02 Business Challenge

- **Counterfeiting at Scale:** Sophisticated operations replicate luxury watches down to serial numbers and documentation, costing the industry billions annually and eroding brand trust.
- **Paper-Based Authentication Failure:** An estimated 40% of pre-owned watches lack complete original documentation — certificates are easily lost, forged, or separated from the watch.
- **Secondary Market Trust Deficit:** Without reliable provenance, buyers face significant authentication risk, resulting in 20–35% discounts compared to verified pieces.
- **Warranty Management Complexity:** Manual warranty tracking across global dealer networks creates administrative overhead and inconsistent customer experiences.
- **Service History Opacity:** Watch service records are maintained in fragmented dealer systems with no unified, portable, or verifiable format.
- **Stolen Watch Recovery:** Registry systems rely on voluntary reporting and manual checks, with no automated enforcement to prevent resale of stolen timepieces.

03 Technical Solution

Embedded Hardware Layer

Miniaturized NFC chips (NXP NTAG 424 DNA or Infineon SECORA™ Blockchain) are integrated into the watch case during manufacturing — embedded in the caseback, between lugs, or within the clasp. These chips feature tamper-evident design (removal destroys cryptographic key material), dynamic authentication via unique one-time SUN messages per tap, and 888-byte user memory for storing the NFT contract address and token ID.

Smart Contract Suite

WatchIdentity.sol (ERC-721 + ERC-5192) — Core NFT with full specification metadata and soulbound attestation capabilities.
WarrantyManager.sol — Time-locked warranty logic activating upon first registered sale with support for warranty extensions.
ServiceLog.sol — Append-only service record contract; only whitelisted authorized service centers can write entries.
OwnershipTransfer.sol — Escrow-based peer-to-peer protocol with integrated payment settlement and manufacturer royalty enforcement.
StolenWatchLock.sol — Owner or law-enforcement-initiated lock mechanism that freezes the NFT and broadcasts alerts.

Consumer Experience Layer

A cross-platform mobile application provides tap-to-authenticate, ownership proof generation, service scheduling, one-tap resale listing, and multi-watch portfolio management with market value estimates.

04 Implementation Approach

Phase	Activities	Duration
Phase 1: Manufacturer Engagement	Partnership agreements, NFC chip selection, manufacturing line impact assessment	6–8 weeks
Phase 2: Hardware Integration	NFC chip sourcing (NXP/Infineon), firmware development, caseback integration, environmental testing	8–12 weeks
Phase 3: Smart Contract Suite	All five contracts, formal verification, testnet deployment, third-party audit	8–10 weeks
Phase 4: Consumer Application	iOS/Android app, NFC integration, wallet abstraction (social login), 3D visualization	6–8 weeks
Phase 5: Service Center Onboarding	Integration SDK, DID-based credentialing, service log write-access provisioning	4–6 weeks

Phase 6: Pilot & Rollout	Pilot with partner brand (500–1,000 units), feedback integration, global rollout	6–8 weeks

05 Technology Stack

Layer	Technologies
Hardware	NXP NTAG 424 DNA, Infineon SECORA™ Blockchain, custom antenna design for metal cases
Blockchain	Ethereum Mainnet (ownership), Polygon PoS (service logs), Base / Coinbase L2 (consumer onboarding)
Token Standards	ERC-721, ERC-5192 (soulbound), ERC-2981 (royalties), ERC-4907 (rental/lending)
Smart Contracts	Solidity 0.8.x, OpenZeppelin Upgradeable, Chainlink Automation (warranty logic)
Identity	W3C DIDs, Verifiable Credentials for service centers, Ethereum Attestation Service (EAS)
Wallet Abstraction	Web3Auth (social login), Account Abstraction ERC-4337, Safe (multi-sig governance)
Mobile App	React Native, react-native-nfc-manager, Three.js (3D rendering), WalletConnect v2
Backend	Node.js / NestJS, The Graph (on-chain indexing), PostgreSQL, Redis, AWS / IPFS

06 Key Features & Capabilities

✔**Tamper-Proof Physical-Digital Binding** — NFC chips with hardware-level tamper detection ensure the link between physical watch and digital NFT is unbreakable and uncloneable.

✔**Dynamic NFC Authentication** — Every scan produces a unique cryptographically signed message, preventing replay attacks.

✔**Autonomous Warranty Management** — Smart contracts automatically activate warranties on first sale, track expiration, validate authorized service providers.

✔**Immutable Service History** — Every service event recorded on-chain by verified service centers — portable across ownership changes.

✔**Frictionless Ownership Transfer** — Built-in escrow smart contracts enable secure peer-to-peer resale in minutes rather than days.

✔**Stolen Watch Protection** — Owner or law-enforcement-triggered NFT lock prevents transfer and broadcasts alerts across all platform-connected dealers.

✔**Gasless Consumer Experience** — Account abstraction ensures end users never need to hold cryptocurrency or understand blockchain mechanics.

07 Business Benefits & ROI

Counterfeiting Reduction

Near-complete elimination of counterfeit risk for NFC-equipped watches; USD 200–500M estimated brand protection value

Secondary Market Uplift

Verified provenance narrows pre-owned discount from 25–35% to 5–10%

Warranty Cost Reduction

Automated warranty management reduces administrative overhead by 45–60%

Customer Loyalty

Digital engagement via consumer app increases brand interaction 3–5x, driving service and repeat revenue

Grey Market Visibility

On-chain transfer tracking provides real-time visibility into distribution channel compliance

New Revenue Streams

Manufacturer royalties on secondary sales (1–3%) and premium digital services

08 Use Case Scenarios

New Watch Purchase & Activation

A customer purchases a limited-edition chronograph from an authorized dealer in Geneva. Upon sale, the dealer scans the NFC chip, triggering the smart contract to transfer the NFT to the customer's wallet (created via social login). The warranty activates automatically, the customer receives their digital certificate, and the watch appears in their portfolio app with full 3D visualization and upcoming service schedule.

Authorized Service Event

Three years later, the customer brings the watch for routine service in Munich. The technician scans the NFC chip, verifies identity and warranty status on-chain, performs the service, and logs the event — calibration, gasket replacement, water resistance test — to the ServiceLog contract. The customer's app updates in real-time, and the watch's verifiable service history is permanently enriched.

Pre-Owned Resale

The owner lists the watch on the integrated marketplace with a single tap. A buyer in Tokyo scans the listing, views the complete provenance (original purchase, two service events, zero disputes), and initiates purchase through the OwnershipTransfer escrow contract. Payment settles in USDC, the NFT transfers to the buyer, the manufacturer receives a 2% royalty, and the new owner's remaining 2-year warranty automatically transfers — all in under 10 minutes.

09 Security & Compliance

- **Hardware Security:** NFC chips feature anti-tear mechanisms, encrypted memory, and challenge-response authentication protocols preventing physical cloning.
- **Smart Contract Security:** Upgradeable via UUPS proxy with timelock governance, audited by Trail of Bits and Quantstamp, covered by Nexus Mutual smart contract insurance.
- **Privacy Preservation:** Zero-knowledge proof-based identity verification ensures KYC/AML compliance without exposing personal data on-chain.
- **GDPR Compliance:** No personal data on-chain; only pseudonymous wallet addresses and encrypted references to off-chain identity stores.
- **AML Compliance:** High-value watch transfers (above CHF 15,000) trigger automated AML screening via integrated compliance oracles.
- **Swiss Legal Framework:** Platform structured under Swiss DLT Act, ensuring legal recognition of tokenized asset rights.

10 Future Enhancements

Biometric Binding: Integration with on-wrist biometric sensors to create owner-presence verification — ensuring the person presenting the watch is the registered owner.

AR Try-On Experience: Augmented reality visualization allowing potential buyers to virtually 'wear' NFT-authenticated watches before purchase.

Watch-as-Collateral DeFi: Enable NFT-authenticated luxury watches as collateral in DeFi lending protocols with smart contract LTV management.

Carbon-Neutral Certification: Track and offset the carbon footprint of each watch's lifecycle with verified carbon credits attached to the NFT.

> **Inter-Brand Interoperability:** A consortium-governed standard enabling NFTs from multiple watch brands to interoperate within a single verification ecosystem.